



**STATE OF DELAWARE**

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

Year ended June 30, 2012

(With Independent Auditors' Report Thereon)

# STATE OF DELAWARE

## TABLE OF CONTENTS

	<b>PAGE</b>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards, year ended June 30, 2012	8
Notes to Schedule of Expenditures of Federal Awards	21
Schedule of Findings and Questioned Costs, year ended June 30, 2012:	
Section 1: Summary of Auditors' Results	23
Section 2: Financial Statement Findings	41
Section 3: Federal Award Findings and Questioned Costs	53
Matrix of Findings by Federal Agency	166

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  
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**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

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, 2012, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 18, 2013. Our audit report was modified to include a reference to 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. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described as items 2012-01 and 2012-02 in the accompanying schedule of findings and questioned costs. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



The Honorable Governor and  
Honorable Members of the State Legislature  
State of Delaware  
January 18, 2013  
Page 2 of 2

### **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 February 26, 2013.

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 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. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited.

**KPMG LLP**

January 18, 2013



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 State of Delaware's (the State's) compliance of the 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 the State's major federal programs for the year ended June 30, 2012. 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, Riverfront Development Corporation, Delaware Technical and Community College (DTCC) Foundation, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2012. 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.

We were unable to obtain sufficient documentation supporting the compliance of the State with certain major programs regarding cash management 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(s)
Department of Education	12-4	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	
		S-84.410	Education Jobs Fund	
Department of Health and Social Services	12-11	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster	Cash Management
		93.558, S-93.714	Temporary Assistance for Needy Families	
		93.575, 93.596	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778	Medicaid Cluster	
		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-93.712	Immunization Cluster	



State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
Department of Health and Social Services	12-22	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Cash Management

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 federal 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(s)
Department of Education – Brandywine School District, Christina School District, Caesar Rodney School District, Delmar School District, Laurel School District, Milford School District, Red Clay Consolidated School District, Sussex Tech School District, Woodbridge School District	12-2	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	12-9	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 – Division of Social Services	12-19	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting
Department of Health and Social Services – Division of State Service Centers	12-26	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability



State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
Department of Labor – Division of Employment & Training	12-34	17.258, 17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Subrecipient Monitoring, Special Tests and Provisions for Awards with ARRA Funding (Subrecipient Monitoring)

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 the State’s compliance with the requirements described in the second preceding paragraph, and except for the noncompliance described 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, 2012. 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 findings: 12-1, 12-3, 12-6, 12-7, 12-8, 12-10, 12-12, 12-14, 12-16, 12-17, 12-18, 12-20, 12-21, 12-23, 12-27, 12-28, 12-29, 12-31, 12-33, 12-35, 12-37, 12-39 and 12-41.

### 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 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 findings: 12-2, 12-9, 12-13, 12-18, 12-19, 12-22, 12-26, and 12-34 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 findings: 12-1, 12-3, 12-4, 12-5, 12-6, 12-7, 12-8, 12-10, 12-11, 12-12, 12-14, 12-15, 12-16, 12-17, 12-20, 12-21, 12-23, 12-24, 12-25, 12-27, 12-28, 12-29, 12-30, 12-31, 12-32, 12-33, 12-35, 12-36, 12-37, 12-38, 12-39, 12-40, and 12-41 to be significant deficiencies.

#### ***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, 2012, and have issued our report thereon dated January 18, 2013, which includes a reference to other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to January 18, 2013. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements 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 25, 2013

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>U.S. Department of Agriculture</b>		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 402,034
10.028	Wildlife Services	8,157
10.069	Conservation Reserve Program	35,102
10.163	Market Protection and Promotion	23,063
10.169	Specialty Crop Block Grant Program	27,525
10.170	Specialty Crop Block Grant Program-Farm Bill	129,475
10.171	Organic Certification Cost Share Programs	841
10.458	Crop Insurance Education in Targeted States	207,289
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	451,175
10.550	Food Distribution	2,809,374
<b>SNAP Cluster</b>		
10.551	Supplemental Nutrition Assistance Program (SNAP)	223,046,541
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	14,259,395
	<b>Total SNAP Cluster</b>	<b>237,305,936</b>
<b>Child Nutrition Cluster</b>		
10.553	School Breakfast Program	7,556,456
10.555	National School Lunch Program	29,938,133
10.556	Special Milk Program for Children	34,027
10.559	Summer Food Service Program for Children	2,213,308
	<b>Total Child Nutrition Cluster</b>	<b>39,741,924</b>
10.557	Special Supplemental Nutrition Program for Women, Infants & Children	11,016,952
10.558	Child and Adult Care Food Program	15,057,912
10.560	State Administrative Expenses for Child Nutrition	894,968
<b>Emergency Food Assistance Cluster</b>		
10.568	Emergency Food Assistance Program (Administrative Costs)	121,828
10.569	Emergency Food Assistance Program (Food Commodities)	1,138,530
	<b>Total Emergency Food Assistance Cluster</b>	<b>1,260,358</b>
10.565	Commodity Supplemental Food Program	208,320
10.574	Team Nutrition Grants	81,700
10.578	<b>S</b> ARRA-WIC Grants to States (WGS)	855,462
10.579	Child Nutrition Discretionary Grants Limited Availability	70,861
10.579	<b>S</b> ARRA-Child Nutrition Discretionary Grants Limited Availability	57,978
10.582	Fresh Fruit and Vegetable Program	1,798,902
10.664	Cooperative Forestry Assistance	154,236
10.675	Urban and Community Forestry Program	275,671
10.676	Forest Legacy Program	3,215,372
10.678	Forest Stewardship Program	104,887
10.680	Forest Health Protection	129,599
10.688	<b>S</b> ARRA-Wildlife Fire Management	39,217
10.912	Environmental Quality Incentives Program	92,461
10.913	Farmland Protection Program	4,461,071
	<b>Total U.S. Department of Agriculture</b>	<b>320,917,822</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>U.S. Department of Commerce</b>		
<b>Public Works and Economic Development Cluster</b>		
11.300	Investments for Public Works and Economic Development Facilities	77,583
11.300	S ARRA-Investments for Public Works and Economic Development Facilities	<u>2,070</u>
	Subtotal CFDA #11.300	79,653
11.307	Economic Development Special Economic Development and Adjustment Assistance Program	<u>1,763,800</u>
	<b>Total Public Works and Economic Development Cluster</b>	<b>1,843,453</b>
11.313	Trade Adjustment Assistance for Firms	71,250
11.419	Coastal Zone Management Administration Awards	1,354,615
11.420	Coastal Zone Management Estuarine Research Reserves	607,319
11.439	Marine Mammal Data Program	10,000
11.472	Unallied Science Program	561,851
11.474	Atlantic Coastal Fisheries Cooperative Management Act	128,671
11.555	Public Safety Interoperable Communications Grant Program	2,564,653
11.557	S ARRA-Broadband Technology Opportunities Program	657,242
11.558	S ARRA-State Broadband Data and Development Grant Program	<u>235,003</u>
	<b>Total U.S. Department of Commerce</b>	<b><u>8,034,057</u></b>
<b>U.S. Department of Defense</b>		
12.000	Issue of Department Of Defense Excess Equipment	165,508
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	25,260
12.401	National Guard Military Operations and Maintenance (O&M) Projects	<u>12,594,117</u>
	<b>Total U.S. Department of Defense</b>	<b><u>12,784,885</u></b>
<b>U.S. Department of Housing and Urban Development</b>		
14.235	Supportive Housing Program	592,051
14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	24,050
14.401	Fair Housing Assistance Program	<u>153,229</u>
	<b>Total U.S. Department of Housing and Urban Development</b>	<b><u>769,330</u></b>
<b>U.S. Department of the Interior</b>		
<b>Fish and Wildlife Cluster</b>		
15.605	Sport Fish Restoration	6,045,256
15.611	Wildlife Restoration	<u>2,974,065</u>
	<b>Total Fish and Wildlife Cluster</b>	<b>9,019,321</b>
15.608	Fish and Wildlife Management Assistance	1,244
15.614	Coastal Wetlands Planning, Protection and Restoration Act	819,455
15.615	Cooperative Endangered Species Conservation Fund	28,146
15.633	Landowner Incentive	302,227
15.634	State Wildlife Grants	695,964
15.657	Endangered Species Conservation Recovery	7,714
15.904	Historic Preservation Fund Grants-In-Aid	539,453
15.916	Outdoor Recreation, Acquisition, Development and Planning	<u>716,374</u>
	<b>Total U.S. Department of the Interior</b>	<b><u>12,129,898</u></b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>U.S. Department of Justice</b>		
16.017	Sexual Assault Services Program	197,690
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	33,423
16.203	Comprehensive Approaches to Sex Offender Management	
	Discretionary Grant (CASOM)	52,663
16.523	Juvenile Accountability Incentive Block Grants	307,916
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	432,993
16.541	Part E Developing, Testing, and Demonstrating Promising New Programs	59,220
16.543	Missing Childrens Assistance	183,041
16.548	Title V - Delinquency Prevention Program	144,897
16.550	State Justice Statistics Program for Statistical Analysis Centers	57,058
16.554	National Criminal History Improvement Program	83,907
16.575	Crime Victim Assistance	1,576,380
16.576	Crime Victim Compensation	847,528
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	11,001
16.582	Crime Victim Assistance/Discretionary Grants	5,572
16.585	Drug Court Discretionary Grant	44,513
16.588	Violence Against Women Formula Grants	647,904
16.588	S ARRA-Violence Against Women Formula Grants	198,579
	Subtotal CFDA #16.588	846,483
16.593	Residential Substance Abuse Treatment for State Prisoners	71,402
16.595	Community Capacity Development Office	137,895
16.606	State Criminal Alien Assistance Program (SCAAP)	187,877
16.607	Bulletproof Vest Partnership Program	91,935
16.609	Project Safe Neighborhoods	72,097
16.710	Public Safety Partnership and Community Policing Grants	1,956,748
16.726	Juvenile Mentoring Program	255,432
16.727	Enforcing Underage Drinking Laws Program	41,298
16.736	S ARRA-Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	158
<b>JAG Program Cluster</b>		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,124,004
16.803	S ARRA-Edward Byrne Memorial Justice Assistance Grant	1,953,059
	<b>Total JAG Program Cluster</b>	<b>3,077,063</b>
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	386,951
16.741	Forensic DNA Capacity Enhancement Program	100,108
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	103,062
16.746	Capital Case Litigation	60,534
16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	38,941
16.750	Support for Adam Walsh Act Implementation Grant Program	48,614
16.754	Harold Rogers Prescription Drug Monitoring Program	113,792
16.800	S ARRA-Recovery Act-Internet Crimes Against Children Task Force Program	107,264
16.801	S ARRA-Recovery Act-State Victim Assistance Formula Grant Program	28,482
16.812	Second Chance Act Prisoner Reentry Initiative	352,166
16.816	John R Justice Prosecutors and Defenders Incentive Act	149,747
16.Unassigned	Unassigned - Asset Forfeiture - Justice	194,324
	<b>Total U.S. Department of Justice</b>	<b>12,460,175</b>
<b>U.S. Department of Labor</b>		
17.002	Labor Force Statistics	600,645
17.005	Compensation and Working Conditions	63,390
17.203	Labor Certification for Alien Workers	3,217

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>Employment Services Cluster</b>		
17.207	Employment Service / Wagner-Peyser Funded Activities	2,320,816
17.801	Disabled Veterans' Outreach Program (DVOP)	170,793
17.804	Local Veterans' Employment Representative Program	467,470
	<b>Total Employment Services Cluster</b>	<b>2,959,079</b>
<b>Unemployment Insurance</b>		
17.225	Unemployment Insurance	162,691,406
17.225	S ARRA-Unemployment Insurance	86,905,237
	<b>Total Unemployment Insurance</b>	<b>249,596,643</b>
17.235	Senior Community Service Employment Program	2,172,337
17.245	Trade Adjustment Assistance	1,720,603
<b>Workforce Investment Act (WIA) Cluster</b>		
17.258	WIA Adult Program	1,519,825
17.259	WIA Youth Activities	2,166,657
17.260	WIA Dislocated Workers	1,837,543
17.260	S ARRA-WIA Dislocated Workers	419,505
17.278	WIA Dislocated Worker Formula Grants	1,987,244
	<b>Total WIA Cluster</b>	<b>7,930,774</b>
17.269	Community Based Job Training Grants	108,596
17.271	Work Opportunity Tax Credit Program	186,080
17.275	S ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	197,650
17.277	WIA National Emergency Grants	160,810
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCCT)	1,003,291
17.504	Consultation Agreements	454,654
17.505	OSHA Data Initiative	28,257
	<b>Total U.S. Department of Labor</b>	<b>267,186,026</b>
<b>U.S. Department of Transportation</b>		
20.106	Airport Improvement Program (FAA)	256,154
20.108	Aviation Research Grants	8,545
20.218	National Motor Carrier Safety	970,845
20.232	Commercial Drivers License Program Improvement Grant	164,650
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant	201,181
20.317	Capital Assistance to States - Intercity Passenger Rail Service	63,782
<b>Highway Planning and Construction Cluster</b>		
20.205	Highway Planning and Construction	173,575,853
20.205	S ARRA-Highway Planning and Construction	18,556,847
	Subtotal CFDA #20.205	192,132,700
20.219	Recreational Trails Program	39,435
	<b>Total Highway Planning and Construction Cluster</b>	<b>192,172,135</b>
<b>Federal Transit Cluster</b>		
20.500	Federal Transit - Capital Investment Grants	203,057
20.507	Federal Transit Cluster	6,682,199
20.507	S ARRA-Federal Transit Cluster	425,462
	Subtotal CFDA #20.507	7,107,661
	<b>Total Federal Transit Cluster</b>	<b>7,310,718</b>
<b>Transit Services Program Cluster</b>		
20.513	Capital Assistance Program	445,856
20.516	Job Access Reverse Commute	394,519
20.521	New Freedom Program	274,390
	<b>Total Transit Services Program Cluster</b>	<b>1,114,765</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>Highway Safety Cluster</b>		
20.600	State and Community Highway Safety	1,600,159
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	1,044,469
20.602	Occupant Protection Incentive Grants	107,481
20.609	Safety Belt Performance Grants	86,197
20.610	State Traffic Safety Information System Improvement Grants	440,290
20.612	Incentive Grant Program to Increase Motorcyclist Safety	43,305
20.613	Child Safety and Child Booster Seats Incentive Grants	56,526
	<b>Total Highway Safety Cluster</b>	<b>3,378,427</b>
20.505	Federal Transit Metropolitan Planning Grants	25,957
20.509	Formula Grants for Other Than	2,970,765
20.519	Clean Fuels - FTA & FHWA	3,965,635
20.523	Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	1,499,871
20.607	Alcohol Open Container Requirements	2,164,716
20.700	Pipeline Safety	28,157
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	100,789
20.721	PHMSA Pipeline Safety Program One Call Grant	9,096
20.933	National Infrastructure Investments - TIGER Discretionary Grants	12,031
20.933	ARRA-National Infrastructure Investments - TIGER Discretionary Grants	151,545
	Subtotal CFDA #20.933	163,576
20.Unassigned	Coast Guard Marine, Harbor, and Waterfront Services	827,718
	<b>Total U.S. Department of Transportation</b>	<b>217,397,482</b>
<b>Department of the Treasury</b>		
21.Unassigned	Unassigned - Asset Forfeiture - Treasury	3,078,702
	<b>Total Department of the Treasury</b>	<b>3,078,702</b>
<b>Equal Employment Opportunity Commission</b>		
30.001	Employment Discrimination - Title VII of the Civil Rights Act of 1964	247,333
	<b>Total Equal Employment Opportunity Commission</b>	<b>247,333</b>
<b>General Services Administration</b>		
39.011	Unassigned	2,304,958
	<b>Total General Services Administration</b>	<b>2,304,958</b>
<b>National Aeronautics and Space Administration</b>		
43.Unassigned	Unassigned	296,727
	<b>Total National Aeronautics and Space Administration</b>	<b>296,727</b>
<b>Institute of Museum and Library Services</b>		
45.310	Grants to States	951,245
45.312	Institute of Museum and Library Services-National Leadership Grant	102,950
	<b>Total Institute of Museum and Library Services</b>	<b>1,054,195</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>National Endowment for the Arts</b>		
45.025	Promotion of the Arts - Partnership Agreements	735,829
	<b>Total National Endowment for the Arts</b>	<b><u>735,829</u></b>
<b>National Science Foundation</b>		
47.076	Education and Human Resources	179,844
47.076	S ARRA-Education and Human Resources	<u>222,259</u>
	Subtotal CFDA #47.076	402,103
47.080	Office of Cyber Infrastructure	109,152
47.082	S ARRA-Trans-NSF Recovery Act Research Support	<u>200,000</u>
	<b>Total National Science Foundation</b>	<b><u>711,255</u></b>
<b>Small Business Administration</b>		
59.000	Displaced Business Loans	136,624
	<b>Total Small Business Administration</b>	<b><u>136,624</u></b>
<b>U.S. Department of Veterans Administration</b>		
64.203	State Cemetery Grants	<u>579,977</u>
	<b>Total U.S. Department of Veterans Administration</b>	<b><u>579,977</u></b>
<b>U.S. Environmental Protection Agency</b>		
66.001	Air Pollution Control Program Support	1,153,799
66.032	State Indoor Radon Grants	121,726
66.034	Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	234,308
66.040	State Clean Diesel Grant Program	238,224
66.202	Congressionally Mandated Projects	52,723
66.419	Water Pollution Control State and Interstate Program Support	1,644,668
66.432	State Public Water System Supervision	547,433
66.433	State Underground Water Source Protection	62,949
66.454	Water Quality Management Planning	99,675
66.454	S ARRA-Water Quality Management Planning	<u>37,969</u>
	Subtotal CFDA #66.454	137,644
66.458	Capitalization Grants for Clean Water State Revolving Funds	2,672,788
66.458	S ARRA-Capitalization Grants for Clean Water State Revolving Funds	<u>1,400,151</u>
	Subtotal CFDA #66.458	4,072,939
66.460	Nonpoint Source Implementation Grants	1,069,067
66.461	Wetland Program Development Grants	96,590
66.466	Chesapeake Bay Program	716,084
66.468	Capitalization Grants for Drinking Water State Revolving Funds	13,006,922
66.468	S ARRA-Capitalization Grants for Drinking Water State Revolving Funds	<u>3,519,836</u>
	Subtotal CFDA #66.468	16,526,758
66.472	Beach Monitoring and Notification Program Implementation Grants	173,194
66.511	Office of Research and Development Consolidated Research	28,203
66.605	Performance Partnership Grants	331,478
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	194,998
66.707	TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals	160,932

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
66.801	Hazardous Waste Management State Program Support	782,146
66.802	Hazardous Substance Response Trust Fund	247,624
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	1,095,418
66.805	<b>S</b> ARRA-Leaking Underground Storage Tank Trust Fund Program	
	Corrective Action Program	393,706
66.809	Core Program Cooperative Agreements	512,792
66.817	State and Tribal Response Program Grants	967,775
66.818	Brownfields Assessment & Cleanup Cooperative Agreements	135,839
66.951	Environmental Education Grants	4,670
	<b>Total U.S. Environmental Protection Agency</b>	<b>31,703,687</b>
<hr/>		
<b>U.S. Department of Energy</b>		
81.041	<b>S</b> ARRA-State Energy Program	2,923,993
81.042	Weatherization Assistance for Low-Income Persons	4,107
81.042	<b>S</b> ARRA-Weatherization Assistance for Low-Income Persons	4,135,963
	Subtotal CFDA #81.042	4,140,070
81.122	<b>S</b> ARRA-Electricity Delivery and Energy Reliability, Research, Development & Analysis	333,738
81.128	<b>S</b> ARRA-Energy Efficient and Conservation Block Grant Program	5,630,525
	<b>Total U.S. Department of Energy</b>	<b>13,028,326</b>
<hr/>		
<b>U.S. Department of Education</b>		
84.002	Adult Education - State Grant Program	1,743,988
<b>Title I, Part A Cluster</b>		
84.010	Title I Grants to Local Educational Agencies	41,352,899
84.389	<b>S</b> ARRA-Title I Grants to Local Educational Agencies, Recovery Act	4,757,688
	<b>Total Title I, Part A Cluster</b>	<b>46,110,587</b>
84.011	Migrant Education - State Grant Program	299,159
84.013	Title I State Agency Program for Neglected and Delinquent Children	462,891
84.018	International; Overseas Seminars Abroad Bilateral Projects	25,788
<b>Special Education Cluster (IDEA)</b>		
84.027	Special Education - Grants to States (IDEA, Part B)	32,942,347
84.173	Special Education - Preschool Grants (IDEA Preschool)	1,141,527
84.391	<b>S</b> ARRA-Special Education Grants to States, Recovery Act	7,124,229
84.392	<b>S</b> ARRA-Special Education - Preschool Grants Recovery Act	616,779
	<b>Total Special Education Cluster</b>	<b>41,824,882</b>
<b>Student Financial Assistance Cluster</b>		
84.007	Federal Supplemental Educational Opportunity Grants	331,921
84.033	Federal Work Study Program	295,099
84.063	Federal Pell Grant Program	23,291,582
84.268	Federal Direct Student Loans	8,486,901
	<b>Total Student Financial Assistance Cluster</b>	<b>32,405,503</b>
<b>Impact Aid Cluster</b>		
84.041	Impact Aid (Title VIII of ESEA)	50,157
	<b>Total Impact Aid Cluster</b>	<b>50,157</b>
<b>TRIO Cluster</b>		
84.042	TRIO - Student Support Services	307,275
84.044	TRIO - Talent Search	396,039
84.047	TRIO - Upward Bound	1,599,472
	<b>Total TRIO Cluster</b>	<b>2,302,786</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES	
84.048	Vocational Education - Basic Grants to States	5,172,244	
84.048	S ARRA-Vocational Education - Basic Grants to States	<u>11,553</u>	
	Subtotal CFDA #84.048		5,183,797
84.069	Leveraging Educational Assistance Partnership		2,250
	<b>Vocational Rehabilitation Cluster</b>		
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	12,783,677	
84.390	S ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	<u>75,413</u>	
	<b>Total Rehabilitation Cluster</b>		<b>12,859,090</b>
	<b>Independent Living State Grants Cluster</b>		
84.169	Independent Living - State Grants	292,106	
84.398	S ARRA-Independent Living State Grants Recovery Act	<u>139,180</u>	
	<b>Total Independent Living State Grants Cluster</b>		<b>431,286</b>
	<b>Independent Living Services for Older Individuals Who Are Blind Cluster</b>		
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	<u>229,442</u>	
	<b>Total Independent Living Serv. For Older Individuals/Blind Cluster</b>		<b>229,442</b>
	<b>Early Intervention Services (IDEA) Cluster</b>		
84.181	Special Education - Grants for Infants and Families with Disabilities	2,522,691	
84.393	S ARRA-Special Education-Grants for Infants & Families, Recovery Act	<u>985,997</u>	
	<b>Total Early Intervention Services (IDEA) Cluster</b>		<b>3,508,688</b>
84.184	Safe and Drug-Free Schools and Communities - National Program		76,222
84.185	Byrd Honors Scholarships		3,250
84.186	Safe and Drug-Free Schools and Communities - State Grants		174,647
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		239,711
	<b>Education of Homeless Children and Youth Cluster</b>		
84.196	Education for Homeless Children and Youth	249,123	
84.196	S ARRA-Education for Homeless Children and Youth	<u>2,449</u>	
	Subtotal CFDA #84.196	251,572	
84.387	Education for Homeless Children and Youth Recovery Act	60,274	
84.387	S ARRA-Education for Homeless Children and Youth Recovery Act	<u>22,096</u>	
	Subtotal CFDA #84.387	82,370	
	<b>Total Education of Homeless Children and Youth Cluster</b>		<b>333,942</b>
84.213	Even Start - State Educational Agencies		144,735
84.215	Fund for the Improvement of Education		1,156,393
84.243	Tech-Prep Education		172,025
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training		48,332
84.282	Charter Schools		10,173
84.287	Twenty-First Century Community Learning Centers		3,886,132
	<b>Educational Technology State Grants Cluster</b>		
84.318	Education Technology State Grants	731,755	
84.386	S ARRA-Education Technology State Grants, Recovery Act	<u>1,156,898</u>	
	<b>Total Educational Technology State Grants Cluster</b>		<b>1,888,653</b>
84.323	Special Education-State Program Improvement Grants for Children with Disabilities		416,734
84.326	Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		84,888
84.330	Advanced Placement Program		52,080
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals		64,831

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
84.358	Rural Education Achievement Program	116,087
84.365	English Language Acquisition Grants	540,861
84.366	Mathematics and Science Partnerships	917,460
84.367	Improving Teacher Quality State Grants	13,129,615
84.369	Grants for State Assessments and Related Activities	2,831,850
84.410	S ARRA-Education Jobs Funds	18,927,208
84.412	Race to the Top Early Learning	1,110
	<b>School Improvement Grants Cluster</b>	
84.388	S ARRA-School Improvement Grants, Recovery Act	2,325,560
	<b>Total School Improvement Grants Cluster</b>	<b>2,325,560</b>
84.378	College Access Challenge Grant Program	792,433
84.395	S ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-top Incentive Grants, Recovery Act	26,535,573
	<b>State Fiscal Stabilization Fund Cluster</b>	
84.394	S ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants Recovery Act	11,018,968
	<b>Total State Fiscal Stabilization Fund Cluster</b>	<b>11,018,968</b>
	<b>Total U.S. Department of Education</b>	<b>233,329,767</b>
	<b>U.S. Department of Health and Human Services</b>	
93.008	Medical Reserve Corps Small Grant Program	1,472
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	22,186
93.042	Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	101,077
93.043	Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	94,908
	<b>Aging Cluster</b>	
93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	2,038,643
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,963,615
93.053	Nutrition Services Incentive Program	231,187
	<b>Total Aging Cluster</b>	<b>5,233,445</b>
93.048	Special Programs for the Aging-Title IV and Title II Discretionary Projects	656,739
93.052	National Family Caregiver Support	708,954
93.061	Innovations in Applied Public Health Research	450
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	71,470
93.069	Public Health Emergency Preparedness	5,659,466
93.071	Medical Enrollment Assistance Program	11,109
93.072	Lifespan Respite Care Program	100,530
93.092	Personal Responsibility Education Program	341,842
93.103	Food and Drug Administration Research	6,613
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,691,925
93.110	Maternal and Child Health Federal Consolidated Programs	618,582
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	301,418
93.127	Emergency Medical Services for Children	102,700
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	264,042
93.136	Injury Prevention and Control Research and State and Community Based Programs	129,807
93.150	Projects for Assistance in Transition from Homelessness (PATH)	350,000
93.165	Grants for State Loan Repayment	60,250

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	24,960
93.217	Family Planning Services	1,134,196
93.236	Grants for Dental Public Health Residency Training	564,771
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	3,040,588
93.251	Universal Newborn Hearing Screening	214,685
93.259	Rural Access to Emergency Devices Grant	20,090
93.270	Adult Viral Hepatitis Prevention and Control	93,838
	<b>Immunization Cluster</b>	
93.268	Immunization Grants	10,216,891
93.712	S ARRA-Immunization	121,504
	<b>Total Immunization Cluster</b>	<b>10,338,395</b>
93.279	Drug Abuse Research Programs	13,719
93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	4,582,781
93.296	State Partnership Grant Program to Improve Minority Health	146,155
93.389	Research Infrastructure	151,116
93.402	S ARRA-State Loan Repayment Program	24,000
93.414	S ARRA-State Primary Care Offices	38,601
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	1,222,363
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	636,090
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	198,072
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	83,874
93.518	Affordable Care Act (ACA) Improvements to Patients and Providers	16,136
93.519	Affordable Care Act (ACA) Consumer Assistance Program Grants	17,153
93.520	Affordable Care Act (ACA) Communities Putting Prevention to Work	89,445
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	508,410
93.523	The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	28,640
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges	1,114,593
93.544	Coordinated Chronic Disease Prevention	76,543
93.556	Promoting Safe and Stable Families	842,118
	<b>TANF Cluster</b>	
93.558	Temporary Assistance for Needy Families	34,807,453
93.714	S ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families	5,618
	<b>Total TANF Cluster</b>	<b>34,813,071</b>
93.563	Child Support Enforcement	26,646,112
93.566	Refugee and Entrant Assistance-State Administered Programs	89,386
93.568	Low-Income Home Energy Assistance	11,978,905
	<b>CSBG Cluster</b>	
93.569	Community Services Block Grant	3,631,328
	<b>Total CSBG Cluster</b>	<b>3,631,328</b>
93.586	State Court Improvement Program	539,364
	<b>CCDF Cluster</b>	
93.575	Child Care and Development Block Grant	3,797,535
93.596	Child Care Mandatory & Matching Funds of the Child Care and Development Fund	10,279,132
	<b>Total CCDF Cluster</b>	<b>14,076,667</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
93.597	Grants to States for Access and Visitation Programs	107,482
93.599	Chafee Education and Training Vouchers Program (ETV)	92,676
	<b>Head Start Cluster</b>	
93.600	Head Start	107,681
93.708	S ARRA-Head Start	143,393
	<b>Total Head Start Cluster</b>	<b>251,074</b>
93.603	Adoption Incentive Payments	87,000
93.617	Voting Access for Individuals	100,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	463,534
93.643	Children's Justice Grants to States	117,605
93.645	Child Welfare Services - State Grants	809,324
93.658	Foster Care - Title IV-E	3,853,956
93.659	Adoption Assistance	1,173,096
93.667	Social Services Block Grant	3,777,771
93.669	Child Abuse and Neglect State Grants	100,921
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	696,955
93.674	Chafee Foster Care Independent Living	416,446
93.713	S ARRA-Child Care and Development Block Grant	(50,242)
93.717	S ARRA-Preventing Healthcare - Associated Infections	141,551
93.718	Health Information Technology Regional Extension Centers Program	30,982
93.719	S ARRA-State Grants to Promote Health Information Technology	236,093
93.723	S ARRA-Prevention and Wellness State, Territories and Pacific Islands	1,094,573
93.725	S ARRA-Communities Putting Prevention to Work; Chronic Disease Self-Mgmt Program	43,074
93.767	Children's Health Insurance Program	15,532,999
	<b>Medicaid Cluster</b>	
93.775	State Medicaid Fraud Control Units	1,338,491
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,774,363
93.777	S ARRA-State Survey and Certification of Health Care Providers and Suppliers	413
	Subtotal CFDA #93.777	1,774,776
93.778	Medical Assistance Program	843,048,393
	<b>Total Medicaid Cluster</b>	<b>846,161,660</b>
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	238,575
93.791	Money Follows the Person Rebalancing Demonstration	872,209
93.889	National Bioterrorism Hospital Preparedness Program	1,131,117
93.913	Grants to States for Operation of Offices of Rural Health	150,688
93.917	HIV Care Formula Grants	6,150,175
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	275,342
93.940	HIV Prevention Activities Health Department Based	1,621,615
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	479,000
93.946	Cooperative Agreements to Support State-Based Safe Motherhood & Infant Health Initiative Programs	113,302
93.958	Block Grants for Community Mental Health Services	897,896
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,324,840
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	418,264
93.991	Preventive Health and Health Services Block Grant	160,481
93.994	Maternal and Child Health Services Block Grant to the States	1,904,807
	<b>Total U.S. Department of Health and Human Services</b>	<b>1,029,501,991</b>

**STATE OF DELAWARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

CFDA NO.	GRANT NAME	EXPENDITURES
<b>Corporation for National and Community Service</b>		
94.002	Retired and Senior Volunteer Program	139,346
94.003	State Commissions	130,709
94.006	AmeriCorps	655,558
94.007	Program Development and Innovation Grants	11,145
94.009	Training and Technical Assistance	45,956
<b>Foster Grandparent/Senior Companion Cluster</b>		
94.011	Foster Grandparent Program	604,360
	<b>Total Foster Grandparent/Senior Companion Cluster</b>	<b>604,360</b>
<b>Total Corporation for National and Community Service</b>		<b>1,587,074</b>
<b>Social Security Administration</b>		
<b>Disability Insurance/SSI Cluster</b>		
96.001	Social Security - Disability Insurance	6,401,335
	<b>Total Disability Insurance/SSI Cluster</b>	<b>6,401,335</b>
96.008	Social Security - Benefits Planning, Assistance, and Outreach Program	106,469
<b>Total Social Security Administration</b>		<b>6,507,804</b>
<b>U.S. Department Homeland Security</b>		
97.001	Special Projects	24,558
<b>Homeland Security Cluster</b>		
97.067	Homeland Security Grant Program	6,765,839
	<b>Total Homeland Security Cluster</b>	<b>6,765,839</b>
97.012	Boating Safety Financial Assistance	933,987
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	607,703
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	91,446
97.029	Flood Mitigation Assistance	720,663
97.036	Public Assistance Grants	2,545,532
97.039	Hazard Mitigation Grant	126,149
97.041	National Dam Safety Program	55,280
97.042	Emergency Management Performance Grants	1,975,433
97.043	State Fire Training Systems Grants	3,297
97.045	Cooperating Technical Partners	282,785
97.047	Pre-Disaster Mitigation	19,536
97.052	Emergency Operations Center	130,834
97.056	Port Security Grant Program	9,100
97.075	Rail and Transit Security Grant Program	951,438
97.078	Buffer Zone Protection Plan (BZPP)	125,649
97.089	Driver's License Security Grant Program (Dept. of Homeland Security, FEMA)	459,611
97.111	Regional Catastrophic Preparedness Grant Program	(874)
97.116	S ARRA-Port Security Grant Program	438,431
<b>Total U.S. Department Homeland Security</b>		<b>16,266,397</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 2,192,750,321</b>

**Legend:**

S Award made under the American Recovery and Reinvestment Act

**STATE OF DELAWARE**

*Notes to Schedule of Expenditures of Federal Awards*

*Year ended June 30, 2012*

**(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, 2012 totaled \$8,486,901. 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, 2012 are \$127,878,307.

**(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:

<b>CFDA Number</b>	<b>Program Name</b>	<b>Amount</b>
10.550	Food Distribution (Commodities)	\$ 2,738,649
10.551	Supplemental Nutrition Assistance Program (EBT Payments)	223,046,204
10.569	Emergency Food Assistance Program (Commodities)	1,138,530
93.268	Immunization Grants (Vaccines)	8,565,491

**STATE OF DELAWARE**

*Notes to Schedule of Expenditures of Federal Awards*

*Year ended June 30, 2012*

**(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 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

**(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**

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

**(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: **No.**
- (c) Significant deficiencies: **Yes.**
- (d) Noncompliance which is material to the basic financial statements: **No.**

**Federal Awards**

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

**Major programs with material weaknesses:**

<b>CFDA No.</b>	<b>Program Name</b>
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.258, 17.259, 17.260, S-17.260, 17.278	Workforce Enforcement Act 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
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality Grants
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
93.563	Child Support Enforcement

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA No.</b>	<b>Program Name</b>
93.575, 93.596	Child Care Cluster

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

**Major programs with significant deficiencies:**

<b>CFDA No.</b>	<b>Program Name</b>
10.551, 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
15.605, 15.611	Fish and Wildlife Cluster
17.225, S-17.225	Unemployment Insurance
17.258, 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
66.468 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

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA No.</b>	<b>Program Name</b>
84.367	Improving Teacher Quality State Grants
84.126, S-84.390	Vocational Rehabilitation Cluster
S-84.394	State Fiscal Stabilization Fund Cluster
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.410	Education Jobs Fund
93.268, S-93.712	Immunization Cluster
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance Program
93.575, 93.596	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778	Medicaid Cluster

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

<b>Type of Opinion</b>	<b>Program Name</b>
<i>Qualified</i>	
10.551, 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
	Workforce Investment Act Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>Type of Opinion</b>	<b>Program Name</b>
17.258, 17.259, 17.260, S-17.260, 17.278	
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
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
S-84.410	Education Jobs Fund
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
93.268, S-93.712	Immunization Cluster
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.568	Low-Income Home Energy Assistance Program
93.767	Children's Health Insurance Program
93.775,	Medicaid Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>Type of Opinion</b>	<b>Program Name</b>
93.777, S-93.777, 93.778	
<b><i>Unqualified</i></b>	
12.401	National Guard Military Operations and Maintenance (O&M) Projects
15.605, 15.611	Fish and Wildlife Cluster
17.225, S-17.225	Unemployment Insurance
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.126, S-84.390	Vocational Rehabilitation Cluster
97.067	Homeland Security Cluster

(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:

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
10.551, 10.561	11081DE451E2518 11111DE458Q3903 11DE401S2522 12121DE401E2518	Supplemental Nutrition Assistance Program Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	12121DE401S2519	
	12121DE401S2520	
	12121DE401S2522	
	12121DE401S8026	
	12121DE401S8036	
	1212DE401S2514	
	1313DE401E2518	
	1313DE401IS7503	
	1313DE401S2514	
	1313DE401S2519	
	1313DE401S2520	
	1313DE401S2522	
	1313DE401S8026	
	1313DE401S8036	
	2010ID250341	
	2010IE251841	
	2010IQ270341	
	2010IS251441	
	2010IS251941	
	2010IS252041	
	2010IS252241	
	2010IS803641	
	2011IS251441	
	2011IS251941	
	2011IS252041	
	2011IS802641	
	2011IS803641	
10.553, 10.555, 10.556, 10.559	12108DE000L4003 1DE300301 2011IN109941 2012IN109941 2012IN109941	Child Nutrition Cluster
10.557	11111DE701W1003 11111DE701W1006 2009IW500341 2010IW500341	Special Supplemental Nutrition Program for Women, Infants & Children

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	2011IW500341	
	2012IW100641	
	2012IW500341	
	2013IW100341	
	2013IW100641	
10.558	1DE300301	Child and Adult Care
	2012IN109941	Food Program
	2012IN202041	
12.401	1002	National Guard Military
	1021	Operations and
	1023	Maintenance (O&M)
	1001\1003-1005\1007\	Projects
	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	
	APPEND 1625 1626	
	SAI 12-07-17-07	
	SAI 12-07-17-08	
	SAI 12-07-17-09	
	SAI 12-07-17-10	
	W912L5-10-2-1001	
15.605, 15.611	F-2-D-58	Fish and Wildlife Cluster
	F-2-D-59	
	F2D60	
	F2D61 MARINE DEV	
	F-2-D-62	
	F-33-R-1	
	F-33-R-29	
	F-33-R-30	
	F-41-R-21	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	F-41-R-22	
	F-41-R-23	
	F-42-R-21	
	F-42-R-22	
	F-42-R-23	
	F-42-R-24	
	F-43-E-20	
	F-43-E-21 ARE PROG	
	F43E22 DE AQUATIC	
	F-43-E-23	
	F-47-R-20	
	F-47-R-21	
	F-47-R-22	
	F-48-D-17	
	F-48-D-18	
	F-48-D-19	
	F-48-D-20 - Artifici	
	F50D10	
	F50D11 Fresh Trout	
	F-50-D-9	
	F-51-T-17	
	F-51-T-18	
	F-51-T-19 Fish Tech	
	F-52-C-17	
	F-52-C-18	
	F52C19 Fish Coord	
	F-52-C-20	
	F-56-R-15	
	F-56-R-16	
	F-56-R-17	
	F-65-R-10	
	F-65-R-11	
	F65R12 FISH RES VESS	
	F-65-R-9	
	F70D10 Aquatic Veg	
	F-70-D-8	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	F-70-D-9	
	F-73-R-6	
	F-73-R-7	
	F73R8 DE Sciaenid Re	
	F-73-R-9	
	F-74-D-5	
	F-74-D-6	
	F74D7	
	F74D8 Freshwater Dev	
	F-75-R-5	
	F-75-R-6	
	F75R7	
	F-76-D-1	
	F-77-T-5	
	F-77-T-6	
	F-77-T-7 freshw tech	
	F-77-T-8	
	F-78-D-1	
	F-81-D-1	
	NFWF RED KNOT	
	21550	
	W-21-R-45	
	W-21-R-46	
	W-21-R-47 Atl Flyway	
	W-21-R-48	
	W-30-C-17	
	W30C18 WILDLIFE	
	COOR	
	W30C19	
	W-30-C-20	
	W-33-R-13	
	W-33-R-14	
	W-34-S-13	
	W34S14 DE HE	
	W34S15 DE HUNTER	
	W-34-S-16	
	W-35-R-10	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	W-35-R-11	
	W35R12 W INV - DEER	
	W-35-R-13	
	W-36-R-10	
	W-36-R-11	
	W-36-R-12	
	W36R13 W INVEST	
	SURV	
	W-36-R-14	
	W-37-R-10	
	W-37-R-11	
	W-37-R-12	
	W37R13 W INV	
	WATERF	
	W-37-R-14	
	W-38-12	
	W-38-R-10	
	W-38-R-11	
	W38R13 W INV	
	TURKEY	
	W-38-R-14	
	W-41-D-1	
	w-42-1-1	
	W-5-D-61	
	W5D62	
	W-5-D-63 HABITAT	
	DEV	
	W5D64	
17.225, S-17.225	ES-22055-11-55-A UI10446530955A10 UI-16738-08-55-A-10 UI180120955A10 UI180129M0 UI195741055A10 UI21091EW-UI21091DV UI22267JH	Unemployment Insurance
17.258, 17.259,	2-115-Y	Workforce Investment Act Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
17.260, S-17.260, 17.278	2-117-Y 2-119-STYY 2-120-STYY 3-122-Y 3-124-Y 3126STYY 3-146-STSY 3262STSY AA160200755A10 AA171130855A10 AA-18631-09-55-A-10 AA186316XO AA186316ZO AA-20186-10-55-A-10 AA-21387-11-55-A-10 AA-22927-12-55-A-10 EM192980960A10 EM-20482-10-60-A-10 EM-21137-11-60-A-10 LM 1007	
20.205, S-20.205, 20.219	TRANSPORTATION ENHANCEMENT HEV-DE	Highway Planning and Construction Cluster
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
66.468, S-66.468	99391412 2F-093914-09-0 FS-993914050 FS-993914050-DA FS-99391406 FS-99391407-0 FS993914080	Capitalization Grants for Drinking Water State Revolving Funds

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	FS-99391408-0	
	FS-993914-08-0	
	FS-99391409-0	
	FS-993914-09-0	
	FS99391410	
	FS99391411	
	WP-97360401-0	
84.007, 84.033, 84.063, 84.268	AcadComp11TY40753	Student Financial
	DIRLEND11OW	Assistance Cluster
	DIRLEND11ST	
	DIRLEND11TY	
	DIRLEND12OW40340	
	DIRLEND12ST40340	
	DIRLEND12TY40340	
	FWSP11OW1812	
	FWSP11ST1815	
	FWSP11TY1816	
	P007A090812	
	P007A090814	
	P007A090815	
	P007A110812	
	P007A110814	
	P007A110815	
	P007A120812	
	P007A120814	
	P007A120815	
	P033A090812	
	P033A090814	
	P033A110812	
	P033A110814	
	P033A110815	
	P033A120812	
	P033A120814	
	P033A120815	
	P033P090815	
	P063P093468	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	P063P093817	
	P063P122885	
	P063P123468	
	P063P123817	
	P268K132885	
	P268K133468	
	P268K133817	
	P375A092885	
	P375A093468	
	P375A102885	
	P375A103817	
	PELL11OW1802	
	PELL11ST1805	
	PELL11TY1806	
	PELL12OW41009	
	PELL12ST41009	
	PELL12TY41009	
	PO63P092885	
	SEOG11OW1822	
	SEOG11ST1825	
	SEOG11TY1826	
84.010, S-84.389	H391A090022	Title I Grants to Local Educational Agencies
	S010A070008	
	S010A080008	
	S010A090008	
	S010A100008A	
	S010A110008	
	S010A120008	
	S013A090008	
	S365A100008	
	S389A090008	
	S394A090053	
84.027, 84.173, S-84.391, S-84.392	H027A070022	Special Education Cluster (IDEA)
	H027A080022	
	H027A090022	
	H027A100022A	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	H027A120022	
	H027AO80022	
	H173A070025	
	H173A080025	
	H173A090025	
	H173A100025	
	H173A110025	
	H173A120025	
	H391A090022	
	H392A090025	
84.126, S-84.390	H126A090009	Vocational Rehabilitation Cluster
	H126A090010	
	H126A100009	
	H126A100011	
	H126A110009	
	H126A110010	
	H126A120009	
	H126A120010	
	H126A130010	
	H390A090009	
	H390A090010	
84.367	S367A080007	Improving Teacher Quality State Grants
	S367A090007	
	S367A100007A	
	S367A110007	
	S367B070008A	
	S367B080008	
	S367B090008A	
	S367B100008	
	S367B110008	
	S367B120008	
S-84.394	S394A090053	State Fiscal Stabilization Fund Cluster
	SFSF 49-09	
	SFSF 50-09	
	SFSF 51-09	
	SFSF 52-09	

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
S-84.395	S395A100007	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.410	S410A100053	Education Jobs Fund
93.268, S-93.712	5H231P322567-08 OCCH322567 3H231P322567-07SI	Immunization Cluster
93.558, S-93.714	0901DETAN2 1102DETANF 1202DETANF 1302DETANF G-0802DETANF G-0902DETANF G1001DETAN2 G1002DETANF	Temporary Assistance for Needy Families Cluster
93.563	0904DE4004 1004DE4004 1004DE4002 1104DE4004 1204DE4005	Child Support Enforcement
93.568	G-09B1DELIEA G-10B1DELIEA G-11B1DELIEA 1001DELIE2 G12B1DELIEA	Low-Income Home Energy Assistance Program
93.575, 93.596	07072507A 0801DECCDF 1001DECCDF 1101DECCDF 1201DECCDF 1301DECCDF 2009G9966005 G-0801DECCDF G-0901DECCDF G1001DECCDF	Child Care Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
93.767	05-0805DE5021 05-0905DE5021 1005DE5021 1105DE5021 1205DE5021	State Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778	01-1001-DE-5050 01-1101-DE-5050 05-01005DEARRA 05-1005-DE-5001 05-1005-DE-5002 05-1005DE5028 05-1005DE5048 05-1005-DE-5ASC 05-1101DE5ADM 05-1205-DE-5002 05-1205DE5ADM 05-1205DE5MAP 09INC-FMAP 1005DE5000 1005DE5MAP 1105DE5000 1105DE5001 1105DE5002 1105DE5MAP 1105DEARRA 1105DEEXTN 1201-DE-5050 1205DE5000 1205DE5001 1205DEIMPL 1205DEINCT 1305DE5000 1305DE5001 XIX-ADM13 XIX-MAP13	Medicaid Cluster
97.067	2006GET60060 2006-GE-T6-0060	Homeland Security Cluster

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 1: Summary of Auditors' Results*

*Year ended June 30, 2012*

<b>CFDA Number</b>	<b>Federal Award Number</b>	<b>Program Name</b>
	2007-GE-T7-0020	
	2007RLT7K104	
	2008GET70020	
	2008GET80024	
	2008-GE-T8-0024	
	2009SST90038	
	2010-SS-T0-0036	

(j) Dollar threshold used to distinguish between Type A and Type B programs: **\$6,578,251.**

(k) 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*:**

Two findings related to the basic financial statements for the year ended June 30, 2012 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See **Section 2** of the Schedule of Findings and Questioned Costs for items **2012-01** to **2012-02**.

**(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**

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year Ended June 30, 2012*

#### **2012-01. Lack of Controls over the Comprehensive Annual Financial Report (CAFR) Preparation (associated with prior year findings 2011-01, 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/Conditions***

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). During the fiscal year, the State operates and records transactions on the cash and budget basis of accounting using First State Financials (FSF), the State's accounting system. The cash basis of accounting differs significantly from the accrual basis of accounting and modified accrual basis of accounting, which are used in reporting information included in the Comprehensive Annual Financial Report (CAFR).

As the FSF is not used throughout the year to capture transactions on the accrual basis or modified 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 based on training and instructions provided by DOA. 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. As a result, the financial statement preparation process still entails compiling worksheets, completing reconciliations, customizing reports and recording various adjustments.

It was noted during our audit that DOA's internal review process resulted in improvements in the completeness and accuracy of amounts reported by the various agencies through the GAAP packages and helped to minimize the amount of errors detected through the audit process.

However, 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 manual in nature and, therefore, susceptible to errors.

During our audit, we noted the following deficiencies in internal control over financial reporting:

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

#### Year End Accounts Payable Accruals:

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

- One (1) invoice for services that occurred in fiscal year 2013 was improperly accrued for in the general fund as of June 30, 2012, resulting in a net overstatement of \$5.5 million. An adjustment for this amount was not recorded in the financial statements.
- Four (4) invoices for services that occurred in fiscal year 2013 were improperly accrued for in the federal fund as of June 30, 2012, resulting in a net overstatement of \$17.7 million.
- Fifteen (15) invoices in the capital projects fund related to service periods that crossed the State's fiscal year-end; however, the accrual was not properly pro-rated between fiscal years, resulting in a net understatement of \$8.0 million.

Due to the significance of the federal fund and capital projects fund entries, an adjustment was required in the financial statements for these amounts.

#### Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54):

During our audit of the classifications of general fund balance, we noted the following errors, which required adjustment in the financial statements:

- \$6.0 million of the fund balance related to the Harness Racing Commission was improperly classified as assigned instead of committed fund balance;
- \$52.6 million of fund balance related to the Clean Water State Revolving Loan Funds was improperly classified as assigned instead of restricted fund balance;
- \$1.0 million of fund balance related to Department of Transportation special projects was improperly classified as committed instead of assigned fund balance;

There was a lack of adequate underlying documentation to support the proposed classification of \$2.6 million of restricted fund balance relating to monies collected by the State Family Courts from litigants for services needed for trial. We note that the pass-through nature of the funds collected and purpose for which the funds are used supports a restricted classification, however, the courts were unable to provide a formal policy or written agreement to support the restriction of these funds. An adjustment for this amount was not recorded in the financial statements.

#### Grants Receivable

During our procedures performed over the Department of Health and Social Services (DHSS) *Grants Receivables* GAAP package information, we noted that the receivable balance erroneously included amounts related to two grants that had been fully expended and drawn down in fiscal year 2011. This resulted in the grant receivable balance being overstated by \$2.6 million.

Secondly, during our procedures performed over the Department of Labor, Division of Unemployment Insurance (UI) *Grants Receivables* GAAP package information, we noted the receivable balance was calculated using incorrect amounts for the total grant expenditures as of June 30, 2011. This resulted in the grant receivable balance being overstated by \$2.1 million.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

Thirdly, during our review of the Department of Education *Grants Receivables* GAAP package information, we noted that the receivable balance erroneously included amounts related to two grants that had been fully expended and drawn down as of December 2011. This resulted in the grant receivable balance being overstated by \$18.1 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, Criminal Justice Council, Department of Safety and Homeland Security, Department of Natural Resources and Environmental Control, 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 \$15.1 million of the funds were not drawn-down within the 60 day period of availability. Consequently, it was necessary to adjust this amount from *Grant Revenue* to *Deferred Revenue* in the financial statements.

#### Accounting for Investments

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. 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."

As the criteria allowing the right of setoff was not met for these transactions, we noted that the State inappropriately netted \$21.6 million of receivables for securities sold, \$6.1 million of accrued interest, and \$32.2 million of payables for securities purchased against the investment balance at June 30, 2012. Adjustments for these amounts were not recorded in the financial statements.

Additionally, we noted two (2) errors when auditing the year-end 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 \$6.8 million;
- The investment bank balance listed on the reconciliation was overstated by approximately \$1.3 million as it did not agree to the trustee-confirmed amount.

Lastly, we noted an un-reconciled difference of \$6.8 million between the balance of investments reported in the government-wide financial statements and the total investments included in the notes to the financial statements. This difference did not require adjustment to the financial statements.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

#### Preparation of the CAFR

It was noted during the audit team's review and tie-out of the draft CAFR document that DOA did not have adequate controls in place to ensure proper management of the edits and changes made between various versions of the draft CAFR document. For example, in one draft version, an entire column of a table in the notes to the financial statements was mistakenly removed. In another draft version of the document, a table within the Required Supplementary Information section of the draft CAFR had been mistakenly deleted from the draft, which had been added in a prior iteration of the document. In both cases, these errors were detected by the audit team's review process and the appropriate changes were made to the final draft by DOA.

#### *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 safeguarded.

#### *Cause*

#### First State Financials

Although 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. 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 continue to develop a 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 are not formally-trained accountants and; therefore, rely heavily on training and instruction from DOA to accurately prepare the GAAP packages.

#### Lack of Managerial Review

Controls are in place at DOA over management review of financial statement information provided by the agencies/departments for inclusion in the State-wide financial statements; however, despite some improvement, 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.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

#### Non-GAAP Policies

The misstatements related to investments 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.

#### ***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 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 refine its process for managing the preparation and subsequent editing of the CAFR document and therefore, rely less on the audit process to identify errors and omissions of required financial information. This should include a detailed management-level review by DOA before a draft CAFR is provided to the auditor.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

#### ***Views of Responsible Officials***

In fiscal year 2012, the Division of Accounting (DOA) has expanded their personnel by three State Accountants, which includes the addition of a seasoned and knowledgeable State Accountant V who is responsible for CAFR preparation. The expansion has also allowed DOA to better segregate the preparation and review process over many components of the CAFR. In the current fiscal year, DOA has continued its pursuit of excellence in financial reporting by creating two new positions to manage financial reporting throughout the state.

DOA continues to develop and redesign GAAP training content based on information received from the prior year's GAAP process, questions raised by Organizations, and audit findings. We noted a significant improvement in the FY2012 GAAP process. The improvement is directly attributed to our recent training revisions, a leveling learning curve, with respect to our new accounting system, our recent personnel change and the support of senior leadership at the Office of Management and Budget and the Department of Finance. We received praise from the audit team on the response time to the audit requests for this year.

During this year, we were able to review the grant receivable collection reports included in the GAAP process. With this review, we were able to determine that DOA can run reports centrally in First State Financials (FSF) to gather grants receivable data on behalf the Organizations; thereby removing that step in the GAAP process. The significance of this accomplishment can be measured by efficiency gained and time saved by agency staff as well as an overall improvement in the accuracy of information reported. In addition, we will continue to monitor the grant drawdown process and continue to analytically compare the grants receivable balances with the draw downs just to ensure the reports are reliable.

We understand the recommendation that our auditors would like the State to contain all of its financial data in one system. The primary purpose of the state's accounting system is to support general operations and record financial transactions. Further accounting processes, such as accounts payable and accounts receivable are decentralized. Implementing an accrual accounting system in such an environment would be inefficient and likely result in additional financial reporting concerns. Therefore, we will continue to have certain accounts for taxes, loans and agency receivables collected during our GAAP process and do not intend for them to be included in the system. However, we will continue monitoring the various GAAP functions and report systematically, where possible.

During this CAFR process we enhanced our review of accounts payable. However, the materiality threshold chosen by DOA was not as low as the threshold selected by the auditors. The difference in thresholds led to the auditors uncovering additional items in their detail testing and is due to the nature of the compilation process versus an audit.

We continue to make improvements in fund balance reporting since GASB 54 was implemented two years ago. However, there still are appropriations that meet the requirements of GASB 54, but are not considered properly supported by way of documentation your auditor's definition. We will continue to work with the auditors to determine the criteria for support to ensure that the organizations will be able to supply when they are selected in any following year.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

**2012-02. Lack of Controls over Accounting and Reporting at the School Districts (associated with prior year findings 2011-02, 2010-02, 2009-02, 2008-03)**

***Background/Conditions***

The school districts (SDs) are considered part of the State's primary government and the SDs' 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. The SDs are extremely decentralized from the rest of the State's primary government agencies. In addition, the majority of SD 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 reviewed the financial information for all nineteen (19) school districts, and we noted the following observations:

SD Revenue Classifications

During our testing of revenue transactions at the school districts, we identified that certain school districts improperly recorded cash received for reimbursements of expenditures as revenue within FSF. These transactions related both to expenditure recoveries and payroll expenditure reimbursements, which do not represent revenue per GAAP and should be recorded as a reduction to expenditures in the financial statements. The transactions were as follows:

- Seven (7) transactions at Laurel school district totaling \$19,064;
- One (1) transaction at Delmar school district totaling \$61,028;
- Three (3) items at Cape Henlopen school district totaling \$22,804; and
- Six (6) items at Woodbridge school district totaling \$16,748.

These items were charged to the revenue account code 46152 (expense recoveries) or 48010 (payroll expense reimbursements) in FSF. Therefore, the audit team proposed adjustments to reclassify all local school district fund revenues recorded to these two account codes in FSF to expenditure reductions, which totaled \$1.1 million and \$0.9 million, respectively. Adjustments for these amounts were not recorded in the financial statements.

In addition, we noted 56 transactions for similar expenditure reimbursements amounting to \$544,463 across the Brandywine, Caesar Rodney, Cape Henlopen, Christina, Colonial, Indian River, Laurel, Milford, Polytech, Red Clay, Seaford and Smyrna districts that were charged to other various revenue account codes in FSF. Adjustments were also proposed to reclassify these amounts from revenues to reductions in expenditures; however, these amounts were not recorded in the financial statements.

Lastly, we identified one instance at Milford school district where a negative revenue transaction was recorded as opposed to an expenditure, totaling \$1,918, and 2 instances at Colonial school district where revenue related to dividend income was recorded as other revenue as opposed to interest and investment income, totaling \$31,585. Adjustments for these amounts were not recorded in the financial statements.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

#### Payroll Human Resources Statewide Technology (PHRST) Payroll Tables

In order to test the accuracy of the school district salary tables in the PHRST System for each of the school districts, we sampled 25 salary line items and agreed the salary amounts to the respective school district's payroll tables as approved by the school board of education. During our testing, we noted at 15 of the 19 school districts, the following number of instances where the salary tables in PHRST did not agree to the respective board approved rates:

- Nine (9) instances at Appoquinimink school district;
- Eleven (11) instances at Brandywine school district;
- Sixteen (16) instances at Cape Henlopen school district;
- Five (5) instances at Capital school district;
- Six (6) instances at Christina school district;
- One (1) instance at Colonial school district;
- Six (6) instances at Delmar school district;
- Two (2) instances at Indian River school district;
- Three (3) instances at Lake Forest school district;
- Seven (7) instances at Laurel school district;
- Four (4) instances at New Castle Vo-Tech district;
- Eleven (11) instances at Red Clay school district;
- Twenty (20) instances at Seaford school district;
- Five (5) instances at Sussex Tech school district;
- Fifteen (15) instances at Woodbridge school district.

It was also noted that for each of the instances at the school districts included above, the employees were being paid at the correct board approval salary rate, as the districts do not necessarily rely on the salary tables in PHRST to ensure that the district employees are properly paid the correct salary for their respective position and level. The district can make manual adjustments to the employees' salaries from the amounts reflected in the PHRST tables to ensure the proper board approved salary rates are used when processing payroll.

#### PHRST – Payroll Data

During the course of our audit, we performed various routines over the payroll and human resource data of the school districts and identified the following items:

1. We determined that the State does not utilize the part time/full time indicator in the PHRST system to determine an employee's status. Instead, the employee's "regular hours" are utilized, and the State considers anyone who works 75 or more regular hours as a full time employee;
2. We identified multiple individuals in the school district human resources master file with different employee IDs that shared the same home addresses;
3. We identified numerous records in the payroll data of the school districts where total hours incurred in a single paycheck were in excess of similar employees of the same pay scale. Our review of 22 of these paychecks identified 7 instances where employees did not timely submit their time sheets, and would often submit time sheets reporting hours for multiple time periods;
4. We identified numerous records in the payroll data of the school districts where "other earnings" were in excess of similar employees of the same pay scale. During our review of 16 of these

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

paychecks, we identified one instance relating to a vacation and sick leave payout where the calculation of leave was inaccurate, resulting in an overpayment of \$4,527. We also identified one instance where the final vacation and sick leave payout for a retired superintendent lacked final approval, as the superintendent is typically the final approver of these items; and

5. We identified numerous records in the payroll data of the school districts where regular earnings were in excess of similar employees of the same pay scale. During our review of 15 of these paychecks, we identified one instance where the payment related to work performed from April through June of 2009, and we were unable to obtain sufficient supporting documentation due to the lag time involved with the payment.

#### ***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 SDs have been instructed to record cash receipts using various revenue codes within the FSF system, which does not take into consideration the nature of the cash receipt (i.e. revenue vs. reduction of expenditures).

In addition, the salary tables in PHRST are not being updated in a timely manner to agree to the most recent board approved salary rates for the school districts, therefore, manual adjustments are made to the rates by SD personnel when processing payroll transactions.

There are insufficient system edit checks to identify and remedy non-submission of timesheets. In addition, there is no documented analysis performed by the State to identify potential anomalies in the school district payroll data.

#### ***Effect***

Revenues for the school districts could be materially overstated while expenditures could be materially understated.

Due to the manual processes used to adjust the salary rates in PHRST, errors in payroll transactions could go undetected.

Due to the items found related to payroll data, payroll transactions may be inaccurate or untimely.

#### ***Recommendations***

We recommend that DOA provide more robust training to the school district personnel on the proper use of FSF to record cash receipt transactions to ensure that those transactions relating to expense reimbursements are properly reflected in the FSF general ledger. We further recommend that the PHRST salary tables are updated in a timely manner to reflect the current approval salary rates so that no additional manual adjustments are required to ensure the accuracy of the salary amounts paid to employees.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

We recommend that system edit checks are implemented within the PHRST system to identify non-submission of timesheets to prevent significant delays in time recognition. In addition, we recommend that the State implement checks to identify potential anomalies in the payroll data that could require additional investigation and evaluation. We also recommend that the school district boards of education be responsible for the approval of final payouts and any “extra pay extra responsibility” (EPER) items.

#### ***Views of Responsible Officials***

The Division of Accounting will be working with the Districts and other Organizations to provide a policy for when accounts and certain document types should be used.

As for the findings related to the PHRST tables, they are below:

KPMG: Payroll Human Resources Statewide Technology (PHRST) Payroll Tables - The salary tables in PHRST are not being updated in a timely manner to agree to the most recent board approved salary rates for the school districts, therefore, manual adjustments are made to the rates by SD personnel when processing payroll transactions.

PHRST Response:

- PHRST maintains over 70,000 local school district pay rates on Salary Step tables. The pay rates contained within the tables are established through individual school board approval. As such, it is the responsibility of the school districts to supply new rates to PHRST when approved by their respective Boards.

Nonetheless, PHRST is prepared to implement the following to ensure timely updates of the pay tables:

- PHRST will review the recommendations resulting from this audit with school district business managers.
- Each May, PHRST issues a memorandum to school districts requesting updated rates for pay tables. PHRST will now require a school district to verify and sign off on pay rates at the beginning of the fiscal year.
- PHRST will require school districts to re-confirm rates within pay tables quarterly.

Table rates can be overridden at the employee level. There are instances where overriding the Local rate may be appropriate based on Board approved pay tables. For example, when a school district gives an employee experience credit using a different scale than the State pay rates, the Local rate will need to be overridden based on the school district’s practice.

However, manual overrides should not be utilized to substitute for correct pay tables. As stated above, if a local pay rate is not accurate due to the table being incorrect; it is the school district’s responsibility to provide the correct rate to PHRST. PHRST believes the aforementioned steps will greatly improve the maintenance of pay rates contained in Salary Step tables.

KPMG: PHRST – Payroll Data - We recommend that system edit checks are implemented within the PHRST system to identify non-submission of timesheets to prevent significant delays in time recognition. In addition, we recommend that the State implement checks to identify potential anomalies in the payroll data that could require additional investigation and evaluation.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 2: Financial Statement Findings*

*Year ended June 30, 2012*

**PHRST Response:**

School districts and all other State organizations decide what role the PHRST system timekeeping function plays in their respective payroll processes. Therefore the calculation and submission of hours worked is the primary responsibility of the school district or State organization. PHRST supplies end users with an annual schedule, by pay period, for data entry of payroll information. School districts and all other State organizations are responsible for establishing an internal procedure for submission of time in order to adhere to the published data entry schedule.

PHRST generates reports on a nightly basis throughout the pay period for schools to use to identify anomalies in the school district payroll data. Interpretation and analysis of these reports is covered in PHRST training, which is required for every school district user of the system.

KPMG: Payouts - We also recommend that the school district boards of education be responsible for the approval of final payouts and any “extra pay extra responsibility” (EPER) items.

**PHRST Response:**

The Division of Accounting (DOA) is responsible for working with all State organizations to ensure effective controls are in place governing all financial activities including the expenditure of funds associated with the State’s payroll process. Per DOA policy, organizations are required to have in place and enforce effective internal controls to monitor payroll-related transactions, including final payouts and any “extra pay extra responsibility” (EPER) items. These internal controls must be documented in an Internal Controls Plan on file with DOA’s Payroll Compliance Group. Organizations should ensure an appropriate segregation of duties and monitoring throughout the payroll process is in the plan. This includes establishing separate roles within the organization for payroll approval and payroll processing.

The DOA is currently in the process of establishing checklists for Organizations to use to review their internal controls. This will allow them to find any areas that will need to be enhance their process.

## **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, 2012*

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.

**TABLE OF CONTENTS**

<b>DEPARTMENT</b>	<b>PAGE</b>
<b>Delaware Technical and Community College</b>	<b>55</b>
<b>Education, Department of</b>	<b>57</b>
<b>Health and Social Services, Department of</b>	<b>82</b>
Division of Management Services	<b>82</b>
Division of Medicaid and Medical Assistance	<b>102</b>
Division of Social Services	<b>108</b>
Division of Public Health	<b>119</b>
Division of State Service Centers	<b>127</b>
<b>Labor, Department of</b>	<b>135</b>
Division of Vocational Rehabilitation	<b>135</b>
Division of Employment & Training	<b>137</b>
Division of Unemployment Insurance	<b>153</b>
<b>Transportation, Department of</b>	<b>155</b>
<b>Natural Resources and Environmental Control, Department of</b>	<b>159</b>
<b>Finance, Department of</b>	<b>163</b>

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Delaware Technical and Community College**

**Terry Campus**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-1\***

**Program: Student Financial Assistance Cluster (84.007, 84.033, 84.063, 84.268)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Special Tests and Provisions (Borrower Data Transmission and Reconciliation (Direct Loans))**

**Condition:**

The following is considered to be both a control and compliance exception. In connection with our test work over the Direct Loan program, we found that the Terry campus had not been 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) prior to April 2012. The related expenditures for fiscal year 2012 are detailed in the table below.

***SFA Cluster***

	<i>Dollar Amount</i>
<b><i>Total Terry Campus Direct Loan Expenditures</i></b>	\$ 2,516,832
<b><i>Total Terry Campus SFA Expenditures, including Direct Loans</i></b>	8,437,972
<b><i>Total DTCC Direct Loan Expenditures (all campuses)</i></b>	8,486,901
<b><i>Total DTCC SFA Expenditures, including Direct Loans (all campuses)</i></b>	32,405,503

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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 a 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:**

Fiscal year 2011 was the first year for the Direct Loan program at Delaware Technical and Community College, but the Terry campus did not receive monthly SAS data files until April 2012 when they became aware of the need to reconcile the SAS statements to the campus' financial records.

\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Effect:**

Direct Loan disbursements may be improperly recorded until April 2012 since a monthly reconciliation was not performed.

**Questioned Costs:**

There are no known questioned costs associated with this finding since the campus' financial records were cumulatively reconciled as of June 30, 2012.

**Recommendation:**

We recommend the College continue its policy and procedure 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:**

Delaware Technical Community College Terry Campus has performed the monthly SAS reconciliation of the Direct Loan program since April 2012. Both electronic and paper SAS records/reconciliations have been retained.

Anticipated Completion Date: Completed.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Brandywine School District**

**Christina School District**

**Caesar Rodney School District**

**Delmar School District**

**Laurel School District**

**Milford School District**

**Red Clay Consolidated School District**

**Sussex Tech School District**

**Woodbridge School District**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-2\***

**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:**

The following are considered to be both control and compliance exceptions:

*Brandywine School District*

Based on a sample of 30 payroll expenditures totaling \$108,868, five employees charged \$35,562 to the Title I program, two employees charged \$3,456 to the Improving Teacher Quality program, nine employees charged \$23,058 to the Special Education program, and two employees charged \$6,299 to the Race-to-the-Top program, but were missing time and effort reports. In addition, two employees' charges totaling \$2,358 to the Race-to-the-Top program did not agree to the percentages approved on their time and effort reports by a net difference of \$173. Furthermore, five employees charging \$10,622 to Improving Teacher Quality program and two employees charging \$8,033 to Race-to-the-Top program did not have semi-annual certifications completed on a timely basis.

*Christina School District*

Based on a sample of 31 payroll expenditures totaling \$149,121, one employee charged \$13,527 to the Improving Teacher Quality program and five employees charged \$31,939 to the Special Education program, but were missing time and effort reports.

*Caesar Rodney School District*

Based on a sample of 17 payroll expenditures totaling \$32,697, four employees charged \$7,023 to the Special Education program, but were missing time and effort reports. The time and effort report for one employee charging \$2,012 to the Title I program did not illustrate the allocation of the remaining percentage of that employee's time for that particular pay period.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

*Laurel School District*

Based on a sample of nine payroll expenditures totaling \$21,786, all nine items had exceptions as follows; four employees charged \$10,320 to the Title I program, three employees charged \$6,232 to the Improving Teacher Quality program, one employee charged \$2,596 to the Special Education program, and one employee charged \$2,638 to the Race-to-the-Top program, but were missing time and effort reports.

*Milford School District*

Based on a sample of eight payroll expenditures totaling \$32,928, two employees' charges totaling \$17,945 to the Title I program did not agree to the percentages approved on their time and effort reports. The net difference for those two employees totaled \$12,848.

*Red Clay Consolidated School District*

Based on a sample of 60 payroll expenditures totaling \$203,236, four employees' charges totaling \$12,615 to the Improving Teacher Quality program did not agree to the percentages approved on their time and effort reports. The net difference for those four employees totaled \$36.

*Sussex Tech School District*

Based on a sample of two payroll expenditures totaling \$3,476, two employees charged \$3,476 to the Race-to-the-Top program, but were missing time and effort reports.

*Woodbridge School District*

Based on a sample of six payroll expenditures totaling \$19,435, all six items had exceptions as follows; one employee charged \$9,291 to the Title I program, one employee charged \$1,756 to the Improving Teacher Quality program and four employees charged \$8,388 to the Race-to-the-Top program, but were missing time and effort reports.

A summary of the major programs with payroll control and compliance exceptions are summarized below:

*Title I Cluster*

	<i># of Items</i>	<i>Dollar Amount of Items</i>
<i>Total Payroll Expenditures</i>	48,365	\$29,558,490
<i>Total Nonpayroll Expenditures</i>	9,398	15,944,124
<i>Total Program Expenditures</i>	57,763	46,110,587
<i>Payroll Sample</i>	65	291,777
<i>Payroll Control Exceptions</i>	12	68,021
<i>Payroll Compliance Exception</i>	12	68,021

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

***Improving Teacher Quality***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Total Payroll Expenditures</i></b>	23,955	\$10,231,071
<b><i>Total Nonpayroll Expenditures</i></b>	1,951	2,640,005
<b><i>Total Program Expenditures</i></b>	25,906	13,129,615
<b><i>Payroll Sample</i></b>	65	194,484
<b><i>Payroll Control Exceptions</i></b>	11	25,007
<b><i>Payroll Compliance Exception</i></b>	11	25,007

***Special Education Cluster***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Total Payroll Expenditures</i></b>	55,949	\$24,571,530
<b><i>Total Nonpayroll Expenditures</i></b>	12,950	17,274,629
<b><i>Total Program Expenditures</i></b>	68,889	41,824,882
<b><i>Payroll Sample</i></b>	65	198,681
<b><i>Payroll Control Exceptions</i></b>	19	64,616
<b><i>Payroll Compliance Exception</i></b>	19	64,616

***State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Total Payroll Expenditures</i></b>	20,777	\$11,487,985
<b><i>Total Nonpayroll Expenditures</i></b>	3,389	15,047,588
<b><i>Total Program Expenditures</i></b>	24,166	26,535,573
<b><i>Payroll Sample</i></b>	65	182,227
<b><i>Payroll Control Exceptions</i></b>	9	20,974
<b><i>Payroll Compliance Exception</i></b>	9	20,974

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

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 funded by federal programs.

#### **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 \$12,848 overcharge to the Title I program, a \$36 overcharge to the Improving Teacher Quality program, and a \$173 overcharge to the Race to the Top program. The following charges were missing time and effort reports: \$55,173 for the Title I program, \$24,971 for the Improving Teacher Quality program, \$64,616 for the Special Education program, and \$20,801 for the Race-to-the-Top program. In addition, a charge of \$2,012 for the Title I program was missing a 100% allocation of the employee's time for that pay period and five employees totaling \$10,622 charged to Improving Teacher Quality program and two employees totaling \$8,033 charged to Race-to-the-Top program did not have semi-annual certifications completed on a timely basis.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**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: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4016

**Corrective Action Plan:**

Delaware Department of Education will provide technical assistance to all Business Managers during a regularly scheduled quarterly meeting. Additionally, individual technical assistance will be provided to the school districts with findings. Delaware Department of Education convened a program manager's workgroup in December 2012 to respond to cross cutting issues for the Department and to promote quality improvement. The workgroup brings together program and financial staff and meets every quarter. The focus of the February 2013 meeting was on the current monitoring tools for LEAs and whether modifications need to be made to ensure LEAs are meeting the time and effort requirements.

Anticipated Completion Date: July 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-3**

**Program: Improving Teacher Quality State Grants (84.367)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs**

**Condition:**

The following are considered to be both control and compliance exceptions. Based on a sample of 65 nonpayroll transactions totaling \$1,488,306, we found six transactions totaling \$60,800 that were approved, but we considered questionable for the Improving Teacher Quality program since the costs consisted of computers, tablets or data service center fees.

***Improving Teacher Quality***

	<i># of Items</i>	<i>Dollar Amount of Items</i>
<i>Total Payroll Expenditures</i>	23,955	\$10,231,071
<i>Total Nonpayroll Expenditures</i>	1,951	2,640,005
<i>Total Program Expenditures</i>	25,906	13,129,615
<i>Nonpayroll Sample</i>	65	1,488,306
<i>Nonpayroll Control Exceptions</i>	6	60,800
<i>Nonpayroll Compliance Exception</i>	6	60,800

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Improving Teacher Quality State Grant may be used for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing “professional development” (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))).

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

In addition, 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.

#### **Cause:**

Certain districts do not appear be aware that computer related costs are unallowable under the Improving Teacher Quality program.

#### **Effect:**

Costs are being charged to the federal program that are not allowable.

#### **Questioned Costs:**

The questioned costs for the Improving Teacher Quality program sample amounted to \$60,800.

#### **Recommendation:**

We recommend that the Delaware Department of Education reinforce what costs are allowable under the Improving Teacher Quality program and ensure that proper approvals and appropriate supporting documentation is maintained for such costs.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Views of Responsible Officials:**

Agency Contact Name: Wendy Modzelewski

Agency Contact Phone Number: (302) 857-3312

**Corrective Action Plan:**

The Title II Part A Improving Teacher Quality grant has experienced significant program staff turnover at Delaware Department of Education. Turnover and inconsistent documentation for subgrant changes are potential contributors to this finding. Delaware Department of Education has convened a program manager's workgroup comprised of financial and program staff who meets every quarter. During the February 2013 meeting, members of the workgroup discussed the necessity of having an electronic or hard copy of all amendments and budget adjustments that accompany a LEAs subgrant. Additionally, the new program manager will provide clarification to LEAs regarding allowable costs in relation to professional development and technology during the consolidated grant trainings scheduled in April 2013. Technical assistance will be also provided on an as needed basis as consolidated grants are reviewed.

Anticipated Completion Date: September 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Education, U.S. Department of Agriculture**

**Reference Number: 12-4\***

**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)  
Education Jobs Fund (S-84.410)**

**Type of Finding: Scope Limitation, Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:**

The following is considered to be the compliance exception and scope limitation as documented in the tables below. Until mid-October of 2011, the Department of Education’s draw down information could not be reconciled to First State Financials (FSF), the State’s general ledger. The spreadsheet files of the original draw down queries were maintained by DOE as supporting documentation, but the information on these files could not readily be traced back to FSF. Based on a sample of \$113,806,475 across all the major programs cited above, we found that 13 draws amounting to \$25,071,179 across all the major programs could not be reconciled to FSF because they were drawn prior to October 19, 2011, when a new system query was implemented.

The following is considered to be a control exception as documented in the tables below. While the supervisor was reviewing the system query for drawdowns before they were executed, the review did not include a review of the query being reconciled to FSF, the State’s general ledger, until mid-October of 2011.

The tables below represent the scope of items examined and the associated results (the compliance items refer to a scope limitation as they were unable to be tested for compliance):

*Child Nutrition Cluster & Child and Adult Care Food Program (programs drawn together as part of a USDA block grant)*

	<i># of Items</i>	<i>Dollar Amount of Items</i>
<i>Program Expenditures</i>		\$54,799,836
<i>Draw Population</i>	47	54,916,456
<i>Sample</i>	13	51,562,426
<i>Control Exception</i>	1	2,350,283
<i>Compliance Exception</i>	1	2,350,283

\* Repeat finding from prior year’s audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

***Title I Program***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$46,110,587
<b><i>Draw Population</i></b>	25	49,641,721
<b><i>Sample</i></b>	8	15,217,206
<b><i>Control Exceptions</i></b>	2	5,723,690
<b><i>Compliance Exceptions</i></b>	2	5,723,690

***Improving Teacher Quality Program***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$13,129,615
<b><i>Draw Population</i></b>	22	13,277,690
<b><i>Sample</i></b>	8	4,839,550
<b><i>Control Exceptions</i></b>	2	1,958,077
<b><i>Compliance Exceptions</i></b>	2	1,958,077

***Special Education Cluster***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$41,824,882
<b><i>Draw Population</i></b>	24	44,026,508
<b><i>Sample</i></b>	8	11,095,539
<b><i>Control Exceptions</i></b>	2	3,952,026
<b><i>Compliance Exceptions</i></b>	2	3,952,026

***State Fiscal Stabilization Fund***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$11,018,968
<b><i>Draw Population</i></b>	12	14,886,965
<b><i>Sample</i></b>	5	3,915,774
<b><i>Control Exceptions</i></b>	2	2,122,099
<b><i>Compliance Exceptions</i></b>	2	2,122,099

***State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$26,535,573
<b><i>Draw Population</i></b>	20	27,981,540
<b><i>Sample</i></b>	8	15,326,155
<b><i>Control Exceptions</i></b>	2	4,691,901
<b><i>Compliance Exceptions</i></b>	2	4,691,901

***Education Jobs Fund***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>Program Expenditures</i></b>		\$18,927,208
<b><i>Draw Population</i></b>	21	19,824,437
<b><i>Sample</i></b>	8	11,849,825

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

<b><i>Control Exceptions</i></b>	2	4,273,103
<b><i>Compliance Exceptions</i></b>	2	4,273,103

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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 utilized a preliminary system query to obtain the required information, but did not maintain original query results to reconcile to FSF. Beginning in mid-October of 2011, a new system inquiry was provided to the DOE which could be traced back to FSF.

**Effect:**

We were unable to determine whether the exceptions 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 expenditures were recorded.

**Questioned Costs:**

Questioned costs are not determinable.

**Recommendation:**

As begun in October of 2011, the DOE should continue to ensure its federal draw down process has an adequate level of support for determining that drawdowns are in accordance with each programs compliance requirements. The support should include how the drawdown information can be traced to FSF.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Views of Responsible Officials:**

Agency Contact Name: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4016

**Corrective Action Plan:**

This issue has been resolved. Prior to 10-17-2011 Delaware Department of Education was using a less preferred query to determine outstanding account receivables. After 10-17-2011, another query was identified as the most appropriate source of information for determining outstanding account receivables. The AR Pending query has been used since after 10-17-2011.

Anticipated Completion Date: October 2011

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Colonial School District**

**Indian River School District**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-5\***

**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:**

The following is considered to be a control exception. There appears to be a lack of independent review of the prepopulated maintenance of effort (MOE) amounts in the Consolidated Grant Applications for the school districts because for the eight school districts we tested, we found that the MOE calculation for Colonial and Indian River school districts included 2009 and 2008 financial information instead of 2010 and 2009 financial information. Since the Consolidated Grant Application we reviewed was for the 2011-2012 school year, the MOE calculation should have at least contained the school districts' financial information for fiscal years 2010 and 2009. A comparison of the most recent available financial information is necessary to determine whether the school districts are meeting their MOE requirements as described in the Criteria section below.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

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 expenditure for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditure 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

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

(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 and school districts have not developed documentation and review procedures to ensure the pre-populated data input from the State Department of Education's information technology personnel and incorporated into the LEAs MOE calculation are independently reviewed for accuracy.

**Effect:**

Recalculating the MOE for the Colonial and Indian River school districts using the appropriate financial data indicated that both districts met the 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 continue to 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: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4016

**Corrective Action Plan:**

Delaware Department of Education program, fiscal and technical staff has met to determine several strategies for ensuring accurate and appropriate data is reflected in the consolidated applications. Prior to data being uploaded to ESPES, finance, program and technical staff will review the MOE data from two different sources. Once the data is confirmed as accurate, the information will be uploaded to ESPES. The Consolidated Grant Application Coordinator will review the data in ESPES and compare to the data provided by the Business Office. The Federal Funds Manager will engage in the same process as a check.

Anticipated Completion Date: September 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-6\***

**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 for Awards with ARRA Funding  
(Separate Accountability for ARRA Funding)**

**Condition:**

The following is considered a control exception. There is no reconciliation of the Department of Education's Schedule of Federal Expenditures (SEFA) by Catalogue of Federal Domestic Assistance (CFDA) number to those major programs identified in the First State Financials (FSF) by appropriation number.

The following is considered a compliance exception. In connection with our review of the ARRA and regular program expenditures for the major programs being tested, we reconciled amounts in the SEFA to the Department of Education's general ledger as well as the Federal Recovery Act website. We found that some of the Department of Education's ARRA funds were incorrectly classified to the wrong CFDA number and other program expenditures were incorrectly included in the major program expenditures. For the year ended June 30, 2012, expenditures of \$4,545,061 and \$35,348 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 and \$570,528 and \$255,832 included as Title I and Improving Teacher Quality, respectively, should have been included in other non-major federal programs.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

The exception occurred because the information used to extract the CFDA is not properly linked to the appropriation data so a portion of the ARRA and other program funds went to the incorrect CFDA numbers within FSF.

**Effect:**

The State's SEFA needs to be adjusted to reflect the proper amount of federal expenditures to the correct CFDA number.

**Questioned Costs:**

There are no questioned costs associated with this finding.

**Recommendation:**

We continue to recommend that the State's SEFA be reconciled back to grant allocations on an annual basis to ensure all ARRA and other program funds have been properly reflected on the SEFA.

**Views of Responsible Officials:**

Agency Contact Name: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4016

**Corrective Action Plan:**

Delaware Department of Education finance staff will review current grants and their associated CFDA numbers to verify and/or correct any erroneous entries. For SFY 2013 grants, staff inputting grant related information in First State Financials used a grant template containing CFDA numbers that were reviewed prior and after populating the template.

Anticipated Completion Date: September 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Woodbridge School District**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-7\***

**Program: Improving Teacher Quality State Grants (84.367)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Special Test and Provisions (Participation of Private School Children)**

**Condition:**

The following is considered a control exception. The State Department of Education provides a list of all private schools in a school district's attendance area that should be sent letters of intent to access federal funding. However, there is no mechanism in place to verify that all the school districts properly sent those letters of intent for all relevant programs.

The following is considered a compliance exception. Based on our testwork to verify the school districts sent letters of intent for federal funding to each private school within its attendance area, we found that letters were sent to solicit Title I participation for all 40 schools tested, but letters regarding the Improving Teacher Quality program were not sent for four out of 40 schools.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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)).

For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

School district personnel were not aware of the federal requirements or the Delaware Department of Education's policy to ensure that all private schools receive letters regarding participation for all eligible federal programs.

**Effect:**

Some private schools did not receive letters of intent for certain federal programs for which they may be eligible to receive funding.

**Questioned Costs:**

There are no questioned costs associated with this finding.

**Recommendation:**

We recommend that the school district personnel be properly trained by the Delaware Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children for all federal programs available to them.

**Views of Responsible Officials:**

Agency Contact Name: Wendy Modzelewski

Agency Contact Phone Number: (302) 857-3312

**Corrective Action Plan:**

Resources regarding equitable services were distributed to LEAs in January 2013. Additionally, Delaware Department of Education program staff will provide technical assistance regarding this finding during the Consolidated Grant Application training for LEAs in April 2013. Delaware Department of Education program staff will review this component during regularly scheduled monitoring visits with LEAs.

Anticipated Completion Date: September 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-8\***

**Program: Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Special Test and Provisions (Access to Federal Funds for New or Significantly Expanded Charter Schools)**

**Condition:**

The following is considered to be a compliance exception. We found three charter schools that opened during fiscal year 2012 were not included in the Special Education's allocation of funds prepared by the Delaware Department of Education (DOE). The State program manager requested discretionary funding for the new charters, but no documentation supports that the Special Education allocation amongst all school districts and charters was properly and equitably calculated.

The following is considered to be a control exception. While the Special Education cluster allocation was prepared, the review control did not detect the error.

Total Special Education Funding Allocated by this process is \$29,945,560.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

An SEA must ensure that a charter school LEA that opens for the first time or significantly expands its enrollment receives the funds under each covered program for which it is eligible. Significant expansion of enrollment means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that an SEA determines to be significant. Title V, Part B, Subpart 1 of ESEA (Section 5210(1) of ESEA (20 USC 7221i(1)))

An SEA must determine a new or expanding charter school LEA's eligibility based on actual enrollment or other eligibility data available on or after the date the charter school LEA opens or significantly expands. An SEA may not deny funding to a new or expanding charter school LEA due to the lack of prior-year data, even if eligibility and allocation amounts for other LEAs are based on prior-year data. An SEA may allocate funds to, or reserve funds for, an eligible charter school LEA based on reasonable estimates of projected enrollment at the charter school LEA. If an SEA allocates more or fewer funds to a charter school LEA than the amount for which the charter school LEA is eligible, based on actual enrollment or eligibility data, the SEA must make appropriate adjustments to the amount of funds allocated to the charter

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

school LEA as well as to other LEAs under a covered program on or before the date the SEA allocates funds to LEAs for the succeeding academic year.

**Cause:**

While the State Department of Education recognized that three new charters were opened during the year because it did have sufficient enrollment information for those charters, the State program manager requested discretionary funds that could be allocated to them instead of including them within the overall Special Education allocation.

**Effect:**

The new charter schools may not have received all the federal funding they were entitled to.

**Questioned Costs:**

Questioned costs are not determinable.

**Recommendation:**

We recommend that the DOE ensure that all new charters or those that expand significantly be included in the overall allocation for all federal programs. The allocation can be based on estimated data from the new charters which can be adjusted as actual figures are received.

**Views of Responsible Officials:**

Agency Contact Name: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4016

Corrective Action Plan:

The federal grant allocation process for new charters or those that expand significantly was revised and now adheres to the Non-Regulatory Guidance 34 CFR Part 76, Subpart H.

Anticipated Completion Date: July 2012

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-9\***

**Program: Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)**

**Type of Finding: Material Noncompliance, Material Weakness**

**Compliance Requirement(s): Level of Effort (Maintenance of Effort)**

**Condition:**

The following is considered to be a control and compliance exception. The State Department of Education (DOE) did not maintain an approved copy of the State's MOE calculation for the year ended June 30, 2012.

The following is considered to be a compliance exception. Based on a review of the LEA MOE calculations (referred to as the Excess Cost for IDEA template in the Consolidated Grant Applications), which compares the combination of state and local expenditures for Special Education for the most recent available fiscal years, we found that for the eight school districts selected for testing, six districts had state and local expenditure amounts for Special Education that had decreased from 2009 to 2010. While most of the districts included a brief description for the decrease in their respective Consolidated Grant Application, we did not obtain evidence that the rationale was substantiated by the DOE or was an acceptable allowance.

The six school districts' efforts decreased as follows:

	<i>Total State and Local Funds Expended for Special Education in 2010</i>	<i>Total State and Local Funds Expended for Special Education in 2009</i>	<i>Decrease</i>
<i>Caesar Rodney SD</i>	\$28,423,731	29,505,688	(1,081,957)
<i>Capital SD</i>	31,115,119	31,531,570	(416,451)
<i>Christina SD</i>	79,077,847	79,834,413	(756,566)
<i>Colonial SD</i>	30,627,972	32,401,540	(1,773,568)
<i>Red Clay SD</i>	41,070,288	41,440,575	(370,287)
<i>Seaford SD</i>	13,410,661	13,810,661	(400,000)

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\* Repeat finding from prior year's audit

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### **Criteria:**

##### Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

##### Compliance exceptions:

#### **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).

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

The State Department of Education is not maintaining its MOE calculation. In addition, the Excess Cost calculations for the Special Education program included in the Consolidated Grant Applications are not being substantively reviewed.

**Effect:**

The State or the school districts may not have met their Special Education MOE requirements, which could impact the amount of IDEA funds that should be available and allocated.

**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 carefully review the school districts Excess Cost calculations included within the Consolidated Grant Applications. Furthermore, when the school districts have a decrease in the Excess Cost calculation, the DOE should validate the rationale for the decrease and then make allocation adjustments, as necessary.

**Views of Responsible Officials:**

Agency Contact Name: Emily Falcon

Agency Contact Phone Number: (302) 735-4041

**Corrective Action Plan:**

Delaware Department of Education staff have been identified and assigned specific MOE responsibilities to ensure MOE calculations are computed accurately, transferred appropriately to the Consolidated Grants through ESPES and follow up occurs when MOE or IDEA Excess amounts decrease. The Financial Reform Workgroup will provide oversight for all activities involving MOE and IDEA Excess. The Consolidated Grant application has been revised to collect more in depth information for when preliminary data indicates a LEA has not met the MOE or IDEA Excess.

Anticipated Completion Date: August 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Education**

**Federal Agency: U.S. Department of Agriculture**

**Reference Number: 12-10\***

**Program: Child and Adult Care Food Program (10.558)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Eligibility (Subrecipients)**

**Condition:**

The following are considered both control and compliance exceptions. Based on our review of the applications of thirty-one subrecipients receiving \$4,853,009 of Child and Adult Care Food Program funds during the year, we noted the following items not detected by the State Department of Education's review process:

- The annual applications do not contain all the required components of the performance standards. The standards require that the organizations 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.
- For one organization's application file, there was no written notification of approval or disapproval of the application within thirty calendar days of receipt. This organization received \$55,099 of program funds during the year.

Total expenditures for the program during the year amounted to \$15,057,912.

**Criteria:**

**Control exceptions:**

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Compliance exceptions:**

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).

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- 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”)).

**Cause:**

Standard applications have not been updated to ensure all federal regulations have been incorporated. In addition, one applicant’s file was missing evidence that the applicant was notified within thirty days of their approval or disapproval.

**Effect:**

The applications do not contain all the components required by federal regulations and documentation of notification for one applicant was missing in the applicant’s file.

**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:**

- In fiscal year 2011, the on-line application was amended to ensure compliance with Provision 1 requirements. Provision 2 requirements for CACFP programs have been monitored via the New Sponsor Checklist, which is maintained in the permanent file of each sponsor; the review of the Management Plan; and the routine administrative reviews. The required elements, regarding capability, will be added to the New and Renewing on-line applications.
- Documentation for the organization in question will be reviewed and completed.
- Both findings will be addressed through the development of written internal processes to ensure compliance with all federal and state requirements.

Anticipated Completion Date:     September 1, 2013 (1<sup>st</sup> bullet)  
  April 1, 2013 (2<sup>nd</sup> bullet)  
  June 1, 2013 (3<sup>rd</sup> bullet)

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Management Services**

**Federal Agency:** U.S. Department of Health and Human Services  
U.S. Department of Agriculture  
U.S. Environmental Protection Agency

**Reference Number:** 12-11\*

**Program:** Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)  
Temporary Assistance for Needy Families (93.558, S-93.714)  
Child Care Cluster (93.575, 93.596)  
State Children's Health Insurance Program (93.767)  
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)  
Child Support Enforcement (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, Significant Deficiency

**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.

The following is considered to be the control exception as documented in the chart below. There is a lack of segregation of duties within DMS' federal draw down process. The same DMS staff responsible for executing the query importing the query results into the spreadsheet, and modifying the spreadsheet in order to calculate the draw amounts is performing the cash draw downs, and reconciling the subsequent cash receipts to the Accounts Receivable information in FSF. All our exceptions were processed before February 8, 2012. On February 8, 2012, the Division implemented procedures surrounding supervisory review to establish segregation of duties and to ensure the proper draw amounts are being requested. Immediately after printing out the hard copy of the amounts to be drawn and prior to entering the amounts into the draw system, the Grants Unit Supervisor must examine the amounts to be drawn and sign the hard copy indicating review/approval.

The following is considered to be the compliance exception and scope limitation as documented in the chart below. The draw down information could not be directly traced back to FSF and therefore lacked appropriate support for the amount drawn down. All our exceptions were processed prior to October 28, 2011. 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. On October 28, 2011, the Division began archiving copies of the original FSF query results to ensure balances presented on the manipulated spreadsheet were accurate, correct, and supported by detailed reports.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

The table below represents the scope of items examined and the associated results (the compliance items refer to a scope limitation as they were unable to be tested for compliance):

***Low-Income Home Energy Assistance Program***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$11,978,905
<b><i>Draw Population</i></b>	70	11,990,771
<b><i>Sample</i></b>	19	7,728,975
<b><i>Control Exceptions</i></b>	11	2,873,375
<b><i>Compliance Exceptions</i></b>	9	3,828,853

***Medicaid Cluster***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$846,161,660
<b><i>Draw Population</i></b>	388	857,643,293
<b><i>Sample</i></b>	65	275,253,060
<b><i>Control Exceptions</i></b>	34	101,754,772
<b><i>Compliance Exception</i></b>	18	91,004,404

***State Children's Health Insurance Plan***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$15,532,999
<b><i>Draw Population</i></b>	60	15,843,323
<b><i>Sample</i></b>	16	3,872,386
<b><i>Control Exceptions</i></b>	11	2,497,500
<b><i>Compliance Exception</i></b>	7	1,924,228

***Child Support Enforcement***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$26,646,112
<b><i>Draw Population</i></b>	39	24,712,521
<b><i>Sample</i></b>	11	15,431,882
<b><i>Control Exceptions</i></b>	4	5,856,637
<b><i>Compliance Exception</i></b>	4	5,856,637

***Child Care and Development Fund***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$14,076,667
<b><i>Draw Population</i></b>	139	14,780,962
<b><i>Sample</i></b>	40	10,209,285
<b><i>Control Exceptions</i></b>	22	5,618,011
<b><i>Compliance Exception</i></b>	14	3,410,194

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

***Supplemental Nutrition Assistance Program***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$14,259,395
<b><i>Draw-down Population</i></b>	146	13,166,976
<b><i>Sample</i></b>	38	7,943,061
<b><i>Control Exceptions</i></b>	20	5,308,026
<b><i>Compliance Exception</i></b>	4	2,139,866

***Temporary Assistance for Needy Families***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$34,813,071
<b><i>Draw-down Population</i></b>	90	35,351,666
<b><i>Sample</i></b>	24	2,327,631
<b><i>Control Exceptions</i></b>	15	12,922,401
<b><i>Compliance Exception</i></b>	8	8,043,931

***Drinking Water State Revolving Fund***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$16,526,758
<b><i>Draw-down Population</i></b>	164	16,927,421
<b><i>Sample</i></b>	43	11,861,209
<b><i>Control Exceptions</i></b>	22	6,720,408
<b><i>Compliance Exception</i></b>	9	2,211,216

***Immunization Cluster***

	<b><i># of Items</i></b>	<b><i>Dollar Amount of Items</i></b>
<b><i>SEFA Expenditures</i></b>		\$1,772,904
<b><i>Draw-down Population</i></b>	48	1,621,203
<b><i>Sample</i></b>	13	615,368
<b><i>Control Exceptions</i></b>	7	319,276
<b><i>Compliance Exception</i></b>	5	204,426

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

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).

All of the major federal programs in this finding, except for State Children's Health Insurance Program, Child Care and Development Fund, and Immunization Cluster are subject to the CMIA. These 3 federal programs are required to be in compliance with Subpart B cash draw down procedures. Both CMIA and Subpart B cash draw down procedures require have similar requirements that support the exception being presented together in one category.

#### **Cause:**

Each of the two exceptions resulted from lack of sufficient procedures that where implemented during the audit period. The results of our audit procedures after February 8, 2012 for control exceptions and after October 28, 2011 for compliance exceptions supports that the changes have addressed conditions.

The exception occurred because 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. DMS has implemented a supervisory review of all draw down requests for payments prior to submission to the Federal agencies to ensure the proper amounts are being requested, as well as the saving of all original system queries prior to manipulation. As of October 2011, the First State Financial system was reconfigured to include the lag times established within the CMIA Agreement.

#### **Effect:**

Without a management review control in place, DMS may request funds in a manner which is not in compliance with the CMIA or Subpart B as required by the terms of the grant agreements. Therefore, those amounts drawn down without the new procedures, both control and compliance, are not properly supported and are questioned costs.

#### **Questioned Costs:**

Questioned costs are not determinable as sampling methodology does not support projection of errors.

#### **Recommendation:**

We recommend that DMS maintain their enhanced federal draw down procedures by ensuring 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 continue to maintain 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

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Corrective Action Plan:

This is a repeat finding from last year's audit as corrective action was implemented during part of SFY-12. The below box outlines the corrective action in place part of SFY-12 (and acknowledged by KPMG above under "condition").

**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.

With the above corrective action steps in place, this finding should not be repeated during SFY-13. During the transition in implementing the supervisory review of cash draws (starting on 2/8/12), there were several deposits that did not have supervisory approval (otherwise they were in compliance). DHSS will continue its efforts to ensure an adequate level of supervisory review of the cash draws as recommended.

Anticipated Completion Date: February 8, 2012 (when second step of corrective action was put in place).

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Management Services**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-12\***

**Program: Temporary Assistance for Needy Families (93.558, S-93.714)**

**Child Care Cluster (93.575, 93.596)**

**State Children's Health Insurance Program (93.767)**

**Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)**

**Child Support Enforcement (93.563)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Special Tests and Provisions (ADP Risk Analysis and System Security Review)**

**Condition:**

The following is considered to be both a control and compliance exception. DHSS has not completed a review of the Automated Data Processing (ADP) system security of installations involved in the administration of Health and Human Services (HHS) programs that complies with HHS requirements in the last two years. In the prior fiscal year, DHSS had provided a SOC 1 report for the MMIS system but it could not be used as evidence of the required 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;
- (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.

The DHSS/IRM Unit is currently in the process of writing new policies and working through the exact wording and logistics to be included to ensure all standards of 45 CFR Section 95.621 are addressed by the biennial review.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Total expenditures in fiscal year 2012 for the respective programs are as follows:

Medicaid Cluster -	\$846,161,660
SCHIP -	\$ 15,532,999
Child Support Enforcement -	\$ 26,646,112
CCDF -	\$ 14,076,667
TANF -	\$ 34,813,071

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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,

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- (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:**

The exception occurred because DHSS does not currently have a formal policy or process to monitor and review system security.

#### **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, which can increase the potential for confidential personal information to be compromised.

#### **Questioned Costs:**

There are no questioned costs associated with this finding.

#### **Recommendation:**

DHSS should continue to work with DTI in the implementation of 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:**

As stated last year, DHSS's Information Resource Management unit was to work with the State Department of Technology and Information to draft and implement a formal policy by January 1, 2013 to complete biannual system security reviews as required by 45 CFR § 95.621. That work was completed and

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

the formal policy posted on their website on January 4, 2013 under Departmental IRM Administrative Document Number 28. The policy can be found at

<http://intranet.dhss.state.de.us/dms/irm/irmadmindocs.html>

Anticipated Completion Date: January 4, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Management Services**

**Federal Agency:** U.S. Department of Health and Human Services  
 U.S. Department of Agriculture  
 U.S. Environmental Protection Agency

**Reference Number:** 12-13

**Program:** Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)  
 Temporary Assistance for Needy Families (93.558, S-93.714)  
 Child Care Cluster (93.575, 93.596)  
 Child Support Enforcement (93.563)  
 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-93.712)

**Type of Finding:** Material Weakness

**Compliance Requirement(s):** Reporting (SEFA Reconciliation)

**Condition:**

The following is considered to be a control exception. We found that reports submitted to the federal agencies did not agree to expenditures presented on the Schedule of Expenditure of Federal Awards (SEFA) for some programs. Additionally we observed that total cash drawn down for these same programs differed from the expenditures presented on the SEFA. Program management and the Division of Management Services (DMS) were unable to provide explanations or reconcile the variances. The respective program fiscal year 2012 expenditures and variances are presented in the table below:

<b>SNAP</b>			
	<b>6/30/2012</b>	<b>Variance to SEFA</b>	<b>Percent Variance</b>
<i>Federal Expenditures Per SEFA*</i>	\$ 14,259,395		
<i>Federal Expenditures Reported</i>	\$ 6,898,342	\$ 7,361,053	51.62%
<i>Federal Cash Drawdowns</i>	\$ 13,166,976	\$ 1,092,419	7.66%

<b>TANF</b>			
	<b>6/30/2012</b>	<b>Variance to SEFA</b>	<b>Percent Variance</b>
<i>Federal Expenditures Per SEFA</i>	\$ 34,813,071		
<i>Federal Expenditures Reported</i>	\$ 29,484,781	\$ 5,328,290	15.31%
<i>Federal Cash Drawdowns</i>	\$ 35,351,666	\$ (538,595)	-1.55%

<b>CCDF</b>			
	<b>6/30/2012</b>	<b>Variance to SEFA</b>	<b>Percent Variance</b>
<i>Federal Expenditures Per SEFA</i>	\$ 14,076,667		
<i>Federal Expenditures Reported</i>	\$ 14,412,044	\$ (335,377)	-2.38%
<i>Federal Cash Drawdowns</i>	\$ 14,780,962	\$ (704,295)	-5.00%

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

<b>DWSRF</b>			
	<b><u>6/30/2012</u></b>	<b><u>Variance to SEFA</u></b>	<b><u>Percent Variance</u></b>
<i>Federal Expenditures Per SEFA</i>	\$ 16,526,758		
<i>Federal Cash Drawdowns</i>	\$ 16,927,421	\$ (400,663)	-2.42%

<b>IMMUNIZATION</b>			
	<b><u>6/30/2012</u></b>	<b><u>Variance to SEFA</u></b>	<b><u>Percent Variance</u></b>
<i>Federal Expenditures Per SEFA*</i>	\$ 1,772,904		
<i>Federal Cash Drawdowns</i>	\$ 1,621,203	\$ 151,701	8.56%

<b>WIC</b>			
	<b><u>6/30/2012</u></b>	<b><u>Variance to SEFA</u></b>	<b><u>Percent Variance</u></b>
<i>Federal Expenditures Per SEFA*</i>	\$ 11,016,952		
<i>Federal Expenditures Reported</i>	\$ 11,553,147	\$ (536,195)	-4.87%
<i>Federal Cash Drawdowns</i>	\$ 13,549,689	\$ (2,532,737)	-22.99%

<b>CHILD SUPPORT</b>			
	<b><u>6/30/2012</u></b>	<b><u>Variance to SEFA</u></b>	<b><u>Percent Variance</u></b>
<i>Federal Expenditures Per SEFA</i>	\$ 26,646,112		
<i>Federal Cash Drawdowns</i>	\$ 24,712,521	\$ 1,933,591	7.26%

*\*This amount excludes non-cash items.*

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. The SEFA represents the expenditures subject to audit under the Single Audit.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

*45.CFR.92.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:*

*(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.*

*(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*

*The regulation effectively requires the Federal Financial reports are to be supported by the official books and records of the grantee.*

*A-102 Cash Management. Agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.*

*(1) Such transfers shall be made consistent with program purposes, applicable law and Treasury regulations contained in 31 CFR Part 205, Federal Funds Transfer Procedures.*

#### **Cause:**

There are many potential causes for differences in the numbers reported above including 1) timing of drawdown as compared to incurring the expenditures, 2) scope of grants included in federal financial reports and drawdowns differing from SEFA reports, 3) adjustments being made to reporting and drawdowns that cross programs or periods 4) differences in coding of underlying data in reporting module 5) errors made by program personnel. The differences cannot be reconciled because there is no procedure in place for the State agencies to reconcile total expenditures reported in the financial reports to the Federal Government as compiled from the State's general ledger system (FSF) to the reports from FSF that are used to compile the SEFA. Additionally, there is no process in place to review submitted financial reports and compare them to cash drawn down on a periodic basis and at year-end for reasonableness/accuracy.

#### **Effect:**

Expenditures reported via federal financial reports may be misstated which may result in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. See findings 12-18 and 12-19 for known errors in financial reporting. Additionally, it is possible that cash drawdowns are not synchronized with adjusted expenditures incurred.

#### **Questioned Costs:**

Questioned costs are not determinable.

#### **Recommendation:**

We recommend that DMS and program management work with the Division of Accounting to put in place a reconciliation process to agree expenditures per federal financial reports to expenditures coded to their

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

CFDA #'s in FSF. We also recommend that the Divisions ensure they are reconciling cash drawn down to federal financial reports periodically and at year end to ensure accuracy and completeness.

#### **Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

#### Corrective Action Plan:

Each year the Division of Accounting provides the SEFA information to KPMG. A draft of this finding was shared with DHSS in January 2013 (late in the audit cycle) and KPMG provided some of the SEFA query details to DHSS so that we could then start to reconcile the amounts. It should be pointed out that in order to be able to reconcile, DHSS needs to be provided the detailed information to reconcile to and with enough lead time.

In the programs we were able to reconcile at this late point in the audit process, the following points outline reasons for the variances.

1. Timing of expenditures. Expenditures that occur at the end of a given State fiscal year (i.e. June) are not drawn until the beginning of the next year (July). As a result expenditures can appear lower than draws simply because of the timing for posting each set of transactions. When the next fiscal year ends, the reverse situation can occur (expenditures higher than draws). That was the case in almost all of the variances.
2. Reporting errors. This was the case with the SNAP program. It should be noted that the reporting error was corrected by the 6/30/12 report submission.

Finally, in those reconciliations that we were able to perform, we found no costs inappropriately charged or drawn for Federal programs. As such we do not concur with the finding given the above information.

Early on for the next audit cycle DHSS will request from the Division of Accounting the detailed list of transactions that comprise the applicable CFDA number SEFA amounts being provided to the auditor to allow sufficient time for reconciliation. Additionally we have been recently provided a query by the Division of Accounting that we can run that would provide the details for the annual SEFA amounts which we will also take advantage of next audit cycle. Finally, for those DHSS grants which other State agencies receive a part of the funding, DHSS will be reaching out to them to ensure that they are reconciling their portions of the applicable grants.

Anticipated Completion Date: December 31, 2013 (near the end of the next audit cycle when the reconciliation is complete)

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Management Services**

**Federal Agency: U.S. Department of Health and Human Services, U.S. Department of Agriculture**

**Reference Number: 12-14\***

**Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)**

**Temporary Assistance for Needy Families (93.558, S-93.714)**

**Child Care Cluster (93.575, 93.596)**

**State Children's Health Insurance Program (93.767)**

**Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs**

**Condition:**

The following is considered to be both a control and compliance exception. 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), and Child Care and Development Fund (CCDF).

Total expenditures in fiscal year 2012 for the respective programs are as follows:

Medicaid Cluster -	\$846,161,660
SCHIP -	\$ 15,532,999
SNAP -	\$237,305,936
CCDF -	\$ 14,076,667
TANF -	\$ 34,813,071

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

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\* Repeat finding from prior year's audit

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### Compliance exceptions:

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 exceptions occurred because 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 \$1.9 million were allocated to DSS federal programs in a manner not consistent with the approved PACAP.

#### **Questioned Costs:**

Questioned costs are not determinable.

#### **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 the FY-10 Single Audit response), in February 2010, DHSS had an independent firm review the department's Random Moment Sampling (RMS) process in place at that time and changes were implemented to improve that process and the resulting allocations.

Subsequently, DHSS replaced the Random Moment Time Study (RMTS) and cost allocation system software (both applications were unsupported and outdated). The replacement internet based RMTS was fully implemented on 1/1/11 and 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 2011 including provision of a technical documentation/users manual and DHSS staffs trained in its use.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

In FY-11, DHSS awarded a contract to secure further outside assistance to review 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 Public Assistance Cost Allocation Plan (PCAP) and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures.

At this point the various internal DHSS organizations have been interviewed to identify the various cost pools 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 commenced February 2012 which 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.

That work continues and we target completion in the first half of calendar year 2013 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation.

Lastly, it should be pointed out that the DMMA workers (via the eligibility process they carry out) participating 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 both organizations and are not restricted to just one organization.

Finally, what the new narrative and 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: First half of calendar year 2013 (submission of PCAP to DCA).

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Management Services**

**Federal Agency: U.S. Department of Agriculture**

**Reference Number: 12-15**

**Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Special Tests and Provisions (ADP System for SNAP)**

**Condition:**

The following is considered to be a control exception. IT control deficiencies identified below were noted in the service organizations' SOC I examination report for DSS's critical applications:

*JP Morgan Treasury Services:*

The following control deficiencies related to Electronic Benefits Transfer (EBT) were noted as a result of the Service Organization Controls (SOC I/SSAE 16) examination of JP Morgan Treasury Services, the service organization that provides EBT services to DSS:

*Access to systems is limited to authorized individuals.*

*Exception:*

Controls are not suitably designed to prevent or detect unauthorized use of the system administrator accounts with direct access to data. Passwords to these accounts were shared amongst team members and/or stored in clear text within configuration files, allowing EFS information technology personnel unmonitored access to these accounts, and facilitating unauthorized access to these accounts. As a result, the controls are not suitably designed to achieve the control objective, "Controls provide reasonable assurance that access to systems is limited to authorized individuals."

The above deficiency led to an opinion qualification.

*Access to systems*

*Exception:*

a. For the period July 1, 2011 through June 30, 2012, the SOC I auditor selected a sample of 26 new users and for each sampled user determined whether access had been approved by authorized management or a designee. The Soc I auditor noted that one unauthorized member of production support had logged into an administrator account and used that account to grant herself unauthorized access to the FEB application. The user was able to grant herself this access as a result of the design exception noted under the access administration control above.

b. Two operating system level access recertifications, inclusive of security administrative access and GTI-managed job scheduler access, were performed during the period. The SOC I auditor tested a sample of twenty-five users from the recertification that was initiated in October 2011, and noted no exceptions. As of June 2012, the tool used to facilitate the access recertification changed. As a result, the SOC I auditor selected an additional sample of users from the June 2012 recertification and noted that operating system level access was not recertified for three of twenty-five users sampled. While automated notification of access recertification tasks were reported to appropriate management, the manual action required to

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

complete the recertification process was not performed due to a misunderstanding of the process associated with the new tool.

In addition, DSS provided us with the SOC 1 report for the SNAP EBT contractor which included a qualified opinion as noted above. There is no evidence that this SOC I report was reviewed by program personnel. Additionally, DHSS has not addressed the weaknesses identified in the report or implemented any additional procedures to mitigate the identified risk.

The total SNAP benefits paid were \$223,046,541 and total expenditures for fiscal year 2012 amounted to \$237,305,936.

#### **Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

According to 7 CFR sections 272.10 and 277.18, State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

When using a service provider for critical systems the COSO requirements regarding review and monitoring should be incorporated into an organization's internal controls. Part 6 of OMB's Compliance Supplements identifies the following elements of monitoring:

**Monitoring** is a process that assesses the quality of internal control performance over time.

- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### **Cause:**

The exception occurred because DHSS does not currently have a formal policy to monitor and review SOC I reports over service providers integral to their systems, and determine corrective actions for the State and the service provider.

#### **Effect:**

The IT general control weaknesses could result in inaccurate processing of data and unauthorized access to systems. Without adequate IT general controls, the systems utilized for the SNAP program could be inappropriately accessed which could allow unauthorized or erroneous entries into the system without DSS knowledge or oversight.

#### **Questioned Costs:**

There are no questioned costs associated with this finding.

#### **Recommendation:**

DHSS and agencies supporting the systems utilized for SNAP should implement adequate IT general controls to address the system weaknesses noted. Management should implement controls to:

- 1) Obtain and review SOC I reports of service providers integral to the system for exceptions, weaknesses and user considerations.
- 2) Work with DTI in the implementation of a formal policy to complete a review over system security.

#### **Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

#### **Corrective Action Plan:**

The Div. of Management Services (Client Payments/Information Resource Management units) will work to formulate a formal policy/procedure to obtain and review SOC I reports of service providers (e.g. JP Morgan) integral to the system and review for exceptions, weaknesses and user considerations. It should be pointed out that JP Morgan did provide a copy of the Price Waterhouse SOC1 report (issued 10/29/12) to DHSS on 11/6/12. Additionally, DHSS reached out to JP Morgan which provided on 2/13/13 the corrective actions/remediation steps that they have taken to resolve the cited exceptions. The steps taken are as follows.

The 2/13/13 JP Morgan corrective actions stated for the exception “**Access to systems is limited to authorized individuals**”:

*This exception did not impact EBT specific applications and is part of the common testing that is performed for all line of businesses in J.P. Morgan. As stated in the exception, access was subsequently recertified as appropriate. Beginning with the next recertification cycle, all nonstandard access will automatically be revoked if no response is received from managers.*

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Regarding the exception “**Access to systems**” exception, JP Morgan corrective action stated:

*The following steps were executed in direct response to the issue noted by our auditors within our SSAE16 report:*

- ✓ *The database system functional accounts are only intended to be used by the application to interface with the database: to prevent inappropriate access the passwords were changed and encrypted (where required to be referenced in the application code).*
- ✓ *To further segregate, restrict and identify update access to the Security Gateway database, a unique break-glass functional account was created with a reduced number of authorized users. This database contains the application user profiles and entitlements for FEB (and several other in-scope applications).*
- ✓ *Technical production support user IDs have been reviewed to confirm all staff have “read-only” accounts assigned. Any production incident requiring update access requires the use of a break-glass account.*
- ✓ *Senior Management has issued a statement to remind all Technologists it is against J.P. Morgan Chase Policies and Standards to share passwords and failure to adhere to these policies is punishable up to and including termination.*
- ✓ *Organizational changes were made among the staff and management of the Production Support group responsible for this exception.*
- ✓ *A quarterly review of application user access is being performed to ensure users are granted access to our applications only by formal access request.*

Anticipated Completion Date: July 1, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Medicaid and Medical Assistance**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-16\***

**Program: Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Eligibility**

**Condition:**

The following are considered to be both control and compliance exceptions.

*B(1) Written Application*

For 6 out of 90 applicants selected, the Division of Medicaid and Medical Assistance (DMMA) was unable to provide documentation to support that the recipient signed a written application for benefits under the penalty of perjury. Benefits provided to the 6 recipients were \$11,254.79.

*B(2) Income and Eligibility Verification System*

For 3 out of 90 applicants selected, DMMA did not provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) at any point within the period of receiving benefits. Benefits provided to the 3 recipients were \$5,535.72.

*B(6) Redetermination*

For 1 out of 90 applicants selected, DMMA did not provide evidence that the recipient was properly re-determined to be eligible for benefits within the required timeframe of 12 months. Benefits provided to the one recipient were \$699.03.

Total benefit payments for the fiscal year 2012 per FSF were \$786,738,561 while total expenditures for the program in fiscal year 2012 amounted to \$846,161,660.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall:

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\* Repeat finding from prior year's audit

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

##### *B(1) Written Application*

“Require a written application signed under penalty of perjury and include in each applicant’s case records facts to support the agency’s decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).

##### *B(2) Income and Eligibility Verification System*

Use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration (SSA), and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. With approval from HHS, States may use alternative sources for income information. States also: (a) may target the items of information for each data source that are most likely to be most productive in identifying and preventing ineligibility and incorrect payments, and a State is not required to use such information to verify the eligibility of all recipients; (b) with reasonable justification, may exclude categories of information when follow-up is not cost effective; and (c) can exclude unemployment compensation information from the Internal Revenue Service or earnings information from SSA that duplicates information received from another source (42 USC 1320b-7(a); 42 CFR sections 435.948(e) and 435.953).

Require, as a condition of eligibility objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 CFR section 435.920(b)) (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 920).

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 others were issued (42 CFR sections 435.910(g) and 42 CFR 435.920).”

##### *B(6) Redetermination*

Redetermine the eligibility of Medicaid recipients with respect to circumstances that may change (e.g., income eligibility), at least every 12 months. The agency may consider blindness and disability as continuing until the review physician or review team determines that the recipient’s blindness or disability no longer meets the definition contained in the plan. There must be procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The State must promptly redetermine eligibility when it receives information about changes in a recipient’s circumstances that may affect his or her eligibility (42 CFR section 435.916).

##### **Cause:**

The missing applications could be due to staff failing to upload the application into the Document Imaging System (DIS) and/or the misplacement of the original application in the paper file.

The lack of Social Security Number verification resulted from the Delaware Client Information System (DCIS-II) System not having included the applicant within the population to run through the data matching interfaces with the Social Security Administration.

The reason for the late redetermination is unknown.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**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. Federal monies may be utilized for recipients who did not qualify or continue to qualify for Medical assistance.

**Questioned Costs:**

There are \$17,489.54 of questioned costs associated with the items noted above.

**Recommendation:**

We recommend that the DMMA enhance their retention policies and procedures within their State Plan to ensure proper records are maintained to support the applicant eligibility determination. We also recommend that the State modify its procedures to ensure that all cases are subject to data matching with the SSA. We recommend that the DMMA implement procedures to ensure that all recipients are recertified on an annual basis through the implementation of system alert functions within the DCIS-II System.

**Views of Responsible Officials:**

Agency Contact Name: Ray Fitzgerald, DSS Deputy Director

Agency Contact Phone Number: (302) 255-9645

Corrective Action Plan:

The enclosed plan represents DHSS' response to the Single State Audit findings.

*B(1) Written Application & B(6) Redetermination*

Our agency implemented a Document Imaging System (DIS) used to electronically record client records. The process we had in place was not as effective as we needed it to be resulting in the following problems:

- a. DIS process procedures varied from location to location which resulted in inconsistent documentation of electronic client verification. This inconsistency created the following issues:
  - i. Inability to locate required documentation including client verification and application information because documents were mislabeled; misfiled; or not scanned properly.
  - ii. Client paper files were not retained as long as they should have been.
- b. As a result of these finding we have or will implement the following procedures to ensure that required verification is recorded in electronic client files:
  - i. We are centralizing our DIS processes and procedures and will create standard procedures to ensure consistency when sorting, scanning and labeling documents. This process is currently being phased in at a pace of approximately 3 locations per month. We started this process in October 2012 and expect the process to be fully implemented by December 2013.
  - ii. To support this phase-in we are directing our offices who are not yet included in the centralized DIS process to retain paper files for 6 months to ensure that we minimize incidents of irregularities (missing information) resulting from disparate local processes.
- c. DMMA will document the physical location of closed cases so we know where to locate requested information for future audits.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- i. Note: DMMA continues to dispute the error finding for Case#0000008309. This application was signed by the Social Worker from Christiana Care with client signing the Authorization to release information. Case was denied 3/2/2012 because the client wasn't placed; once he was placed @ NH, case opened 3/9/2012.

*B(2) Income and Eligibility Verification System*

- a. Consistent with Medicaid Common Eligibility policy reference **14105.1 Exception For Infants**, which states, "Infants born 1/1/91 and after do not have to provide or apply for a number until the child turns age one", DSS will ensure that a child's SS# is verified at the recertification/periodic review (for any program of assistance) or before the child turns 1, whichever time period is the shortest. This will ensure that all newborn children, existing or newly added to a case, will have a SS# listed or will be removed from the case prior to turning 1.
- b. DSS will instruct our staff to verify that all SS#'s are entered accurately prior to confirmation. This added level of quality assurance will minimize incidents of data entry error.
  - i. Note: DSS continues to dispute the error finding for Case#6003554066; our records indicate that the SSN has been in the system since her birth in 2007 and we provided verification to support that on 10/4/2012. The child's name was changed in January 2010.

Anticipated Completion Date:

- B(1)- b(i)- December 31, 2013
- b(ii)- June 30, 2013
- B(2)- a- December 31, 2013
- b- June 30, 2013

Auditors' Response:

B(1) – The audit evidence provided by DMMA was subsequent to the completion of audit fieldwork and was incomplete, therefore, our conclusion continues to be that DMMA was unable to provide documentation to support that the recipient signed a written application for benefits under the penalty of perjury.

B(2) – The audit evidence provided by DMMA was three months subsequent to the completion of audit fieldwork and was incomplete, therefore, our conclusion continues to be that DMMA was unable to provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) at any point within the period of receiving benefits.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Medicaid and Medical Assistance**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-17\***

**Program: State Children's Health Insurance Program (93.767)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Eligibility**

**Condition:**

The following is considered to be a both a control and compliance finding. One out of our sample of 85 children receiving SCHIP benefits was determined to be ineligible and received \$2,275 in benefits. We noted that the applicant's income exceeded the income limit as described by the Delaware State Plan for SCHIP. We also noted that the applicant was enrolled in a public group health plan while receiving SCHIP benefits, which is not in compliance with eligibility requirements per the Delaware State Plan for SCHIP.

Total benefit payments for the fiscal year were \$13,297,709 while total expenditures for the program in fiscal year 2012 amounted to \$15,532,999.

**Criteria:**

**Control exceptions:**

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Compliance exceptions:**

Per Delaware's State Plan: "Eligibility will be established using gross income of all immediate family members living in the same household with a standard \$90 disregard per earner, a disregard for the moment of actual child care expenses up to \$175 for children age 2 and above and \$200 for children under age 2. In addition, there will be a disregard of the first \$50 of child support for potentially eligible children. The resultant countable income will be compares to 200% of the FPL for a family size of those in the immediate family with one exception (a pregnant woman will count as [2] people for the determining the FPL level to use). Income less than or equal to 200% of the FPL will qualify the children for eligibility for the Delaware Healthy Children Program."

The Delaware State Plan also states that applicants "must be ineligible for enrollment in any public group health plan".

**Cause:**

The exception occurred because DMMA did not follow the Delaware State Plan requirements in regards to the determination of eligible recipients.

**Effect:**

Children receiving SCHIP benefits may not be eligible to receive these benefits.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Questioned Costs:**

There are \$2,275 in questioned costs associated with the payment of benefits for the identified exception.

**Recommendation:**

We recommend that the DMMA follow the set guidelines and rules established for eligibility determinations within the Delaware State Plan for SCHIP as approved by the Department of Health and Human Services.

**Views of Responsible Officials:**

Agency Contact Name: Ray Fitzgerald, DSS Deputy Director

Agency Contact Phone Number: (302) 255-9645

**Corrective Action Plan:**

This case was open in CHIP on 4/30/12 based on income of \$2,003.00 which made the child eligible for the program. Two days later on 5/2/2012 a much higher income was added but since the case had already opened in CHIP it remained open for the guaranteed eligibility period.

We are limited on what we can do to prevent these issues because of the 12 month guaranteed eligibility period. We will attempt to mitigate the dollar error by attempting the following:

1. Run a quarterly match between MMIS and our SCHIP client population to determine if the client has third party insurance. Currently there are no linkages to perform this task automatically.
2. We will also reinforce with our staff the care that needs to be paid to properly entering income data, especially for CHIP cases, to minimize the chance of errors like this happening in the future.

Anticipated Completion Date: March 30, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Social Services**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-18\***

**Program: Child Care Cluster (93.575, 93.596)**

**Type of Finding: Noncompliance, Material Weakness**

**Compliance Requirement(s): Reporting**

**Condition:**

The following is considered to be both a control and compliance exception. We were unable to obtain and test the reconciliation of the CCDF amounts reported on the SF-425 report to the amounts reported on the First State Financials (FSF) system reports or the supporting documentation provided. We note that total cumulative expenditures per FSF were \$32,893,806 and the SF-425 reported total expenditures of \$32,928,648 for the quarter ending March 31, 2012. For the quarter ending June 30, 2012, total cumulative expenditures per FSF were \$21,292,386 and the SF-425 reported total expenditures of \$21,049,741.

The total expenditures for the program in fiscal year 2012 amounted to \$14,076,667.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

SF-425, Federal Financial Report-

1) The submission of interim FFRs will be on a quarterly, semi-annual, or annual basis, as directed by the Federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period.

2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

**Cause:**

The exception occurred because multiple state agencies including the Department of Services for Children, Youth and Their Families and the Department of Education expend CCDF funds but the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures that are included within the SF-425 reports.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Effect:**

The amounts reported to the Federal Agency, the Department of Health and Human Services, on the SF-425 report could not be reconciled to amounts reported on the FSF system generated reports (DGL123) which may result in the Federal Government having less/more information about the expenditures that were incurred by the program.

**Questioned Costs:**

**March 31, 2012**

Total Expenditures Per SF-425	\$ 32,928,648
Total Expenditures Per FSF	\$ 32,893,806
<b><i>Over-reported Costs</i></b>	<b><i>\$ 34,842</i></b>

**June 30, 2012**

Total Expenditures Per SF-425	\$ 21,049,741
Total Expenditures Per FSF	\$ 21,292,386
<b><i>Under-reported Costs</i></b>	<b><i>\$ (242,645)</i></b>

**Recommendation:**

We recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining the appropriate general ledger reports (e.g. DGL123) from all departments expending costs relating to the CCDF Program prior to preparation and submission of the SF-425 report.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

In an examination of the March 31, 2012 report it was determined that the "Total Expenditures Per SF-425" of \$32,928,648 were obtained by the auditors from the DHSS reports (based upon state accounting system data) used for effectuating draws from the federal draw system. This report includes cumulative draw and expenditure information for FFY-2010 through FFY-2012 derived from the State accounting system. It should also be pointed out that the reason "Total Expenditures Per SF-425" decreased from \$32,928,648 as of March 31, 2012 to \$ 21,049,741 on June 30, 2012 is due to the fact that the June 30 report does not include the FFY-10 grant expenditures. That grant year was fully expended/finalized by March 31, 2012 and subsequently dropped off the Federal reporting system. Therefore that grant year was no longer being reported.

The questioned costs as of March 31, 2012 and June 30, 2012 and variance is related to expenditures occurring in other departments and that DMS did not obtain the accounting report/budgetary expenditure information directly from other Departments. Steps have been taken to ensure that DMS receives and uses the other department's expenditure data (see corrective action).

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

DHSS began the process of obtaining financial data from other Departments of the State in January 2013. OMB will be providing the DOE DGL123 and DGL018 on a quarterly basis and DSCYF will be providing their department's financial data for grant funds received from DHSS. The SF-425 PMS report will be corrected when the quarter ending 3/31/13 report is submitted.

Anticipated Completion Date: April 30, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Social Services**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-19\***

**Program: Temporary Assistance for Needy Families (93.558, S-93.714)**

**Type of Finding: Material Noncompliance, Material Weakness**

**Compliance Requirement(s): Reporting**

**Condition:**

The following is considered to be both a control and compliance exception. We were unable to obtain and test the reconciliation of the TANF amounts reported on the SF-425 report to the amounts reported on the First State Financials (FSF) System generated reports as well as the supporting documentation provided. We note that grant inception to date cumulative expenditures per FSF were \$45,959,452 and the SF-425 reported total cumulative expenditures of \$40,493,431 for the quarter ending March 31, 2012. For the quarter ending June 30, 2012, grant inception to date cumulative expenditures per FSF were \$56,713,553 and the SF-425 reported total cumulative expenditures of \$56,640,638.

Total expenditures for the program in fiscal year 2012 amounted to \$34,813,071.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Per 45 CFR Section 265.3(c), “ (1) Each State must file quarterly expenditure data on the State’s use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in Separate State programs. (2) If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report (or, as applicable, Territorial Financial Report) for each fiscal year that provides information on the expenditures of that year’s TANF funds.”

**Cause:**

The exceptions occurred because the Department of Health and Social Services does not have a procedure in place to obtain and reconcile Department for Services for Children, Youth, and Families (Department 37) and DHSS (Department 35) expenditures that are included within the SF-425 reports.

**Effect:**

The amounts reported to the Federal Agency, the Department of Health and Human Services, on the SF-425 report could not be reconciled to amounts reported on the FSF system generated reports (DGL123) which results in the Federal Government having less/more information about the expenditures than were incurred by the program.

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\* Repeat finding from prior year’s audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Questioned Costs:**

**March 31, 2012**

Total Expenditures Per SF-425	\$ 40,493,431
Total Expenditures Per FSF	\$ 45,959,452
<i>Under-reported Costs</i>	<i>\$ (5,466,021)</i>

**June 30, 2012**

Total Expenditures Per SF-425	\$ 56,640,638
Total Expenditures Per FSF	\$ 56,713,553
<i>Under-reported Costs</i>	<i>\$ (72,915)</i>

**Recommendation:**

We recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining the DGL123 reports from all departments expending costs relating to the TANF Program prior to preparation and submission of the SF-425 report as well as performing reconciliation procedures prior to submission of report.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

In an examination of the March 31, 2012 report it was determined that an omission occurred when the report was prepared and that cumulative expenditures for the FFY-12 grant year were not updated. Hence the cumulative expenditures were under stated. This error was discovered when preparing the June 30, 2012 report and corrected when that report was submitted.

The June 30, 2012 questioned costs were the result of not obtaining budgetary information directly from other Departments understating the total reported costs. Subsequently the expenditure data was obtained from the other departments and corrected on the report submitted for the quarter ending 12/31/12.

Subsequently steps have been taken to ensure use of the other department's expenditure data.

DHSS began the process of obtaining financial data from other departments in the State in January 2013. OMB will be providing the DOE DGL123 and DGL018 on a quarterly basis and DSCYF will be providing their department's financial data for grant funds received from DHSS.

Anticipated Completion Date: January 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Social Services**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-20**

**Program: Child Care Cluster (93.575, 93.596)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs (Effort Reporting)**

**Condition:**

The following is considered to be both a control and compliance exception. During the testing of allowable or unallowable costs for payroll, four out of forty employees selected for testing submitted Time and Effort Certifications that were not approved and reviewed by a supervisor for multiple pay cycles. The four employees charged \$27,891 to the program out of our sample of \$71,045. Total payroll expended by the program was \$620,227.

Total expenditures for the program in fiscal year 2012 amounted to \$14,076,667.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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)

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

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 exceptions occurred because the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the Federal grants

#### **Effect:**

Employees may be recording the incorrect or unapproved payroll charges to the federal grant.

#### **Questioned Costs:**

Costs not properly approved were \$27,891.

#### **Recommendation:**

We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports.

#### **Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

#### **Corrective Action Plan:**

The cited incomplete time and effort certifications for the CCDF program were a result of the fact that the certification form did not have a place for the supervisor's signature. The form has been revised to include the supervisor's signature and has been distributed for use.

It should be pointed out that the work the 4 staff were engaged are allowable under the CCDF program. Their duties are:

Employee #1 works as the CCDF administrator. They develop and submit the CCDF plan and oversee and coordinate related Quality activities.

Employee #2 works as the Policy Administrator and writes provider policy for the child care providers who are paid from CCDF funds as well as oversees the child care monitors.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Employee #3 works in the DSCYF Office of Child Care Licensing and develops the rules concerning the licensing of child care providers.

Employee #4 (left our employ as of 5/18/12) worked as a child care monitor. This person made site visits to child care providers who received CCDF funds to ensure payments were made properly.

Anticipated Completion Date: January 16, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Social Services**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-21**

**Program: Child Care Cluster (93.575, 93.596)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Matching, Earmarking**

**Condition:**

Matching

The following is considered to be a control exception. During the testing of the Matching requirements for the Child Care Development Fund (CCDF) program, we found that for 25 out of 25 expenditures selected which were subject to matching requirements the Division of Social Services did not apply the correct Federal Medical Assistance Percentage. The effect of the error of the sample of \$3,472,798, subject to testing was an under-match of \$133,618 for CFDA #93.596. Total population of expenditures subject to matching requirements was \$4,383,143.

Earmarking

The following is considered to be a compliance and control exception. The CCDF's 2012 Fiscal Year ACF 696-Report included \$1,957,591 in administrative expenditures. The total expenditures for the June 30, 2012 period were \$11,170,374; therefore, the five percent limit on administrative expenditures was exceeded by \$1,399,072.

Total expenditures for the program in fiscal year 2012 amounted to \$14,076,667.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Matching

Per the June 2012 Compliance Supplement, "A State is eligible for Federal matching funds (limit specified in 42 USC 618 and 45 CFR section 98.63) only for those allowable State expenditures that exceed the State's MOE requirement, provided all of the Mandatory Funds (CFDA 93.596) allocated to the State are also obligated by the end of the fiscal year (45 CFR section 98.53). State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year. This percentage varies by State and is available on the Internet at <http://www.aspe.hhs.gov/health/fmap.htm>. To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53).

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

The State of Delaware's rate was 53.15 percent for the period of October 1, 2010 through September 30, 2011 and 54.17 percent for the period of October 1, 2011 through September 30, 2012.

Earmarking

Per the June 2012 Compliance Supplement, "A State/Territory may not spend on administrative costs more than five percent of total CCDF awards expended (i.e., the total of CFDA 93.575 and 93.596) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (42 USC 9858c(c)(3)(C); 45 CFR section 98.52)."

**Cause:**

Matching

The exception occurred because the Division of Social Services incurs state match in excess of the requirement and therefore does not true-up the FMAP percentages on a transaction by transaction basis.

Earmarking

The exception occurred because the Division of Social Services does not have controls in place to monitor the earmarking requirements established by the Federal government.

**Effect:**

Matching

The coding individual transactions between federal and state are not captured at the appropriate federal participation rate. As a result, the matching requirement is managed in the aggregate by the program.

Earmarking

The Division of Social Services exceeded earmarking limitations and expended a greater amount of federal funds on administrative expenditures.

**Questioned Costs:**

*Matching*

No questioned costs, as the State over matches the program.

*Earmarking*

Total CCDF Expenditures \$11,170,374  
Administrative Earmark (5%) \$558,519  
Total Administrative Expenditures \$1,957,591

Exceeded limit by \$1,399,072

**Recommendation:**

We recommend the Division implement policies and procedures surrounding ensuring that the correct FMAP rate is applied and earmarking limits are appropriately met and reported.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

After the 6/30/12 ACF 696 report was prepared and submitted, a spreadsheet cell error was discovered. As a result, \$1,028,043 that was reported on line 1.g. (Direct Service) was also reported on line 1.a. (Administration) overstating Administration expenditures. The error was subsequently corrected on the 9/30/12 ACF 696 report that was submitted on 11/14/12.

Anticipated Completion Date: November 14, 2012

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Public Health**

**Federal Agency: U.S. Department of Agriculture**

**Reference Number: 12-22**

**Program: Special Supplemental Nutrition Program for Women, Infants and Children (10.557)**

**Type of Finding: Scope Limitation, Material Weakness**

**Compliance Requirement(s): Cash Management**

**Condition:**

The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) utilizes a system query report, to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet for the determination of the federal cash draws to be requested for the program.

The following is considered to be the control exception. There is a lack of segregation of duties within the program's federal draw down process, as the same WIC staff is responsible for executing the query, importing the query results into the spreadsheet, calculating the draw amounts, and performing the cash draw downs. For 11 out of 11 samples selected, supervisory review of the draw down was not completed prior to submission of request for payment. The 11 transactions sampled amounted to \$567,822.

The following is considered to be the compliance exception and scope limitation. The draw down information could not be directly traced back to FSF for 2 out of 11 samples selected because the FSF system does not have the ability to be queried as to historical balances. Only the adjusted spreadsheet files, rather than the original system query results, were maintained by Division of Public Health (DPH) and WIC as supporting documentation for the federal draw downs selected for audit test work. The two items without documentation in our test amounted to \$12,668.

The population of cash draws subject to testing amounted to \$13,549,689 for fiscal year 2012 while the total expended for the program was \$11,016,952.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

The exception occurred because the WIC Program 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.

**Effect:**

Without a management review control in place, WIC may request funds in a manner which is not in compliance with the CMIA Agreement or the terms of the grant agreements.

**Questioned Costs:**

The impact of the calculation of interest liability if any cannot be determined.

**Recommendation:**

We recommend that WIC and DPH maintain their enhanced federal draw down procedures by ensuring 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 WIC and DPH continue its current policy to maintain 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:**

It is the written policy of WIC and DPH that all federal draws be reviewed and approved in writing before submission to the federal agencies. The policy also requires that the reviewer and approver of the cash draw is not the same individual who has initiated and prepared the draw. The policy also requires the original FSF query results to be maintained in hardcopy or non-alterable electronic format in order to validate the draw down information. The policy will be modified to include a provision that in the event WIC staff absences occur that would cause a lack of proper segregation of duties and supervisory review, the central DPH fiscal office will be included/inserted into the draw review/approval process.

It should be pointed out that during the audit period, WIC did not request any funds in a manner which was not in compliance with the CMIA Agreement or the terms of the grant agreements. Although there was an issue of lack of supervisory review/segregation of duties as cited, the funds drawn were for allowable costs under the WIC grant and do not represent questioned costs.

Anticipated Completion Date: March 29, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Public Health**

**Federal Agency: U.S. Environmental Protection Agency**

**Reference Number: 12-23**

**Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Reporting**

**Condition:**

The following is considered to be a compliance exception. The SF-425, Federal Financial Report, prepared and submitted for the DWSRF program as of December 31, 2011, does not have supporting documentation for the cumulative recipient share of expenditures reported of \$5,162,257.

Total expenditures for the program in fiscal year 2012 amounted to \$16,526,758.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

*Financial Reporting*

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

*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 unless otherwise indicated.

**Cause:**

The exception occurred because the Division uses a manually altered spreadsheet to track the reported amount, but did not properly retain the FSF reports to support the calculation. The supporting spreadsheet could not be agreed to re-created general ledger reports.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Effect:**

The Federal Financial Reports' total recipient shares could be incorrect as reported.

**Questioned Costs:**

There are no questioned costs as the program exceeded the required non-ARRA match.

**Recommendation:**

We recommend the Division implement policies surrounding retention of supporting documentation for amounts recorded and reported on Federal Financial Reports.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

To strengthen the audit trail for match and to correspond to each FFR report, the Division has begun the collection and retention of supporting FSF documentation for transactional amounts recorded and reported on Federal Financial Reports. It should also be pointed out that the EPA, the granting federal agency, has been conducting quarterly reviews and has not expressed any concerns regarding match.

Anticipated Completion Date: May 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Public Health**

**Federal Agency: U.S. Environmental Protection Agency**

**Reference Number: 12-24**

**Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Procurement, Suspension and Debarment**

**Condition:**

The following is considered to be a control exception. During the testing of Procurement, Suspension and Debarment for the Drinking Water State Revolving Fund (DWSRF), the Department of Natural Resources and Environmental Control (DNREC) did not properly conduct an Excluded Parties List search for one out of two vendors selected for testing to ensure that the vendor was properly excluded from the Federal Suspension and Debarment listing or obtain certification from the vendor through the contracting process. A total of \$93,853 was expended to the vendor during the fiscal year. Total contracts tested were \$229,762 and the total population of procurements was 11 non-subrecipients.

Total expenditures for the program in fiscal year 2012 amounted to \$16,526,758.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The June 2012 Compliance Supplement states, "The requirements for suspension and debarment are contained OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension; Federal agency regulations in 2 CFR implementing the OMB guidance; the A-102 Common Rule (§\_\_\_\_.36); OMB Circular A-110 (2 CFR section 215.13); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award."

"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."

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

The exception occurred because the Program did not use the State's "boiler plate" contract for this vendor, so they should have perform a check of the EPLS; however, the program did not know coordinate between DPH and DNREC to one or the other since federal funds were use.

**Effect:**

The program 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, the EPLS was checked subsequent to year end and the contractor was neither suspended nor debarred.

**Recommendation:**

We recommend that the Department follow the steps surrounding Suspension and Debarment established within the Statewide Procurement manual. We also recommend that the DPH and DNREC utilize the "boiler-plate" contract established by the Department of Health and Social Services which includes language surrounding Federal Suspension and Debarment.

**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 finding condition, DNREC was the entity that had entered into a collaborative research agreement (e.g. contract) with the cited contractor. The research agreement was put in place in 2003 that included the EPA requirements at that time and during FY-12 two projects were funded from a set aside in the DWSRF grant. Unfortunately the 2003 EPA requirements were subsequently amended and did not include the provisions that have been questioned in this audit. Fortunately the contractor was neither suspended nor debarred. It should be pointed out that DNREC began negotiations with the contractor to update the collaborative research agreement in November 2012 and the new agreement will include provisions that fully conform with the current federal Suspension and Debarment requirements. Additionally, until a new agreement is in place DNREC will suspend funding any new projects from EPA funds with this contractor.

Anticipated Completion Date: May 1, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of Public Health**

**Federal Agency: U.S. Environmental Protection Agency**

**Reference Number: 12-25**

**Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Special Tests and Provisions (Deposits to DWSRF)**

**Condition:**

The following is considered to be a control exception. During the testing of the Drinking Water State Revolving Fund's (DWSRF) Special Tests and Provisions: Deposits to DWSRF, for 14 out of 19 cash receipts, there was no evidence of a supervisory review performed over the receipts. The total cash receipts without supervisory review amounted to \$1,279,038 out of a sample of \$1,781,456. The Program recorded \$5,663,366 in deposits for the fiscal year.

Total expenditures for the program in fiscal year 2012 amounted to \$16,526,758.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Cause:**

The exception occurred due to a lack of awareness of the review internal control by the personnel performing this function.

**Effect:**

The Program could improperly record a cash receipt amount or accounting code which could go undetected without supervisory review.

**Questioned Costs:**

There are no questioned costs associated with this finding.

**Recommendation:**

We recommend the Division enforce review procedures and policies surrounding recording of cash receipts for the DWSRF program.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Corrective Action Plan:

The central DPH fiscal office will monitor the DWSRF Program to ensure that all cash receipts are properly reviewed and approved in writing prior to transmittal of information and documentation to the DPH Fiscal Office for final processing. The Program will continue to perform monthly cash receipts reconciliations to ensure that amounts have been properly recorded in FSF.

Although there was an issue of lack of supervisory review as cited, it should be pointed out that no cash receipts were improperly recorded regarding the amount or to incorrect accounting codes. Therefore the cited dollars do not represent questioned costs.

Anticipated Completion Date: March 29, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of State Service Centers**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-26\***

**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 following are considered to be both control and compliance exceptions. Upon review of the reconciliation detail that was used to create the interim SF-425 Report for Federal Fiscal year ended September 30, 2011 and the Carryover & Reallotment Report for Federal Fiscal Year 2011, amended 2/27/12, the following errors were noted:

- 'Carryover Funds to FFY 2012' of \$1,585,391 were included as a portion of the \$13,937,315 federal share of expenditures when the expenditures had not been expended as of 9/30/11, the report date.
- \$500,000 of funds transferred to Delaware Department of Natural Resources and Environmental Control (DNREC), after 9/30/11, for Weatherization services were included as a portion of the \$13,937,315 federal share of expenditures when the amounts had not been expended as of 9/30/11, the report date.
- A \$60,757 obligation was included twice in calculating funds obligated and incorrectly included as part of the total federal share of unliquidated obligations amount of \$740,568.

The reconciliation detail errors resulted in the following reporting errors:

Interim FFY 2011 SF-425 Report filed 2/28/12

- The reported "Federal share of expenditures" \$13,937,315 was overstated by \$2,085,391. The amount reported should have been \$11,851,924.
- The reported "Federal share of unliquidated obligations" \$740,569 was overstated by \$60,758. The amount reported should have been \$679,811.
- As a result, the reported "Total Federal share" \$14,677,884 was overstated by \$2,146,149. The amount reported should have been \$12,531,735.
- And the reported "Unobligated balance of Federal funds" \$1,176,026 was understated by \$2,146,149. The amount reported should have been \$3,322,175.

FFY 2011 Carryover & Reallotment Report amended 2/27/12

- The reported "Projected unobligated balance of \$2,761,418 was understated by \$560,757. The amount reported should have been \$3,322,175.
- As a result, the reported "Reallotment amount" of \$1,176,027 was understated by \$560,757. The amount reported should have been \$1,736,784.

In addition, the SF-425 Reports for Federal Fiscal year 2011 and 2010 omitted the Federal Cash portion of the reports and did not report any cash receipts or cash disbursements.

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\* Repeat finding from prior year's audit

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

The total expenditures for the program in fiscal year 2012 amounted to \$11,978,905.

#### **Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

#### 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 reallocation to other LIHEAP grantees in the following fiscal year, and must be reported (42 USC 8626).

The LIHEAP Program is required to submit the SF-425, Federal Financial Report, annually for the period October 1, 2010 – September 30, 2011 for each type of grant award received.

In addition, per Transmittal No. LIHEA-AT-2012-01, grantees should follow the instructions provided with the SF-425 form when filing the report, which per the Transmittal attachments, are the general instructions titled 'Federal Financial Report Instructions.' The general instructions state that federal agencies may require both cash management information on lines 10(a) through 10(c) and financial status information lines 10(d) through 10(o).

#### 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 exceptions occurred because the program, through human error, mistakenly included financial data pertaining to the FFY 2012 period on the reconciliation detail worksheet used to calculate the amounts

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

reported on the FFY 2011 SF-425 Report and Carryover & Reallotment Report and the program lacked of supervisory review of the filing.

The cash amounts were excluded due to LIHEAP personnel's belief that they did not need to be included although no federal instructions noted this.

**Effect:**

The LIHEAP Program reported incorrect amounts to the Federal Government and omitted cash amounts to the Federal Government. In addition, since the 90% threshold still was not met, LIHEAP must return more unobligated funds to the ACF than originally reported.

**Questioned Costs:**

There are no questioned costs as the expenditures reported of \$13,937,315 agreed to First State Financial system reports but were reported in the wrong federal fiscal years.

**Recommendation:**

We recommend that LIHEAP implement at least one preparer and one reviewer to evaluate the reconciliation FSF of the SF-425 Reports and Carryover & Reallotment Report before submission. We also recommend LIHEAP follow general instructions for the reports and include all required information as needed.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

A corrected SF-425 Report was submitted to ACF through the federal On-Line Data Collection System (OLDC) on November 21, 2012. We contacted the ACF LIHEAP Officials on November 13, 2012 asking for their guidance in regard to appropriate corrective action pertaining to the FFY 2011 Carryover and Reallotment Report. We have not received a response. If we do not receive a response by 12/7/2012, we will submit a corrected Carryover and Reallotment Report.

We will designate a preparer and reviewer to evaluate the reconciliation of FSF with the SF-425 Reports and Carryover and Reallotment Report before submission. Beginning with the SF-425 Reports due 12/31/2012 we will include the financial data in the federal cash portion of the reports.

Anticipated Completion Date: December 31, 2012

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of State Service Centers**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-27\***

**Program: Low-Income Home Energy Assistance Program (93.568)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Reporting (Special Reporting)**

**Condition:**

The following are considered to be both control and compliance exceptions. Some attributes/components of the LIHEAP Household Annual Report for the period October 1, 2010 – September 30, 2011 could not be agreed to supporting documentation and/or supporting documentation could not be provided or was not sufficient for some of the attributes/components. The program's internal auditor identified the report was incorrect and prepared a revised report in September 2012 for the period ended September 31, 2011, although the revised report has not been submitted as of audit fieldwork completion.

The following errors occurred on the original report submitted in December 2011 for the year ended September 30, 2011:

**LIHEAP ASSISTED HOUSEHOLDS:**

- For the Heating line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-454 households difference), Under 75% Poverty (87 households difference), 75%-100% Poverty (-134 households difference), 101%-125% Poverty (-141 households difference), 126%-150% Poverty (-106 households difference), Over 150% Poverty (-160 households difference), 60 years or Older (-306 households difference), Disabled (690 households difference), and Age 5 Years or younger (-756 households difference).
- For the Cooling line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (846 households difference), Under 75% Poverty (404 households difference), 75%-100% Poverty (104 households difference), 101%-125% Poverty (182 households difference), 126%-150% Poverty (113 households difference), Over 150% Poverty (43 households difference), 60 years or Older (74 households difference), Disabled (858 households difference), and Age 5 Years or younger (308 households difference).
- For the Other-Furnaces line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-32 households difference), Under 75% Poverty (-27 households difference), 75%-100% Poverty (-1households difference), 101%-125% Poverty (2 households difference), 126%-150% Poverty (-4 households difference), Over 150% Poverty (-2 households difference), 60 years or Older (-18 households difference), Disabled (-11 households difference), and Age 5 Years or younger (-3 households difference).
- Support was not available due to system limitations for the Elderly, Disabled, or Young Child' totals per the report for Heating, Cooling, Winter/year round crisis, Other-Furnaces, and SNAP.
- Requested data (which is not required to be submitted) for Age 2 Years or Younger and Age 3 Years through 5 year did not agree to supporting documentation for Heating (-548 and -718 households difference), and could not be provided for the amounts reports on the Report for Cooling, Winter/year round crisis, and other-furnaces.

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\* Repeat finding from prior year's audit

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### LIHEAP APPLICANT HOUSEHOLDS:

- For the Heating line item, the report submitted did not agree to the supporting documenting for Total Number of applicant Households (-1009 households difference), Under 75% Poverty (-9 households difference), 75%-100% Poverty (-205 households difference), 101%-125% Poverty (-205 households difference), 126%-150% Poverty (-256 households difference), and Over 150% Poverty (-334 households difference).
- For the Cooling line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (846 households difference), Under 75% Poverty (404 households difference), 75%-100% Poverty (104 households difference), 101%-125% Poverty (182 households difference), 126%-150% Poverty (113 households difference), and Over 150% Poverty (43 households difference).
- For the Other-Furnaces line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-32 households difference), Under 75% Poverty (-27 households difference), 75%-100% Poverty (-1households difference), 101%-125% Poverty (2 households difference), 126%-150% Poverty (-4 households difference), and Over 150% Poverty (-2 households difference).

The total expenditures for the program in fiscal year 2012 amounted to \$11,978,905.

#### **Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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 exceptions occurred because the report uses supporting documentation from Captains System, CAP's system, and emails from other subrecipients and there were errors when consolidating the different data

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

elements together for the report which was not detected by the review process. In addition, some of the amounts per the report could not be supported or the underlying data elements of the support had not been provided to LIHEAP by the subrecipients at the time the report was created and submitted. LIHEAP switched systems in January 2012, however, the submitted report was prepared utilizing the old system prior to the changeover.

**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 continue to enforce policies and procedures that the review process of reports includes ensuring reports agree to underlying support. We also recommend that LIHEAP continue to ensure all underlying elements that are utilized to create the report are provided by the subrecipients 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:**

A corrected LIHEAP Household Report for the period October 1, 2010 – September 30, 2011 was prepared and submitted to ACF on November 20, 2012. The Department's IRM Unit has designed and developed a household data report in CAPS to capture all the data elements required on the LIHEAP Household Annual Report for LIHEAP heating assistance activities. We will enforce procedures to obtain the raw household data for cooling activities from the LIHEAP sub-recipient and the two vendors that administer the cooling programs. The raw data will be organized and summarized in a worksheet to facilitate reporting on the LIHEAP Household Annual Report.

Anticipated Completion Date: Ongoing.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Health and Social Services**

**Division of State Service Centers**

**Federal Agency: U.S. Department of Health and Human Services**

**Reference Number: 12-28**

**Program: Low-Income Home Energy Assistance Program (93.568)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Procurement, Suspension and Debarment**

**Condition:**

The following is considered to be both a control and compliance exception. LIHEAP incurred \$18,351 for training calendars from Project Energy Savers, LLC, to provide their recipients with energy reducing ideas. The calendars are instructional materials, it was determined by the Program that Project Energy Savers, LLC was a sole source procurement. During a review of LIHEAP expenditures, the Director asked to see the three quotes for the calendar procurement and it was discovered that the steps for determination of the vendor as a sole source were not followed. The Director stopped approval on the voucher until she received the necessary information needed per the sole source procurement policies. The necessary documents were provided; however, as the goods had already been ordered, received, and distributed, no contract was entered into with the vendor. A sample of one vendor with expenditures of \$18,351 in fiscal year 2012 was tested out of a population of six vendors with total expenditures of \$400,921.

The total expenditures for the program in fiscal year 2012 amounted to \$11,978,905.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Title 29, Chapter 69, State Procurement, Subchapter VI. Professional Services, Subsection 6985. *Sole source procurement* states:

- (a) A contract may be awarded for materiel or nonprofessional services without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required materiel or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, 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 stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- (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.

**Cause:**

The exception occurred because the Program did not follow Delaware sole source procurement policies because there was confusion if they applied given that the purchase was to be a one-time purchase.

**Effect:**

The Program did not enter into a contract, as required, and did not comply with Delaware procurement policies.

**Questioned Costs:**

The \$18,351 in expenditures were spent on allowable activities, but not properly procured.

**Recommendation:**

The Program should ensure they are complying with Delaware procurement policies and ensure all staff are knowledgeable of the policies and procedures especially those dealing with vendor and procurement purchases.

**Views of Responsible Officials:**

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

**Corrective Action Plan:**

Steps will be taken to ensure appropriate OCS staff are trained on Delaware Procurement Policies. In the winter of 2012, Program Managers and Administrators attended a fiscal and budget overview with staff of DMS and DSSC that included a discussion of contracting for professional services and procurement of goods. Additionally, a training (conducted by the DSSC CFO, Internal Auditor and Director) to review fiscal and procurement policies will be provided to staff and completed by 2/27/13.

Anticipated Completion Date: February 27, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Vocational Rehabilitation**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-29**

**Program: Vocational Rehabilitation Cluster (84.126, S-84.390)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs (Effort Reporting)**

**Condition:**

The following is considered to be both a control and a compliance exception. The time certification for one employee with payroll amounting to \$77.82 out of 40 employees sampled with a total payroll value of \$26,659.20 was not signed by the employee although the supervisor signed but did not date the certification. The certification was for the month of October 2011.

The population of payroll transactions subject to testing amounted to \$4,051,252 for fiscal year 2012 while the total expended for the program was \$12,859,090.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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)

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

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 exception occurred because the employee had taken time off during the month for a sickness and management did not obtain the sign-off. The employee eventually retired and left the Program in December of that year.

**Effect:**

Salaries may be inappropriately allocated to the DVR Program for different percentages than what is actually worked by the employees.

**Questioned Costs:**

Questioned salary costs for sample items are \$77.02 where the certificate was not completed by the employee.

**Recommendation:**

We recommend that the DVR enforce existing policies that time certifications are properly signed and dated by both the employee and supervisor in a timely basis.

**Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

**Corrective Action Plan:**

While we agree that the timesheet in question was not signed by the employee, in this case there were unusual circumstances which prevented the employee from signing his timesheet. He was extremely ill and being treated in a medical facility out of state for an extended period of time. That illness eventually forced him to leave employment with the State of Delaware. That being said, the Division of Vocational Rehabilitation will make every effort to ensure that all timesheets are properly signed in the future.

Anticipated Completion Date: Completed.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-30**

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:**

The following is considered to be a control exception. For the two cash drawdowns tested totaling \$5,206,504.52, one did not have evidence of management review and the other request did not have evidence of who prepared it and it was submitted by the reviewer. There is a lack of segregation of duties as the same Workforce Investment Act (WIA) program staff is responsible for calculating the total draw (as evidenced through supporting documentation) and requesting the draw amount.

We also found a larger than normal lag time between when the Program is expending funds compared to when they are requesting funds for reimbursement. The Program had five draws during the year all of which were several months after the expenditures had been drawn indicated by the table below:

<b>Deposit ID #</b>	<b>Draw Amount</b>	<b>Draw Date</b>	<b>Dates per DAR006 Report</b>	<b># Months Btw DAR006 Reports &amp; When Funds are Drawdown</b>
Deposit ID #1198	974,942.00	12/28/2011	June 2011, July 2011	5-6 Month Lag
Deposit ID #1249	245,707.41	1/30/2012	June 2011, July 2011, August 2011	5-7 Month Lag
Deposit ID #1532	2,117,615.43	5/31/2012	August 2011, September 2011	8-9 Month Lag
Deposit ID #1589	1,309,258.66	6/22/2012	April 2011, May 2011, November 2011, December 2011	13-14 Month Lag (April/May); 6-7 Month Lag (Nov./Dec.)
Deposit ID #1603	3,897,245.86	6/27/2012	February 2012 to June 2012	1-4 Month Lag

Total drawdowns during fiscal year 2012 were \$8,544,780 while the total expended for the program was \$7,930,774.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### Compliance exceptions:

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 and agree to supporting documentation.

#### **Cause:**

A lack of segregation of duties and untimely drawdowns occurred because of staffing turnover and related training time for new personnel.

#### **Effect:**

Without an independent management review control in place, WIA may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements. WIA is also not effectively meeting the cash requirements of actual expenditures for the State and Program with the amount of time that transpires between expenditures of funds and reimbursement of those funds.

#### **Questioned Costs:**

There are no questioned costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.

#### **Recommendation:**

We recommend that WIA enhance its federal draw down procedures to ensure draws are done in a more timely manner and 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.

#### **Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

#### Corrective Action Plan:

DET will revise drawdown procedures to ensure timely draws and that segregation of duties between the preparer and reviewer are clearly documented by the signature of the authorized preparer and approver.

Anticipated Completion Date: January 31, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-31**

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Reporting (SEFA)**

**Condition:**

The following is considered to be both a control and compliance exception. We found that \$147,881 of FY 12 expenditures were incorrectly coded to CFDA #17.278 in First State Financials (FSF), and therefore, were incorrectly classified on the State's Schedule of Expenditures of Federal Awards (SEFA).

The coding error had the following effect on our testing samples:

- Total nonpayroll expenditures incorrectly coded to #17.278 totaled \$78,121 (\$60,085 of which was three items in our sample of 40 transactions); and
- Total payroll expenditures incorrectly coded to #17.278 totaled \$69,760 (\$4,959 of which was three items in our sample of 65 transactions).

In addition, we noted that two awards totaling \$675,554 and \$1,516,084 for National Emergency Grant (NEG) with effective dates of September 1, 2010 and October 1, 2010, respectively, were coded to CFDA #17.260 in FSF when they should have been coded to #17.277 effective July 1, 2011. Therefore, a total of \$1,910,186 in expenditures was incorrectly classified to the WIA cluster on the State's SEFA.

The coding error had the following effect on our testing samples:

- Total nonpayroll expenditures incorrectly coded to #17.260 totaled \$1,769,910 (\$1,285,646 of which was 11 items in our sample of 40 transactions); and
- Total payroll expenditures incorrectly coded to #17.260 totaled \$140,276 (\$8,656 of which was nine items in our sample of 65 transactions).

The total expended in fiscal year 2012 for the Program was \$7,930,774.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

We note that per Memorandum 'DOL Federal Award Recipients and single auditors', from the Assistant Inspector General for Audit, dated July 25, 2012, "CFDA #17.260, which included WIA Dislocated Worker Formula grants and National Emergency Grants (NEG's) has been removed from the CFDA. The new CFDA for the WIA Dislocated Worker Program is 17.278 and is included in the WIA cluster. The new CFDA # number for the NEG program is 17.277. For awards on or after July 1, 2010, CFDA 17.277 should be audited under Part 7 of the Supplement and not as part of the WIA cluster."

#### **Cause:**

The exceptions occurred because there is no higher level control in place for the State agencies to reconcile total expenditures reported per the financial reports to the Federal Government to the total expenditures in FSF that are eventually reported on the Schedule of Federal Expenditures of Federal Awards (SEFA) which is extracted from FSF by the Division of Accounting. The State agencies use a Federal Aid Master (FM) document to setup new grant awards in FSF, and the CFDA # on the one FM document was recorded incorrectly in FSF which resulted in the SEFA being incorrect. In addition, State agencies do not review the information entered by the State's Office of Management and Budget (OMB) into FSF per the FM to ensure the information is complete and accurate. The errors were not detected by WIA personnel since the process used by the Division of Employment and Training to create financial reports only captured known FSF data and there was no determination of completeness.

#### **Effect:**

Expenditures may be incorrectly reported for the Program on the SEFA.

#### **Questioned Costs:**

There are no questioned costs as the issue identified was only a classification error within the State's accounting system and on the SEFA for the year ended June 30, 2012.

#### **Recommendation:**

We recommend that the Division ensure they are performing reconciliations of expenditures per federal financial reports to expenditures coded to their CFDA #'s in FSF. We also recommend that the Division ensures they are updating Federal Aid Masters for updated Federal regulations and also ensure they review information input into FSF from their grant awards for accuracy and completeness.

#### **Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

#### **Corrective Action Plan:**

As stated in the conditions, one FM was coded correctly by DOL and keyed incorrectly by OMB. Therefore we do not consider this a DOL error.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

In response to condition regarding the National Emergency Grant award totaling \$675,544 with the effective date of September 1, 2010, please note that the NOO states that the CFDA# is 17.260. (see attached) Therefore, when this grant was loaded into FSF the expenditures were not incorrectly classified on the State's Schedule of Expenditures of Federal Awards.

Since the NEG grants both ended on 09/30/12, we will not be making any adjustments to the CFDA# in FSF for FY13.

We agree to review FM information after it is input into FSF for accuracy and completeness. And in the future will update our grants in FSF per changes in Federal regulations.

Anticipated Completion Date: March 1, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-32\***

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Eligibility**

**Condition:**

The following is considered to be a control exception. For 4 of the 65 Employment Development Plans (EDPs) reviewed, although the clients were determined to be eligible, there was no evidence of proper review by management. The amount of benefits extended to these clients in fiscal year 2012 was \$7,010.

The total expended in fiscal year 2012 for the program was \$7,930,774.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The Program's Policy is that all Employment Development Plans (EDP) or Individualized Service Strategy Forms (for WIA Youth participants) must be reviewed by management as evidenced by a signature on the face of document. Eligibility checklists also accompany each client file and detail eligibility criteria that must be met, but they are only used as a management tool and are not required per WIA's policy.

WIA is required to determine eligibility for all participants based specific criteria, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued when eligibility expires. Furthermore, in accordance with State Policy an Employment Development Plan should be completed and reviewed for eligible participants.

**Cause:**

The exception occurred because the Division needed to strengthen its policies and procedures pertaining to management review of the EDP's and ISS documents. New policies and procedures were implemented during the current fiscal year.

**Effect:**

Without proper supervisor review, claimants who were not eligible under WIA criteria may inappropriately receive benefits from the Program.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Questioned Costs:**

There are no questioned costs as each of the exceptions was correctly determined to be eligible for WIA services.

**Recommendation:**

The WIA Program should continue to reinforce policies and procedures relating to management review of EDPs 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:**

It is possible that the questioned folders were reviewed prior to implementation of revised policy. DET will adhere to the current policy and procedures that ensure the review of the EDP includes the signature of the supervisor on the face of the EDP.

Anticipated Completion Date: Completed.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-33\***

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Reporting**

**Condition:**

The following is considered to be both a control and compliance exception. Based on the review of the financial and performance reports required to be submitted, we found the following:

- The 9130 Reports were authorized and reviewed, but the reports did not agree to underlying general ledger resulting in a \$1,389 understatement of expenditures. The \$1,389 is made up of FY11 ETA 9130 Local Dislocated Worker report (\$891) and the FY11 ETA 9130 for Local Adult report (\$498).
- The 9091 WIA Annual Report was authorized and reviewed; however, the report omitted allowable costs from the general ledger of \$62,875.

The total expended in fiscal year 2012 for the program was \$7,930,774.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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).

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets or other documentation that link reports to the data.

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Cause:**

The exception occurred because of staff turnover and a mathematical error in the general ledger reconciliation that was not detected in the review process.

**Effect:**

The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.

**Questioned Costs:**

There are no questioned costs for the ETA 9130 Reports and the ETA 9091 Report as the errors resulted in understated expenditures of \$1,389 for the ETA 9130 Reports and \$62,875 for the ETA 9091 Report.

**Recommendation:**

The Program should consider reviewing the process used to prepare the reports and adding an additional level of review to ensure reports are properly presented and agree to the general ledger.

**Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

**Corrective Action Plan:**

We have revised our procedures. We now use FSF reports to ensure that all expenses will be captured without the need for downloading and data manipulation for 9130 report preparation. For older grants, we will still need to run a query, download and manipulate the data using excel. For these grants we have included an additional review step to ensure the totals reconcile to the original data.

Anticipated Completion Date: Federal reports period ending 12/31/12

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Reference Number: 12-34**

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Material Noncompliance, Material Weakness**

**Compliance Requirement(s): Subrecipient Monitoring, Special Tests and Provisions (ARRA Subrecipient Monitoring)**

**Condition:**

The following are considered to be compliance and control exceptions resulting from the testing of 4 subrecipients out of the population of 12:

- For 2 of the 3 Non-ARRA subrecipients tested, WIA (the Program) did not obtain the subrecipients' DUNS numbers before the award was given. The DUNS numbers were received 8 months after the contracts were signed and the first expenditures expended.
- For 1 of the 4 subrecipients tested which was a new non-ARRA subrecipient and had expenditures of \$58,080 during the fiscal year, we noted the Fiscal Monitoring report was never reviewed by management or sent to the Subrecipient. The site visit occurred during October 2011 and no follow up of the control issues noted during the site visit was done by the Program as of December 2012. There were no questioned costs identified during the monitoring.
- Another non-ARRA subrecipient's fiscal monitoring visit was conducted in April 2012, the report was sent to the subrecipient with a list of issues found giving the subrecipient 30 days to respond. As of December 2012, no support had been received from the subrecipient nor had the Program followed up with the issues found. The subrecipient had expenditures of \$109,465 of which \$14,995 was questioned during the monitoring visit.
- Another subrecipient's fiscal monitoring visits were conducted in December 2011 and January 2012. The fiscal monitoring report was sent to the subrecipient with the list of issues found giving the subrecipient 30 days to respond. As of December 2012, no support had been received nor had the Program followed up with the issues found. This ARRA subrecipient had expenditures of \$30,796 of which \$111 was determined to have been underpaid during the monitoring visit.
- We found the two above non-ARRA subrecipients with expenditures of \$58,080 and \$109,465 were new during the year and the Program did not request to see any prior A-133 Reports before they were selected as subrecipients to receive federal funding.
- One of the four samples tested for subrecipient monitoring had ARRA related expenditures of \$30,796 which represented total expenditures to the subrecipient. While the contract contained standard contract language acknowledging "contractor acknowledges and agrees that the federal, Single Audit Act, 31 U.S.C 7501-7505, and OMB A-128 or A-133 audits will apply to this program as a condition for federal funding", there was no specific ARRA laws or regulations reference. There was no language indicating that the subrecipient must register in the Central Contractor Registration (CCR) or that they must provide for separate identification in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form.

The amount passed through to subrecipients in fiscal year 2012 was \$1,448,029. The total expended in fiscal year 2012 for the program was \$7,930,774.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

#### **Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

#### **Subrecipient Monitoring:**

- *Determining Subrecipient Eligibility* – In addition to any programmatic eligibility criteria under E, “Eligibility for Subrecipients,” for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).
- *Central Contractor Registration (CCR)* – For ARRA subawards, identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and 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.
- *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 (see also N, Special Tests and Provisions in this Part).-
- *During-the-Award Monitoring* – Monitoring the subrecipients 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 subrecipients 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 subrecipients 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.

## STATE OF DELAWARE

### *Schedule of Findings and Questioned Costs*

#### *Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- *Ensuring Accountability of For-Profit Subrecipients* – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations..

#### **Special Test: Subrecipient Monitoring – ARRA**

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 in their SEFA and SF-SAC.

#### **Cause:**

The exceptions occurred because WIA was in the process of implementing new subrecipient monitoring policies and procedures during the year. The new policies and procedures did not encompass all compliance requirements leading to WIA to not effectively monitoring all the subrecipients that were selected.

In addition, a standard contract template was used for all subrecipient contracts; however, ARRA laws and regulations and specific ARRA requirements were not added to the standard template for the one subrecipient who received ARRA funding.

#### **Effect:**

The Program is not fulfilling its subrecipient monitoring responsibilities and the 12 subrecipients utilized during the fiscal year could potentially not be meeting federal requirements.

#### **Questioned Costs:**

Questioned costs are \$14,995 for expenditures identified and questioned during the monitoring visit for the three subrecipients noted above.

#### **Recommendation:**

The WIA Program should ensure that they have adequate subrecipient monitoring procedures in place and are following them for all subrecipients monitored during the year. The Program should also ensure when selecting subrecipients at the beginning of the year, that they review support that the subrecipients are adequate to receive federal funding.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

In addition, they should ensure WIA ARRA contracts contain language regarding ARRA laws and regulations as well as specific requirements that apply to subrecipients being paid with ARRA funding.

**Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

**Corrective Action Plan:**

DET will ensure that the sub-recipient monitoring procedures incorporate all compliance requirements so that we can effectively monitor all selected sub-recipients. DET will also address the issue of ensuring fiscal stability for each new sub-recipient that is awarded a contract through the bid proposal process before a contract is written.

Anticipated Completion Date: February 15, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Employment & Training**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-35\***

**Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs (Effort Reporting)**

**Condition:**

The following is considered to be both a control and compliance exception. Payroll funding reconciliations used to reconcile the State's payroll database (PHRST) and WIA's internal time software (Autotime) were performed for all four quarters during the fiscal year but none of the adjustments are recorded and 46 out of 65 samples tested that required payroll funding adjustments with a net effect of (\$8,351) were not recorded. The total adjustment needed to reconcile all four quarter reconciliations is (\$4,121).

In addition, three of our 65 samples were employees from the Department of Education (DOE). The employees did not submit Time and Effort (T&E) reports during the fiscal year. The employees' salaries charged to the WIA program were \$3,630.

The population of payroll transactions in fiscal year 2012 subject to testing was \$2,003,513 while the total expended for the program was \$7,930,774.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Per Circular A-87, Item #8, Compensation for Personal Services, Section (3h) & (4e):

(3) 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 firsthand knowledge of the work performed by the employee.

(4) 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 which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

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\* Repeat finding from prior year's audit

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
- (5) 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.
- (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:**

The exceptions occurred because the WIA Program was in process of implementing new payroll policies during the fiscal year. As such, payroll funding reconciliations were not done timely. In addition, the DOE employees use contract percentages for billing to the Program.

**Effect:**

The Program is not properly reporting payroll expenditures for the year ended June 30, 2012 since the PHRST data has not been updated to account for the adjustments needed during the year and the correct time worked on the Program's projects.

**Questioned Costs:**

There are no questioned costs for the PFA error as the federal grant was undercharged.

The three samples from DOE amount to \$3,630.

**Recommendation:**

The Program should ensure subrecipients are using the correct percentages of time worked on their Projects within the payroll database. The Program should also ensure they are following 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

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Corrective Action Plan:

DET will ensure that the sub-recipients are using the correct percentages of time worked on their projects within the payroll data base during our scheduled fiscal monitoring visits. We will also continue to monitor the monthly financial reports expenditures submitted against the approved budget in the contract to ensure they do not exceed the line items.

Anticipated Completion Date: February 15, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Labor**

**Division of Unemployment Insurance**

**Federal Agency: U.S. Department of Labor**

**Reference Number: 12-36**

**Program: Unemployment Insurance (17.225, S-17.225)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:**

The following is considered to be a control exception. For two out of fourteen cash drawdowns tested totaling \$752,984, there was no evidence of independent preparation and review. Both samples were properly reviewed and signed by management, but the preparer did not sign off on the drawdown. Total drawdowns selected for sampling was \$3,683,447.

The total population of drawdowns subject to testing was \$13,036,776 while total expenditures for the program were \$249,596,643.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The timing of the cash drawdown should be within the proper period and should trace and agree to supporting documentation. All drawdowns must have adequate segregation of duties between preparing the drawdown and reviewing the drawdown as evidenced by the signature of an authorized preparer and signer on the drawdown support.

**Cause:**

The exception occurred because the UI Program had turnover during the year. The newly hired staff was learning UI's policies and procedures and the lack of a preparer's signature on the drawdowns was an oversight attributable to learning the new process.

**Effect:**

Without a preparer and management review control in place, UI may request funds in a manner which is not in compliance with the CMIA Agreement.

**Questioned Costs:**

There are no questioned costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.

**Recommendation:**

We recommend that UI enforce its federal drawdown procedures to ensure there is both a preparer and reviewer signature on each drawdown.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Views of Responsible Officials:**

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

**Corrective Action Plan:**

DUI has revised their drawdown procedures to require two signatures on the drawdown request form. In addition, they have requested that the Office of Administration not process any drawdown requests that do not have two UI fiscal staff signatures.

Anticipated Completion Date: Completed.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Transportation**

**Federal Agency: U.S. Department of Transportation**

**Reference Number: 12-37**

**Program: Federal Transit Cluster (20.500, 20.507, S-20.507)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Reporting**

**Condition:**

The following is considered to be both a control and compliance exception. During our review of 7 SF-425 Federal Financial Reports, we identified 7 of the 7 reports tested agreed to the supporting documentation provided; however, the supporting documentation could not be reconciled back to the State's financial accounting system, First State Financial (FSF). The reported federal share of the expenditures was \$580,622 for the 7 reports, and the amount reported in FSF cannot be determined.

The total population of SF-425 reports subject to testing amounted to \$7,310,718 of the total \$7,310,718 of expenditures for this program.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Federal Transit Cluster program is required to report quarterly in SF-425 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.

**Cause:**

On a monthly basis, FSF expenditure data is downloaded into excel, and is then manually adjusted, by a Delaware Department of Transportation (DelDOT) Information and Technology personnel, to identify the expenditures relating to the Federal Transit Cluster program (FTC). We were unable to observe any evidence of review of the process, or evidence of any Federal expenditure reconciliations prepared by management to ensure the modified reports were complete and accurate. The Department of Transportation does not have policies or procedures in place to document the completeness and accuracy of the trail of expenditure data from FSF to what is being reported in its SF-425 reports.

**Effect:**

Failure to properly document the bridge of expenditure information reported can lead errors in federal reports and not provide data for a supervisory review.

**Questioned Costs:**

Questioned costs are not determinable.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Recommendation:**

We recommend that the Department put in place policies and procedures such as reconciliations and proper review and approval of the information being reported in SF-425 reports. We recommend that management also additionally consider restructuring FSF coding to enable direct reporting from FSF.

**Views of Responsible Officials:**

Agency Contact Name: Beverly Swiger, DelDOT

Agency Contact Phone Number: (302) 760-2090

**Corrective Action Plan:**

The department understands this finding and has already identified this as a performance need. DelDOT Finance is in the process of hiring a Fiscal Management Analyst who will have responsibility for this function. The Controller and Director of Finance have held previous discussions with the Director of Accounting and the First State Financials (FSF) Manager regarding this matter and DelDOT is committed to improving this process. The newly hired Fiscal Management Analyst will work closely with Division of Accounting (DOA) staff to see what requirements are needed in order to provide more detailed reports that will produce data that can be verified against other source and systematically reconciled. DelDOT will also work with the FSF team to inquire about the ability to add the CFDA number into a field in one of the modules in FSF. This will allow for more detailed reports without the need to run various queries that cannot be reconciled between various systems.

**Anticipated Completion Date:**

This is a joint effort between DelDOT and DOA. DelDOT's participation involves filling the FMA position. DelDOT anticipates filling this position by mid March 2013 but this person will need to be trained. This goal is also dependent upon the resources of Division of Accounting once our FMA is able to meet with them and establish reporting requirements.

DelDOT would like to refrain from entering a date until DOA has input on this item. There may also be an opportunity to add the CFDA number which would be the more optimum solution but may require more time.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Transportation**

**Federal Agency: U.S. Department of Transportation**

**Reference Number: 12-38**

**Program: Highway Planning and Construction Cluster (20.205, S-20.205, 20.219)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Real Property Acquisition and Relocation Assistance**

**Condition:**

The following is considered to be a control exception. During our review of 37 files related to property acquisitions, we identified 1 file where there was no evidence of management review of the negotiation record/assignment sheet for a \$29,920 transaction.

The total population of real property acquisition payments subject to testing amounted to \$10,098,985 of the total \$192,172,135 of expenditures for this program.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Property acquired must be appraised by qualified independent appraisers. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner (49 CFR part 24). According to the Department's policies over property acquisitions, a manager is required to sign the negotiation record/assignment sheet to show review and approval to prepare the offer to the property owner.

**Cause:**

Failure by management to sign-off on the negotiation record/assignment sheet was an oversight.

**Effect:**

Failure to properly review the negotiation record/assignment sheet could lead to non-compliance with federal regulations, or inappropriately supported transactions.

**Questioned Costs:**

There are no questioned costs associated with this finding as the payment was supported by an appraisal.

**Recommendation:**

We recommend that the Department ensures that there are policies and procedures in place to evidence management review and approval of the negotiation record/assignment sheet prior to acquiring real property.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Views of Responsible Officials:**

Agency Contact Name: Earle Timpson on behalf of Robert Cunningham, DelDOT Assistant Director of Right of Way (ROW)

Agency Contact Phone Number: Earle: (302) 760-2678; Bob: (302) 760-2078

**Corrective Action Plan:**

DelDOT ROW managers will be instructed to be sure to sign all negotiations record/assignment sheets prior to assigning the case. In addition, the ROW manual will be amended to specifically state the need for a management signature prior to negotiations being assigned.

Anticipated Completion Date: Training update – immediately, Manual Revision – March 31, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Natural Resources and Environmental Control**

**Federal Agency: U.S. Department of Interior**

**Reference Number: 12-39**

**Program: Fish and Wildlife Cluster (15.605, 15.611)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Allowable Costs, Period of Availability**

**Condition:**

The following is considered to be the compliance exception. In a sample of 65 expenditures totaling \$5,496,910, DNREC could not provide supporting documentation for two expenditure transactions totaling \$13,405. As a result, we were unable to test these transactions for compliance with allowable costs requirements of A-87. Both transactions occurred within the period of availability for each respective project.

The following is considered to be the control exception. DNREC uses a routing slip on all expenditure transactions to document internal and program management review and approval of the allowability of costs, and a review that costs are incurred within the period of availability, prior to processing within FSF. This routing slip is attached to the invoice or other related supporting documentation for transactions. Although there were FSF workflow approvals for the two expenditures referenced above, we were unable to test the routing slip approval process that documents a review of compliance with allowable costs and period of availability requirements, due to the lack of supporting documentation for the transactions.

The total expended for the program in fiscal year 2012 was \$9,019,321.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

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 and 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.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

- 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.

**Cause:**

The exceptions occurred because program management did not maintain appropriate supporting documentation for all expenditure transactions, or routing slip approvals for all transactions.

**Effect:**

Without supporting documentation and an effective management review process, unallowable transactions may be charged to the program and/or charges to projects may not be in compliance with period of availability requirements.

**Questioned Costs:**

Questioned costs are \$13,405, the dollar value of the two transactions that did not have appropriate supporting documentation.

**Recommendation:**

DNREC should ensure that supporting documentation is maintained for all federal expenditures. In addition, DNREC should ensure that routing slips documenting management review and approval of expenditures are maintained with supporting documentation for all transactions.

**Views of Responsible Officials:**

Agency Contact Name: Carrie Erickson, Controller II

Agency Contact Phone Number: (302) 739-9055

**Corrective Action Plan:**

DNREC will ensure that proper supporting documentation is maintained in the vendor files for all federal expenditures. One missing document was located and the second document was re-established for proper filing through electronic records and invoice retrieval from vendor.

Anticipated Completion Date: March 7, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Natural Resources and Environmental Control**

**Federal Agency: U.S. Department of Interior**

**Reference Number: 12-40**

**Program: Fish and Wildlife Cluster (15.605, 15.611)**

**Type of Finding: Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:**

DNREC does not have a management review/approval control in place to review drawdowns for compliance with cash management requirements prior to submission, nor is there segregation of duties in the calculation and processing of drawdown requests.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Cause:**

Management did not have a sufficient internal control structure in place over cash drawdowns as required by the A-102 Common Rule.

**Effect:**

Without a management review control in place or proper segregation of duties, DNREC may request funds in a manner that is not in compliance with the terms of grant agreements

**Questioned Costs:**

There are no questioned costs associated with this finding.

**Recommendation:**

We recommend that DNREC implement internal control policies and procedures to ensure that there is an adequate level of supervisory review of the cash draws prior to submission to the Department of the Interior and to ensure proper segregation of duties over the cash management function.

**Views of Responsible Officials:**

Agency Contact Name: Carrie Erickson, Controller II

Agency Contact Phone Number: (302) 739-9055

**Corrective Action Plan:**

DNREC concurs with the finding as it has already implemented tighter internal controls on federal reimbursements as of July 2012. Two fiscal staff members prepare and approve every federal reimbursement. Secondly, as a result of this finding, an internal control procedure shall be implemented ensuring a second review of the reimbursement documentation occurs prior to requesting funds by an

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

internal approver or business manager. Once funds are received, an accounts receivable document will be prepared by a grant specialist and approved by a business manager.

Anticipated Completion Date: March 15, 2013

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

**Department of Finance**

**Federal Agency: U.S. Department of Education**

**Reference Number: 12-41**

**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)  
State Fiscal Stabilization Fund Cluster (S-84.394)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Equipment and Real Property Management**

**Condition:**

The following is considered a control and compliance exception. The State-wide fixed asset register within FSF identifies equipment with a purchase price of at least \$25,000 that was acquired with federal funds. However, the register does not include detail of the equipment by each individual federal award (i.e. CFDA #), and does not include equipment purchases between \$5,000 and \$25,000.

In addition, certain individual state departments that administer federal programs do not maintain a subsidiary ledger outside of FSF in order to track and inventory federally funded equipment greater than the \$5,000 threshold, or to be able to rollforward the purchase and disposal activity during the fiscal year. Although many of the programs at the State have equipment purchases that are not significant to the overall federal programs, the three major programs cited (Title I, Special Education, and SFSF) had material purchases of equipment using federal awards. For each of these programs, the State could not provide a complete inventory or rollforward of equipment purchased with federal funds for the period 7/1/11 to 6/30/12.

**Criteria:**

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The State of Delaware's Budget and Accounting Policy Manual, Section 13.2.3, states, "The federal threshold for asset tracking is \$5,000, which is lower than the State's CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between \$5,000 and \$25,000 that are purchased with federal funds are properly accounted for in the agency's NOCAP records. Assets valued above \$25,000 that are purchased with federal funds are maintained in the State's CAPITAL asset listings."

Compliance exceptions:

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 \$5000 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. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. 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. When equipment with a current per unit fair market value of \$5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

**Cause:**

There are no department level policies or procedures in place for the managers of federal programs to maintain rollforwards for equipment year to year to keep a proper inventory of federally funded equipment and certain equipment data is not captured in the State-wide fixed asset register.

**Effect:**

The Programs could be purchasing or disposing of equipment in a manner inconsistent with what is required by federal regulations.

**Questioned Costs:**

There are no questioned costs associated with this finding.

**Recommendation:**

We recommend policies and procedures are reinforced to ensure that the various departments maintain equipment roll forwards to show total accumulated purchases and disposals as well as conducting a bi-annual inventory to validate the accuracy of the lists. This could be accomplished with coding to FSF property records or a separate subsidiary fixed asset ledger.

**Views of Responsible Officials:**

Agency Contact Name: Kris Knight, Director of Division of Accounting

Agency Contact Phone Number: (302) 672-5501

**Corrective Action Plan:**

Capital Asset reporting and monitoring requirements vary by Federal Sponsor. As noted in the Criteria section above, the Division of Accounting (the Division) requires each agency to ensure compliance with applicable grant agreements. Further, all State agencies are expected to adhere to the policy prescribed in the Budget and Accounting Manual. The Division also facilitates a State-wide annual capital asset inventory.

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Section 3: Federal Awards Findings and Questioned Costs*

*Year ended June 30, 2012*

Going forward, we will continue to reinforce the Division practices in efforts to ensure greater compliance with federal guidelines.

Anticipated Completion Date: FY 2013

**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, 2012*

**Matrix of Findings by Federal Agency**

<b>Finding</b>	<b>USDA</b>	<b>DOI</b>	<b>DOL</b>	<b>DOT</b>	<b>EPA</b>	<b>ED</b>	<b>HHS</b>
<b>Prefix</b>	<b>10</b>	<b>15</b>	<b>17</b>	<b>20</b>	<b>66</b>	<b>84</b>	<b>93</b>
12-1						X	
12-2						X	
12-3						X	
12-4	X					X	
12-5						X	
12-6						X	
12-7						X	
12-8						X	
12-9						X	
12-10	X						
12-11	X				X		X
12-12							X
12-13	X				X		X
12-14	X						X
12-15	X						
12-16							X
12-17							X
12-18							X
12-19							X
12-20							X
12-21							X
12-22	X						
12-23					X		
12-24					X		
12-25					X		
12-26							X
12-27							X
12-28							X
12-29						X	
12-30			X				
12-31			X				
12-32			X				
12-33			X				

**STATE OF DELAWARE**

*Schedule of Findings and Questioned Costs*

*Matrix of Findings by Federal Agency*

*Year ended June 30, 2012*

<b>Finding</b>	<b>USDA</b>	<b>DOI</b>	<b>DOL</b>	<b>DOT</b>	<b>EPA</b>	<b>ED</b>	<b>HHS</b>
<b>Prefix</b>	<b>10</b>	<b>15</b>	<b>17</b>	<b>20</b>	<b>66</b>	<b>84</b>	<b>93</b>
12-34			X				
12-35			X				
12-36			X				
12-37				X			
12-38				X			
12-39		X					
12-40		X					
12-41						X	