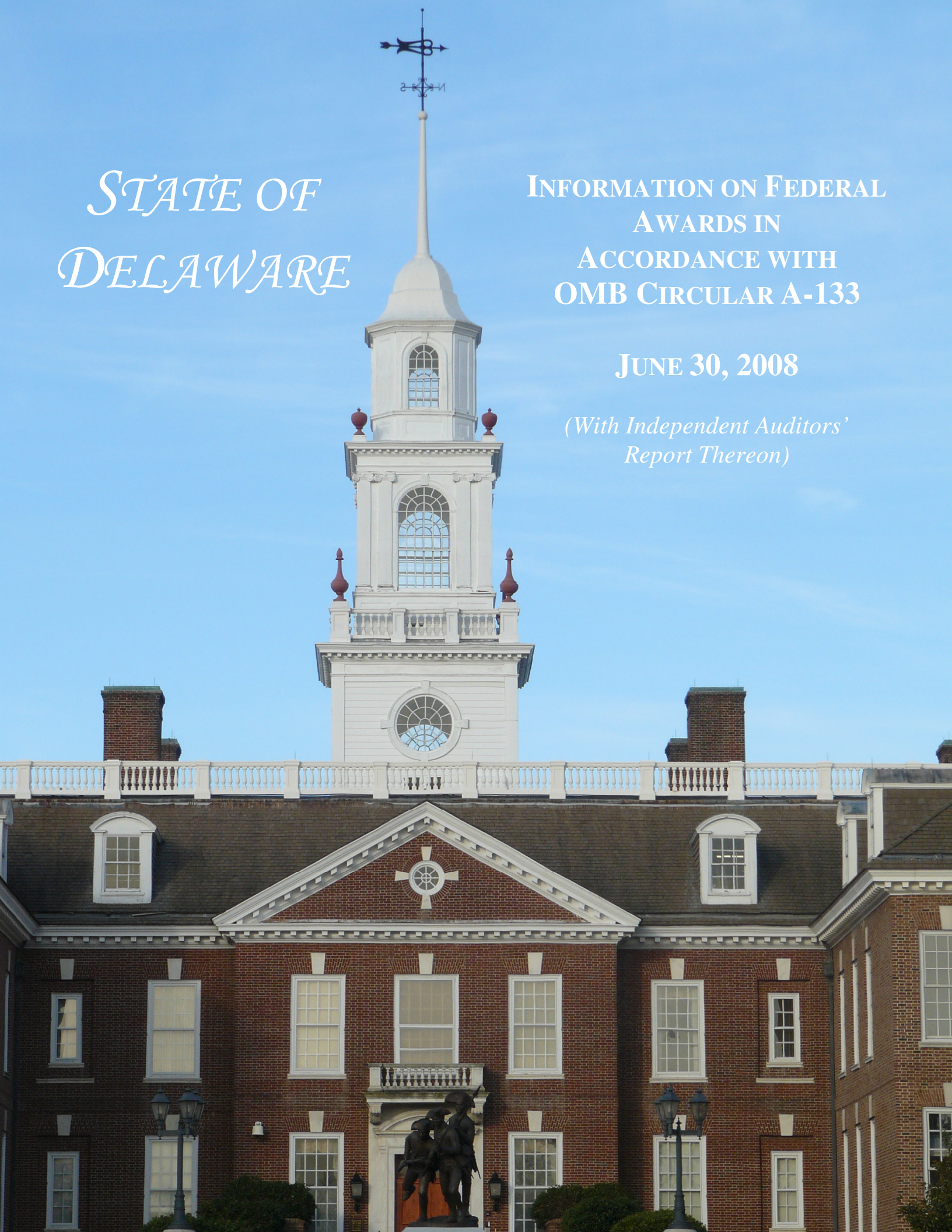

STATE OF DELAWARE

INFORMATION ON FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

JUNE 30, 2008

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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All photos in this report provided courtesy of Chris Cooper.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State) as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements, and have issued our report thereon dated February 18, 2009. Our report was modified to include a reference to other auditors. As described in Note 1 to the financial statements, the State adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*; GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements Nos. 25 and 27* in 2008.

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 all of the State's 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

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described as items 2008-01 through 2008-11 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies describe above, we consider items 2008-01 though 2008-04 to be material weaknesses.

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 management of the State in a separate letter dated February 18, 2009.

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

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

KPMG LLP

February 18, 2009

STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the State of Delaware (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State's basic financial statements include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2008. 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 more than $500,000 in federal awards were not 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.

Disclaimer

We were unable to obtain sufficient documentation supporting the compliance of the State for the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. These program compliance requirements are:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Services for Children, Youth, and Their Families	08-CYF-01	93.658	Foster Care - Title IV-E	All [except Eligibility (Provider Approval)]

Due to uncertainty surrounding potential disallowances of allocated administrative and training costs related to the Foster Care – Title IV-E program, we were unable to express, and we do not express an opinion on the compliance of the State with the requirements applicable to its Foster Care – Title IV-E program.

Adverse

As described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain requirements that are applicable to its Aging Cluster, Center for Disease Control and Prevention, Investigations, and Technical Assistance, and Grants to States programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to these programs. The program compliance requirements were:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services - Division of Public Health	08-DPH-02	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Equipment and Real Property Management
	08-DPH-03	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Allowable Costs

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services - Division of Services for Aging and Adults with Physical Disabilities	08-AGI-01	93.044, 93.045, 93.053	Aging Cluster	Allowable Costs (Effort Reporting)
	08-AGI-02	93.044, 93.045, 93.053	Aging Cluster	Subrecipient Monitoring
Department of State	08-DOS-01	45.310	Grants to States	Allowable Costs (Effort Reporting)

Qualified

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

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Education - Appoquinimink School District, Brandywine School District, Cape Henlopen School District, Christina School District, Red Clay School District	08-ED-04	84.048	Career and Technical Education - Basic Grants to States	Allowable Costs (Effort Reporting)
		84.357	Reading First State Grants	
		84.367	Improving Teacher Quality State Grants	
		84.010	Title I Grants to Local Educational Agencies	
		84.027, 84.173	Special Education Cluster (IDEA)	
Department of Health and Social Services	08-DHSS-03	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Suspension and Debarment
		93.667	Social Services Block Grant	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services	08-DHSS-03 (continued)	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Suspension and Debarment
		93.044, 93.045, 93.053	Aging Cluster	
Department of Health and Social Services – Division of Child Support Enforcement	08-CSE-01	93.563	Child Support Enforcement	Special Tests and Provisions (Paternity and Support Obligations), Special Tests and Provisions (Medical Support Obligations)
Department of Health and Social Services - Division of Public Health	08-DPH-01	93.268	Immunization Grants	Allowable Costs (Effort Reporting)
		93.917	HIV Care Formula Grants	
Department of Health and Social Services - Division of Services for Aging and Adults with Physical Disabilities	08-AGI-01	93.667	Social Services Block Grant	Allowable Costs (Effort Reporting)
Department of Health and Social Services	08-DHSS-06	93.558	Temporary Assistance for Needy Families	Reporting, Level of Effort, Earmarking
		93.596	Child Care Cluster	
Department of Health and Social Services - Division of State Service Centers	08-SSC-01	93.568	Low Income Home Energy Assistance	Subrecipient Monitoring
Department of Labor	08-DOL-03	17.258, 17.259, 17.260	WIA Cluster	Suspension and Debarment

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Safety and Homeland Security – Office of Highway Safety (OHS)	08-DSHS-03	20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster	Suspension and Debarment
	08-DSHS-04	20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster	Allowable Costs (Effort Reporting)
Department of State	08-DOS-02	45.310	Grants to States	Suspension and Debarment

In our opinion, except for the noncompliance identified in the preceding paragraph and the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirement identified in the third preceeding paragraph, and except for the programs were we concluded that the State was not in compliance in the second preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Delaware Technical and Community College	08-DTC-02	84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster	Eligibility
	08-DTC-03	84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions (Verification)
	08-DTC-04	84.042, 84.044, 84.047	TRIO Cluster	Allowable Costs (Effort Reporting)

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Delaware Technical and Community College	08-DTC-05	84.042, 84.044, 84.047	TRIO Cluster	Eligibility
Department of Education	08-ED-01	84.287	Twenty-First Century Community Learning Centers	Subrecipient Monitoring (Cash Management)
	08-ED-02	84.048	Career and Technical Education - Basic Grants to States	Allowable Costs (Effort Reporting)
		84.357	Reading First State Grants	
		84.367	Improving Teacher Quality State Grants	
		84.027, 84.173	Special Education Cluster (IDEA)	
	08-ED-03	84.048	Career and Technical Education - Basic Grants to States	Allowable Costs
		84.287	Twenty-First Century Community Learning Centers	
		84.357	Reading First State Grants	
		84.367	Improving Teacher Quality State Grants	
		84.010	Title I Grants to Local Educational Agencies	
		84.027, 84.173	Special Education Cluster (IDEA)	
Department of Education - Appoqunimink School District	08-ED-06	84.010	Title I Grants to Local Educational Agencies	Eligibility (Targeted Assistance)
Department of Education - Brandywine School District, Cape Henlopen School District	08-ED-07	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Schoolwide Programs)
Department of Education - Christina School District	08-ED-05	84.010	Title I Grants to Local Educational Agencies	Allowable Costs

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services	08-DHSS-01	66.468	Capitalization Grants for Drinking Water State Revolving Funds	Cash Management
		93.268	Immunization Grants	
		93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low Income Home Energy Assistance	
		93.596	Child Care Cluster	
		93.667	Social Services Block Grant	
		93.767	State Children's Health Insurance Program	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
		10.551, 10.561	Food Stamp Cluster	
		93.044, 93.045, 93.053	Aging Cluster	
		93.775, 93.777, 93.778	Medical Assistance Cluster	
	08-DHSS-02	93.558	Temporary Assistance for Needy Families	Allowable Costs
		93.596	Child Care Cluster	
		93.667	Social Services Block Grant	
		93.767	State Children's Health Insurance Program	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services	08-DHSS-02 (continued)	10.551, 10.561	Food Stamp Cluster	Allowable Costs
		93.775, 93.777, 93.778	Medical Assistance Cluster	
	08-DHSS-04	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Suspension and Debarment
		66.468	Capitalization Grants for Drinking Water State Revolving Funds	
		93.268	Immunization Grants	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low Income Home Energy Assistance	
		93.596	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.917	HIV Care Formula Grants	
		10.551, 10.561	Food Stamp Cluster	
		93.775, 93.777, 93.778	Medical Assistance Cluster	
	08-DHSS-07	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Davis-Bacon Act
Department of Health and Social Services – Division of Medicaid and Medical Assistance	08-DMMA-01	93.775, 93.777, 93.778	Medical Assistance Cluster	Allowable Costs

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Labor	08-DOL-02	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Eligibility
	08-DOL-04	17.258, 17.259, 17.260	WIA Cluster	Eligibility
Department of Safety and Homeland Security - Delaware Emergency Management Agency (DEMA)	08-DSHS-01	97.004, 97.067	Homeland Security Cluster	Allowable Costs (Effort Reporting)
	08-DSHS-02	97.004, 97.067	Homeland Security Cluster	Suspension and Debarment
Department of Services for Children, Youth, and Their Families	08-CYF-02	93.658	Foster Care - Title IV-E	Eligibility (Provider Approval)
Department of Transportation	08-DOT-01	20.205	Highway Planning and Construction Cluster	Cash Management
Office of Management and Budget - Government Support Services	08-OMB-01	93.563	Child Support Enforcement	Suspension and Debarment
		45.310	Grants to States	

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 purposes described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and as identified below to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and as identified below, we consider the items identified below by an asterisk (*) to be material weaknesses.

Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services - Division of Services for Aging and Adults with Physical Disabilities	08-AGI-01	93.044, 93.045, 93.053	Aging Cluster	Allowable Costs (Effort Reporting)	*
		93.667	Social Services Block Grant		
	08-AGI-02	93.044, 93.045, 93.053	Aging Cluster	Subrecipient Monitoring	*
Department of Health and Social Services - Division of Child Support Enforcement	08-CSE-01	93.563	Child Support Enforcement	Special Tests and Provisions (Paternity and Support Obligations), Special Tests and Provisions (Medical Support Obligations)	*
Department of Services for Children, Youth, and Their Families	08-CYF-01	93.658	Foster Care - Title IV-E	All	*
	08-CYF-02	93.658	Foster Care - Title IV-E	Eligibility (Provider Approval)	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services	08-DHSS-01	93.044, 93.045, 93.053	Aging Cluster	Cash Management
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
		66.468	Capitalization Grants for Drinking Water State Revolving Funds	
		93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	
		93.596	Child Care Cluster	
		93.563	Child Support Enforcement	
		10.551, 10.561	Food Stamp Cluster	
		93.917	HIV Care Formula Grants	
		93.268	Immunization Grants	
		93.568	Low Income Home Energy Assistance	
		93.775, 93.777, 93.778	Medical Assistance Cluster	
		93.667	Social Services Block Grant	
		93.767	State Children's Health Insurance Program	
		93.558	Temporary Assistance for Needy Families	
	08-DHSS-02	93.596	Child Care Cluster	Allowable Costs
		10.551, 10.561	Food Stamp Cluster	
		93.775, 93.777, 93.778	Medical Assistance Cluster	
		93.667	Social Services Block Grant	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services	08-DHSS-02 (continued)	93.767	State Children's Health Insurance Program	Allowable Costs	
		93.558	Temporary Assistance for Needy Families		
	08-DHSS-03	93.044, 93.045, 93.053	Aging Cluster	Suspension and Debarment	*
		93.959	Block Grants for Prevention and Treatment of Substance Abuse		
		93.667	Social Services Block Grant		
		93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance		
	08-DHSS-04	10.551, 10.561	Food Stamp Cluster	Suspension and Debarment	
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
		66.468	Capitalization Grants for Drinking Water State Revolving Funds		
		93.268	Immunization Grants		
		93.563	Child Support Enforcement		
		93.558	Temporary Assistance for Needy Families		
		93.568	Low Income Home Energy Assistance		
		93.596	Child Care Cluster		
		93.767	State Children's Health Insurance Program		
		93.775, 93.777, 93.778	Medical Assistance Cluster		
		93.917	HIV Care Formula Grants		

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services	08-DHSS-05	93.775, 93.777, 93.778	Medical Assistance Cluster	Allowable Costs	
	08-DHSS-06	93.596	Child Care Cluster	Reporting, Level of Effort, Earmarking	*
		93.558	Temporary Assistance for Needy Families		
	08-DHSS-07	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Davis-Bacon Act	
Department of Health and Social Services - Division of Medicaid and Medical Assistance	08-DMMA-01	93.775, 93.777, 93.778	Medical Assistance Cluster	Allowable Costs	
Department of Labor	08-DOL-01	17.258, 17.259, 17.260	WIA Cluster	Cash Management	
		84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States		
		96.001	Social Security - Disability Insurance		
	08-DOL-03	17.258, 17.259, 17.260	WIA Cluster	Suspension and Debarment	*
	08-DOL-04	17.258, 17.259, 17.260	WIA Cluster	Eligibility	
Department of State	08-DOS-01	45.310	Grants to States	Allowable Costs (Effort Reporting)	*
	08-DOS-02	45.310	Grants to States	Suspension and Debarment	*
Department of Transportation	08-DOT-01	20.205	Highway Planning and Construction Cluster	Cash Management	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services - Division of Public Health	08-DPH-01	93.917	HIV Care Formula Grants	Allowable Costs (Effort Reporting)	*
		93.268	Immunization Grants		
	08-DPH-02	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Equipment and Real Property Management	*
	08-DPH-03	93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	Allowable Costs	*
Department of Safety and Homeland Security - Delaware Emergency Management Agency (DEMA)	08-DSHS-01	97.004, 97.067	Homeland Security Cluster	Allowable Costs (Effort Reporting)	
	08-DSHS-02	97.004, 97.067	Homeland Security Cluster	Suspension and Debarment	
Department of Safety and Homeland Security – Office of Highway Safety (OHS)	08-DSHS-03	20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster	Suspension and Debarment	*
	08-DSHS-04	20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster	Allowable Costs (Effort Reporting)	*
Delaware Technical and Community College	08-DTC-01	84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster	Eligibility	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Delaware Technical and Community College	08-DTC-02	84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster	Eligibility
	08-DTC-03	84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions (Verification)
	08-DTC-04	84.042, 84.044, 84.047	TRIO Cluster	Allowable Costs (Effort Reporting)
	08-DTC-05	84.042, 84.044, 84.047	TRIO Cluster	Eligibility
Department of Education	08-ED-01	84.287	Twenty-First Century Community Learning Centers	Subrecipient Monitoring (Cash Management)
	08-ED-02	84.367	Improving Teacher Quality State Grants	Allowable Costs (Effort Reporting)
		84.027, 84.173	Special Education Cluster (IDEA)	
		84.357	Reading First State Grants	
		84.048	Career and Technical Education - Basic Grants to States	
	08-ED-03	84.010	Title I Grants to Local Educational Agencies	Allowable Costs
		84.048	Career and Technical Education - Basic Grants to States	
		84.027, 84.173	Special Education Cluster (IDEA)	
		84.357	Reading First State Grants	
		84.367	Improving Teacher Quality State Grants	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Education	08-ED-03 (continued)	84.287	Twenty-First Century Community Learning Centers	Allowable Costs	
Department of Education - Appoquinimink School District, Brandywine School District, Cape Henlopen School District, Christina School District, Red Clay School District	08-ED-04	84.367	Improving Teacher Quality State Grants	Allowable Costs (Effort Reporting)	*
		84.027, 84.173	Special Education Cluster (IDEA)		
		84.010	Title I Grants to Local Educational Agencies		
		84.357	Reading First State Grants		
		84.048	Career and Technical Education - Basic Grants to States		
Department of Education - Christina School District	08-ED-05	84.010	Title I Grants to Local Educational Agencies	Allowable Costs	
Department of Education - Appoqunimink School District	08-ED-06	84.010	Title I Grants to Local Educational Agencies	Eligibility (Targeted Assistance)	
Department of Education - Brandywine School District, Cape Henlopen School District	08-ED-07	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Schoolwide Programs)	
Office of Management and Budget - Government Support Serivces	08-OMB-01	93.563	Child Support Enforcement	Suspension and Debarment	
		45.310	Grants to States		
Department of Health and Social Services - Division of State Service Centers	08-SSC-01	93.568	Low Income Home Energy Assistance	Subrecipient Monitoring	*

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

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.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

March 13, 2009

STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

Independent Auditors' Report on Schedule of Expenditures of Federal Awards

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

We have audited the accompanying Schedule of Expenditures of Federal Awards of the State of Delaware (the Schedule) as of and for the year ended June 30, 2008. This Schedule is the responsibility of the State of Delaware's management. Our responsibility is to express on opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the Schedule, the Schedule does not include expenditures of federal awards for programs administered by 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 more than $500,000 in federal awards were not expended.

As described in note 2, the Schedule is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Delaware, as described above, for the year ended June 30, 2008, on the basis of accounting described in note 2.

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.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

March 13, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Replica liberty bell on Legislative Mall – Dover, DE

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 463,602
Wildlife Services	10.028		70,959
Conservation Reserve Program	10.069		23,170
Market Protection and Promotion	10.163		9,381
Specialty Crop Block Grant Program	10.169		155,820
Sustainable Agriculture Research and Education	10.215		
Pass-through from University of Vermont		N5013101	20,326
Crop Insurance Education in Targeted States	10.458		206,405
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475		481,116
Meat, Poultry, and Egg Products Inspection	10.477		11,790
Food Safety Cooperative Agreements	10.479		68,732
Food Donation	10.550		2,716,679
Food Stamp Cluster			
Supplemental Nutrition Assistance Program	10.551		82,991,926
State Administrative Matching Grant for the Special Nutrition Assistance Program	10.561		10,107,054
Total Food Stamp Cluster			**93,098,980**
Child Nutrition Cluster			
School Breakfast Program	10.553		10,339,391
National School Lunch Program	10.555		16,016,103
Special Milk Program for Children	10.556		41,294
Summer Food Service Program for Children	10.559		388,845
Total Child Nutrition Cluster			**26,785,633**
Special Supplemental Nutrition Program for Women, Infants and Children	10.557		14,105,443
Child and Adult Care Food Program	10.558		11,138,804
State Administrative Expenses for Child Nutrition	10.560		203,278

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Emergency Food Assistance Cluster			
Emergency Food Assistance Program (Administrative Costs)	10.568		122,206
Emergency Food Assistance Program (Food Commodities)	10.569		499,010
Total Emergency Food Assistance Cluster			**621,216**
Cooperative Forestry Assistance	10.664		428,336
Rural Development, Forestry, and Communities	10.672		6,000
Urban and Community Forestry Program	10.675		60,545
Forest Legacy Program	10.676		2,039,223
Forest Land Enhancement Program	10.677		8,552
Forest Stewardship Program	10.678		23,006
Forest Health Protection	10.680		22,276
Rural Business Enterprise Grants	10.769		4,005
Environmental Quality Incentives Program	10.912		90,000
Farm and Ranch Lands Protection Program	10.913		3,176,850
Wildlife Habitat Incentive Program	10.914		128
Technical Agricultural Assistance	10.960		
Pass-through from University of Delaware		N6101101	183,900
Total U.S. Department of Agriculture			**156,224,155**
U.S. Department of Commerce			
Coastal Zone Management Administration Awards	11.419		1,461,237
Coastal Zone Management Estuarine Research Reserves	11.420		434,564
Marine Mammal Data Program	11.439		75,920
Unallied Science Program	11.472		165,658
Atlantic Coastal Fisheries Cooperative Management Act	11.474		162,074
Total U.S. Department of Commerce			**2,299,453**
U.S. Department of Defense			
Uncataloged Program	12.XXX		100,551
Aquatic Plant Control	12.100		4,028
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		13,796

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
National Guard Military Operations and Maintenance (O&M) Projects	12.401		9,916,124
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607		43,000
Total U.S. Department of Defense			**10,077,499**
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235		1,191,991
Fair Housing Assistance Program - State and Local	14.401		108,412
Lead-Based Paint Hazard Control In Privately-Owned Housing	14.900		967,480
Total U.S. Department of Housing and Urban Development			**2,267,883**
U.S. Department of the Interior			
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605		2,722,833
Wildlife Restoration	15.611		1,449,909
Total Fish and Wildlife Cluster			**4,172,742**
Cooperative Endangered Species Conservation Fund	15.615		35,933
Clean Vessel Act	15.616		29,534
North American Wetlands Conservation Fund	15.623		29,080
Wildlife Conservation and Restoration	15.625		137,633
Landowner Incentive Program	15.633		316,112
State Wildlife Grants	15.634		533,580
U.S. Geological Survey - Research and Data Collection	15.808		200,000
Historic Preservation Fund Grants-In-Aid	15.904		478,066
Outdoor Recreation, Acquisition, Development and Planning	15.916		1,203,875
Total U.S. Department of the Interior			**7,136,555**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
U.S. Department of Justice			
Uncataloged Program	16.XXX		67,310
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		13,655
Juvenile Accountability Block Grants	16.523		341,782
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		627,595
Missing Children's Assistance	16.543		125,209
Victims of Child Abuse	16.547		59,850
Title V - Delinquency Prevention Program	16.548		51,042
State Justice Statistics Program for Statistical Analysis Centers	16.550		42,638
National Criminal History Improvement Program (NCHIP)	16.554		426,904
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		9,061
Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction	16.564		135,722
Crime Victim Assistance	16.575		1,040,033
Crime Victim Compensation	16.576		986,331
Edward Byrne Memorial Formula Grant Program	16.579		260,648
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		60,440
Drug Court Discretionary Grant Program	16.585		32,635
Violence Against Women Formula Grants	16.588		1,001,351
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		118,145
Residential Substance Abuse Treatment for State Prisoners	16.593		78,943
Community Capacity Development Office	16.595		85,187
State Criminal Alien Assistance Program	16.606		130,125
Bulletproof Vest Partnership Program	16.607		215,870
Community Prosecution and Project Safe Neighborhoods	16.609		142,074
Public Safety Partnership and Community Policing Grants	16.710		624,114
Enforcing Underage Drinking Laws Program	16.727		403,899
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735		27,151
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736		27,198
Edward Byrne Memorial Justice Assistance Grant Program	16.738		1,374,888
Statewide Automated Victim Information Notification (SAVIN) Program	16.740		90,902
Forensic DNA Backlog Reduction Program	16.741		5,653
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		12,455
Anti Gang Initiative	16.744		81,253
Total U.S. Department of Justice			**8,700,063**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
U.S. Department of Labor			
Labor Force Statistics	17.002		581,301
Compensation and Working Conditions	17.005		37,547
Labor Certification for Alien Workers	17.203		138,228
Employment Services Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207		2,293,879
Disabled Veterans' Outreach Program (DVOP)	17.801		151,680
Local Veterans' Employment Representative Program	17.804		380,398
Total Employment Services Cluster			**2,825,957**
Unemployment Insurance	17.225		121,455,879
Senior Community Service Employment Program	17.235		2,027,301
Trade Adjustment Assistance	17.245		533,828
WIA Cluster			
WIA Adult Program	17.258		287,136
WIA Youth Activities	17.259		4,434,678
WIA Dislocated Workers	17.260		1,318,166
Total WIA Cluster			**6,039,980**
WIA Pilots, Demonstrations and Research Projects	17.261		40,937
Work Incentives Grants	17.266		466,349
Incentive Grants - WIA Section 503	17.267		526,327
Community Based Job Training Grants	17.269		550
Consultation Agreements	17.504		423,948
OSHA Data Initiative	17.505		33,694
Total U.S. Department of Labor			**135,131,826**
U.S. Department of Transportation			
Airport Improvement Program	20.106		242,509
National Motor Carrier Safety	20.218		647,995

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Recreational Trails Program	20.219		491,242
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205		133,244,445
Total Highway Planning and Construction Cluster			**133,244,445**
Federal Transit Cluster			
Federal Transit-Capital Investment Grants	20.500		10,144,298
Federal Transit-Formula Grants	20.507		8,937,124
Total Federal Transit Cluster			**19,081,422**
Transit Services Programs Cluster			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		1,011
Job Access - Reverse Commute	20.516		1
Total Transit Services Programs Cluster			**1,012**
Federal Transit-Metropolitan Planning Grants	20.505		277,298
Formula Grants for Other Than Urbanized Areas	20.509		1,055,872
State Planning and Research	20.515		25,292
Highway Safety Cluster			
State and Community Highway Safety	20.600		999,806
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		512,254
Occupant Protection	20.602		180,494
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605		16,097
Safety Belt Performance Grants	20.609		1,097,295
Incentive Grant Program to Increase Motorcyclist Safety	20.612		37,937
Child Safety and Child Booster Seats Incentive Grants	20.613		63,804
Total Highway Safety Cluster			**2,907,687**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Alcohol Open Container Requirements	20.607		2,621,807
Pipeline Safety Program Base Grants	20.700		48,211
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		92,069
Total U.S. Department of Transportation			**160,736,861**
U.S. Department of Treasury			
Uncataloged Program	21.XXX		120,465
Total U.S. Department of Treasury			**120,465**
Equal Employment Opportunity Commission			
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001		254,223
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002		1,129
Total Equal Employment Opportunity Commission			**255,352**
National Foundation on Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025		567,190
Promotion of the Humanities-Division of Preservation and Access	45.149		5,000
Grants to States	45.310		1,204,079
National Leadership Grants	45.312		25,592
Total National Foundation on Arts and the Humanities			**1,801,861**
National Science Foundation			
Education and Human Resources	47.076		200,565
Total National Science Foundation			**200,565**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
U.S. Department of Veterans Administration			
Grants to States for Construction of State Home Facilities	64.005		29,365
Burial Expenses Allowance for Veterans	64.101		111,714
State Cemetery Grants	64.203		216,171
Total U.S. Department of Veterans Administration			**357,250**
U.S. Environmental Protection Agency			
Air Pollution Control Program Support	66.001		809,426
State Indoor Radon Grants	66.032		100,161
Surveys, Studies, Research, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		118,737
Clean School Bus USA	66.036		546
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		2,042,292
State Public Water System Supervision	66.432		693,325
State Underground Water Source Protection	66.433		78,273
Water Quality Management Planning	66.454		141,642
Capitalization Grants for Clean Water State Revolving Funds	66.458		11,243,812
Nonpoint Source Implementation Grants	66.460		1,556,243
Regional Wetland Program Development Grants	66.461		11,252
Pass-through from VA Institute of Marine Science		N7051103	44,950
Chesapeake Bay Program	66.466		353,945
Wastewater Operator Training Grant Program (Technical Assistance)	66.467		14,563
Capitalization Grants for Drinking Water State Revolving Funds	66.468		12,743,109
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		37,888
Beach Monitoring and Notification Program Implementation Grants	66.472		162,754
Water Protection Grants to the States	66.474		88,112
Wetland Program Grants-State/Tribal Environment Outcome Wetland Demonstration Program	66.479		283,948
Office of Research and Development Consolidated Research/Training	66.511		51,587
Performance Partnership Grants	66.605		230,857
Surveys, Studies, Investigations and Special Purpose Grants	66.606		319,854
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		213,625
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		99,007
Pollution Prevention Grants Program	66.708		85,764
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716		46,986

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Hazardous Waste Management State Program Support	66.801		819,547
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		223,046
State and Tribal Underground Storage Tanks Program	66.804		295,405
Leaking Underground Storage Tank Trust Fund Program	66.805		673,959
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		556,924
Brownfield Job Training Cooperative Agreements	66.815		59,375
State and Tribal Response Program Grants	66.817		505,612
Total U.S. Environmental Protection Agency			**34,706,526**
U.S. Department of Energy			
State Energy Program	81.041		314,161
Weatherization Assistance for Low-Income Persons	81.042		435,502
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		19,440
Total U.S. Department of Energy			**769,103**
U.S. Department of Education			
Adult Education - Basic Grants to States	84.002		1,413,597
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		251,557
Federal Work Study Program	84.033		198,410
Federal Pell Grant Program	84.063		8,157,506
Total Student Financial Assistance Cluster			**8,607,473**
Title I Grants to Local Educational Agencies	84.010		30,065,483
Migrant Education - State Grant Program	84.011		243,507
Title I Program for Neglected and Delinquent Children	84.013		412,409

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)	84.027		29,154,204
Special Education - Preschool Grants (IDEA Preschool)	84.173		1,294,408
Total Special Education Cluster (IDEA)			**30,448,612**
Impact Aid	84.041		76,968
TRIO Cluster			
TRIO - Student Support Services	84.042		562,099
TRIO - Talent Search	84.044		595,662
TRIO - Upward Bound	84.047		1,535,317
Total TRIO Cluster			**2,693,078**
Career and Technical Education - Basic Grants to States	84.048		4,875,260
Leveraging Educational Assistance Partnership	84.069		185,994
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		9,573,741
Independent Living - State Grants	84.169		247,334
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		220,141
Special Education - Grants for Infants and Families	84.181		2,887,423
Byrd Honors Scholarships	84.185		102,000
Safe and Drug-Free Schools and Communities - State Grants	84.186		1,505,845
Supported Employment Services for Individuals with Significant Disabilities	84.187		306,688
Education for Homeless Children and Youth	84.196		169,936
Even Start - State Educational Agencies	84.213		337,392
Fund for the Improvement of Education	84.215		530,202
Tech-Prep Education	84.243		421,840
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		36,439
Charter Schools	84.282		7,991
Ready to Teach	84.286		(12,820)
Twenty-First Century Community Learning Centers	84.287		4,176,198
State Grants for Innovative Programs	84.298		570,727
Foreign Language Assistance	84.293		191,834
Education Technology State Grants	84.318		1,187,926
Special Education-State Personnel Development	84.323		544,877
Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		88,228

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		741,871
Grants to States for Incarcerated Youth Offenders	84.331		252,864
Comprehensive School Reform Demonstration	84.332		220,499
Child Care Access Means Parents in School	84.335		39,399
Reading First State Grants	84.357		1,955,575
Rural Education	84.358		125,578
English Language Acquisition Grants	84.365		1,282,259
Mathematics and Science Partnerships	84.366		632,253
Improving Teacher Quality State Grants	84.367		12,031,785
Grants for Enhanced Assessment Instruments	84.368		203,651
Grants for State Assessments and Related Activities	84.369		3,895,277
Total U.S. Department of Education			**123,497,334**
Election Assistance Commission			
Help America Vote Act Requirements Payments	90.401		1,060,390
Total Election Assistance Commission			**1,060,390**
U.S. Department of Health and Human Services			
Uncataloged Program	93.XXX		
Pass-through from Synectics		N6011801	230,910
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		126,876
Medical Reserve Corps Small Grant Program	93.008		47,290
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		29,191
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042		47,590
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043		38,592
Aging Cluster			

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044		1,835,125
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045		2,773,125
Nutrition Services Incentive Program	93.053		847,419
Total Aging Cluster			**5,455,669**
Special Programs for the Aging-Title IV and Title II Discretionary Projects	93.048		220,603
Alzheimer's Disease Demonstration Grants to States	93.051		47,309
National Family Caregiver Support, Title III, Part E	93.052		838,527
Food and Drug Administration Research	93.103		6,749
Maternal and Child Health Federal Consolidated Programs	93.110		269,383
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		276,693
Emergency Medical Services for Children	93.127		152,096
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		287,933
Injury Prevention and Control Research and State and Community Based Programs	93.136		118,835
Projects for Assistance in Transition from Homelessness (PATH)	93.150		310,304
Grants to States for Loan Repayment Program	93.165		45,910
Disabilities Prevention	93.184		38,371
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		164,420
Family Planning Services	93.217		1,229,767
Traumatic Brain Injury State Demonstration Grant Program	93.234		124,014
Abstinence Education	93.235		64,162
Grants for Dental Public Health Residency Training	93.236		26,629
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		700,488
Universal Newborn Hearing Screening	93.251		143,150
State Planning Grant Health Care Access for the Uninsured	93.256		36,811
Rural Access to Emergency Devices Grant	93.259		52,127
Immunization Grants	93.268		9,060,197
Drug Abuse and Addiction Research Programs	93.279		87,953
Pass-through from Treatment Research Institute		N9123001	4,663
Centers for Disease Control and Prevention, Investigations, and Technical Assistance	93.283		10,878,883
National Center for Research Resources	93.389		
Pass-through from University of Delaware		N4090803	164,994
Promoting Safe and Stable Families	93.556		957,452
Temporary Assistance for Needy Families	93.558		23,270,857
Child Support Enforcement	93.563		17,524,509
Refugee and Entrant Assistance-State Administered Programs	93.566		170,440

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Low Income Home Energy Assistance	93.568		7,151,833
Community Services Block Grant	93.569		3,139,842
State Court Improvement Program	93.586		166,093
Child Care Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		11,875,180
Total Child Care Cluster			**11,875,180**
Grants to States for Access and Visitation Programs	93.597		99,442
Chafee Education and Training Vouchers Program (ETV)	93.599		75,985
Head Start	93.600		64,539
Voting Access for Individuals with Disabilities - Grants to States	93.617		524
Developmental Disabilities Basic Support and Advocacy Grants	93.630		439,199
Children's Justice Grants to States	93.643		87,753
Child Welfare Services - State Grants	93.645		744,977
Foster Care - Title IV-E	93.658		5,506,888
Adoption Assistance	93.659		1,823,084
Social Services Block Grant	93.667		6,206,689
Child Abuse and Neglect State Grants	93.669		104,293
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671		729,132
Chafee Foster Care Independence Program	93.674		502,041
State Children's Health Insurance Program	93.767		9,137,023
Medical Assistance Cluster			
State Medicaid Fraud Control Units	93.775		1,248,770
State Survey and Certification of Health Care Providers and Suppliers	93.777		1,216,785
Medical Assistance Program	93.778		584,192,844
Total Medical Assistance Cluster			**586,658,399**
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		362,150
Medicaid Transformation Grants	93.793		289,412
Biomedical Research and Research Training	93.859		
Pass-through from University of Delaware		N4093003	75,589
National Bioterrorism Hospital Preparedness Program	93.889		1,432,181
Grants to States for Operation of Offices of Rural Health	93.913		147,934

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
HIV Care Formula Grants	93.917		4,669,998
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		207,828
HIV Prevention Activities-Health Department Based	93.940		1,906,310
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		499,801
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		127,206
Block Grants for Community Mental Health Services	93.958		636,777
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,161,670
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		414,489
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		417,857
Preventive Health and Health Services Block Grant	93.991		117,149
Maternal and Child Health Services Block Grant to the States	93.994		1,854,630
Total U.S. Department of Health and Human Services			**727,084,244**
Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002		158,048
State Commissions	94.003		108,924
Learn and Serve America - School and Community Based Programs	94.004		44,952
AmeriCorps	94.006		615,395
Training and Technical Assistance	94.009		81,173
Foster Grandparent/Senior Companion Cluster			
Foster Grandparent Program	94.011		619,844
Total Foster Grandparent/Senior Companion Cluster			**619,844**
Total Corporation for National and Community Service			**1,628,336**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANT NAME	CFDA NO.	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
Social Security Administration			
Disability Insurance/SSI Cluster			
Social Security - Disability Insurance	96.001		5,755,396
Total Disability Insurance/SSI Cluster			**5,755,396**
Social Security - Work Incentives Planning and Assistance Program	96.008		81,493
Total Social Security Administration			**5,836,889**
U.S. Department Homeland Security			
Homeland Security Cluster			
State Domestic Preparedness Equipment Support Program	97.004		2,467,094
Homeland Security Grant Program	97.067		5,695,972
Total Homeland Security Cluster			**8,163,066**
Boating Safety Financial Assistance	97.012		775,235
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		75,428
Flood Mitigation Assistance	97.029		284,546
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		1,155,217
Hazard Mitigation Grant	97.039		8,261
National Dam Safety Program	97.041		44,394
Emergency Management Performance Grants	97.042		1,454,224
State Fire Training Systems Grants	97.043		11,788
Cooperating Technical Partners	97.045		184,913
Map Modernization Management Support	97.070		86,130
Buffer Zone Protection Plan (BZPP)	97.078		50,000
Total U.S. Department Homeland Security			**12,293,202**
Total Expenditures of Federal Awards			**$ 1,392,185,812**

STATE OF DELAWARE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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 (DTCC) 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) Family Federal Education Loan Program

During the Fiscal Year ended June 30, 2008, Delaware Technical and Community College processed $5,657,954 of new loans under the Federal Family Education Loan Program (CFDA 84.032). This amount is not included on the SEFA.

(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 State funds included in the SEFA at June 30, 2008 are $111,049,000.

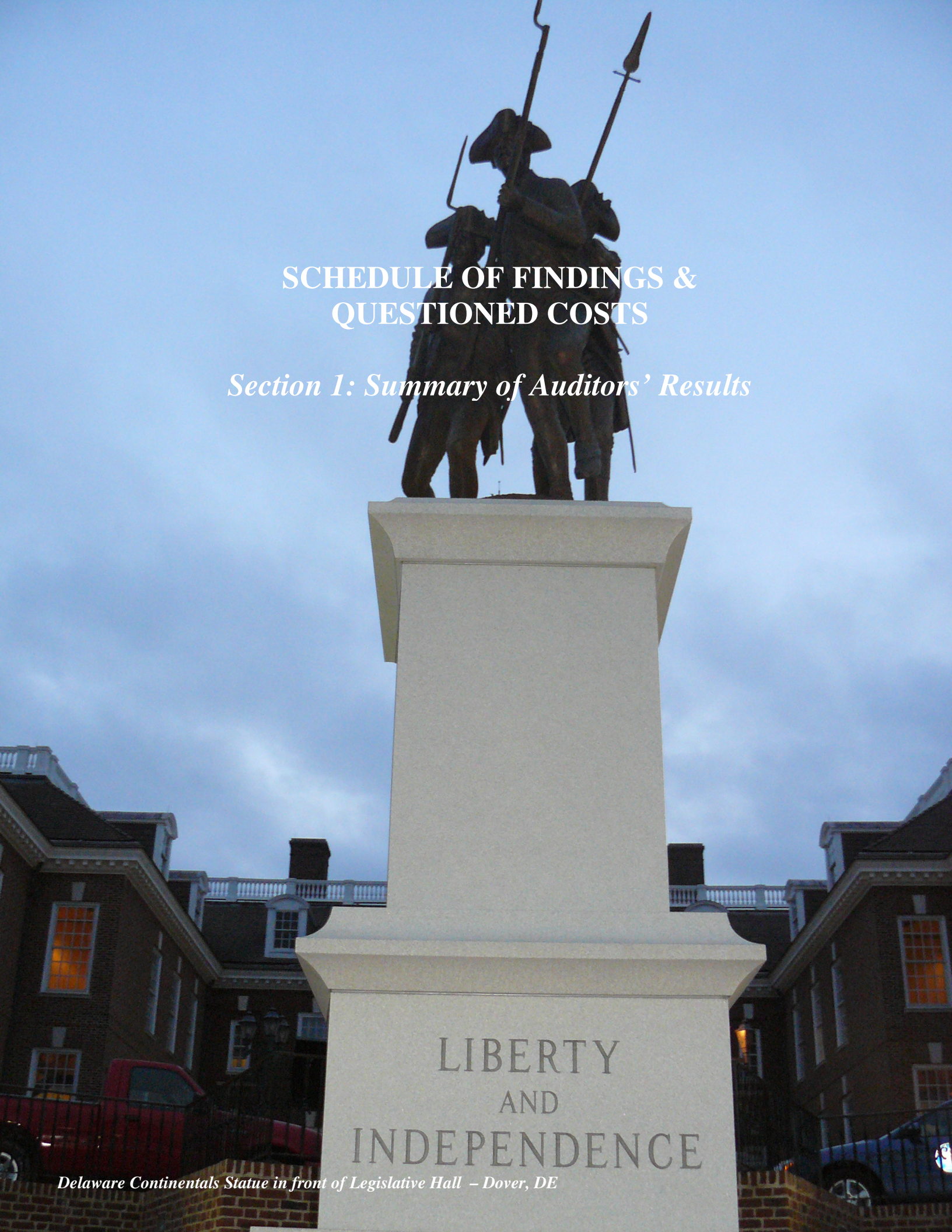
(5) Noncash Assistance

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

CFDA Number	Program Name	Amount
10.550	Food Donation (Commodities)	$ 2,655,037
10.569	Emergency Food Assistance Program (Commodities)	499,010
93.268	Immunization Grants (Vaccines)	7,534,057
10.551	Food Stamps (EBT Payments)	82,991,926

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 1: Summary of Auditors' Results



Delaware Continentals Statue in front of Legislative Hall – Dover, DE

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

(1) Summary of Auditors' Results

Basic Financial Statements

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

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

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

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

Federal Awards

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

Major programs with material weaknesses:

CFDA No.	Program Name
17.258, 17.259, 17.260	WIA Cluster
20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster
45.310	Grants to States
84.010	Title I Grants to Local Educational Agencies
84.027, 84.173	Special Education Cluster (IDEA)
84.048	Career and Technical Education - Basic Grants to States
84.357	Reading First State Grants

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA No.	Program Name
84.367	Improving Teacher Quality State Grants
93.044, 93.045, 93.053	Aging Cluster
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.596	Child Care Cluster
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

Major programs with significant deficiencies:

CFDA No.	Program Name
10.551, 10.561	Food Stamp Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.258, 17.259, 17.260	WIA Cluster
20.205	Highway Planning and Construction Cluster
45.310	Grants to States
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027, 84.173	Special Education Cluster (IDEA)
84.042, 84.044, 84.047	TRIO Cluster
84.048	Career and Technical Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA No.	Program Name
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants
93.044, 93.045, 93.053	Aging Cluster
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.596	Child Care Cluster
93.658	Foster Care - Title IV-E
93.667	Social Services Block Grant
93.767	State Children's Health Insurance Program
93.775, 93.777, 93.778	Medical Assistance Cluster
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

CFDA No.	Program Name
96.001	Social Security - Disability Insurance
97.004, 97.067	Homeland Security Cluster

Note: There is also a significant deficiency noted for the Child Nutrition Cluster (CFDA numbers 10.553, 10.555, 10.556, 10.559), which was not a major program for Delaware for the fiscal year ended June 30, 2008.

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

Type of Opinion	Program Name
Disclaimer	
93.658	Foster Care - Title IV-E
Adverse	
45.310	Grants to States
93.044, 93.045, 93.053	Aging Cluster
93.283	Centers for Disease Control and Prevention, Investigations, and Technical Assistance
Qualified	
17.258, 17.259, 17.260	WIA Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

Type of Opinion	Program Name
20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	Highway Safety Cluster
84.010	Title I Grants to Local Educational Agencies
84.027, 84.173	Special Education Cluster (IDEA)
84.048	Career and Technical Education - Basic Grants to States
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.596	Child Care Cluster
93.667	Social Services Block Grant
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

Type of Opinion	Program Name
Unqualified	
10.551, 10.561	Food Stamp Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
15.605, 15.611	Fish and Wildlife Cluster
20.205	Highway Planning and Construction Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster
84.042, 84.044, 84.047	TRIO Cluster
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
93.767	State Children's Health Insurance Program

Type of Opinion	Program Name
93.775, 93.777, 93.778	Medical Assistance Cluster
96.001	Disability Insurance/SSI Cluster
97.004, 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.**

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

(i) Identification of Major Programs:

CFDA Number	Federal Award Number	Program Name
10.551, 10.561	1DE400401 2007IS251441 2008IS251441 2009IS802641 2009IS251941 2009IE252041 2009IS251441 2009IS803641 2009IE252241 2009IE251841	Food Stamp Cluster
10.557	2007IW100341/641 2008IW100341/641 2009IW100341 2009IW100641	Special Supplemental Nutrition Program for Women, Infants, and Children

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
15.605, 15.611	F-76-D-1	Fish and Wildlife Cluster
	F-75-R-2	
	F-73-R-4	
	F-33-R-26	
	F-65-R-7	
	F-75-R-3	
	F-51-T-15	
	F-43-E-18	
	F-77-T-3	
	F-52-C-15	
	F-74-D-4	
	F-2-D-57	
	F-47-R-18	
	F-48-D-16	
	F-56-R-13	
	F-41-R-20	
	F-50-D-7	
	F-42-R-20	
	F-70-D-6	
	F-33-R-27	
	F-65-R-8	
	F-73-R-5	
	F-75-R-R	
	F-51-T-16	
	F-77-T-4	
	F-43-E-19	
	F-52-C-16	
	F-74-D-5	
	F-2-D-58	
	F-56-R-14	
	F-48-D-17	
	F-50-D-8	
	W-5-D-59	
	W-34-S-10	
	W-33-R-11	
	W-21-R-43	
	W-5-D-60	
	10-01-07	
	W-30-C-15	
	W-35-R-10	
	W-38-R-10	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
15.605, 15.611 (continued)	F-70-D-7 W-5-D-59 W-34-S-10 W-33-R-11 W-21-R-43 W-5-D-60 10-01-07 W-30-C-15 W-35-R-10 W-38-R-10 W-36-R-10 W-37-R-10 W-5-D-61 W-21-R-44 W-30-C-16 W-34-S-12 W-33-R-12	Fish and Wildlife Cluster
17.258, 17.259 17.260	AA120030250 AA137900450 AA-15471-06-55 AA171130855A10 AA160200755A10 4705Y 2-709-Y 3713Y 4707Y 2-711-Y 3715Y 2-807Y 3-811Y 2-809Y 3-813Y 4-805Y 2-905-Y 2-907-Y 3-909-Y 3-911-Y 3-703-Y	WIA Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
20.205	Transportation Enhancement	Highway Planning and Construction Cluster
20.600, 20.601, 20.602, 20.605, 20.609, 20.612, 20.613	DTNH22-03-H-57207 DTNH22-08-H00301 SECTION 402 SECT 402 DTNH22-94-H-09062 SECTION 410 FY06 SECTION 410 FY07 410 FY07 SECTION 410 SECTION 405 SECTION 163 FY06 SECT 406 FY06 SECTION 406 FY07 408 FY06 SECT 2010 FY07 SECT 2010 FY08 SECTION 2010 SECTION 2010 SECT 2011 FY07 SECT 2011 FY08	Highway Safety Cluster
45.310	LS-00-07-0008-07 LS0008000808	Grants to States
66.468	FS-99391403-1 FS-99391404 FS-993914050 FS-99391406 FS-99391407-0 WP-97360401-0 FS-993914-08-0	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, 2008

CFDA Number	Federal Award Number	Program Name
84.007, 84.033, 84.063	P007A070814 P007A080814 P007A070812 P007A080812 P007A070815 P007A080815 P033A070814 P033A070812 P033A080812 P033A070815 P003A080815 P033P080814 P063P052885 P063P072885 P063P073817 P063P073468 P063P082885 P375A082885 P063P083817 P063P083468	Student Financial Assistance Cluster
84.010	S010A020008 S010A040008 S010A060008 S010A070008 S010A07000A S010A080008	Title I Grants to Local Educational Agencies

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
84.027, 84.173	H027A010022	Special Education Cluster (IDEA)
	H027A040022	
	H027A050022	
	H027A060022	
	H027A060027	
	H027A070022	
	H027A1010022	
	IDEA B SSA	
	H1173A050025	
	H1713A060025	
	H1713A050025	
	H173A020005	
	HA731040025	
	HA731040025	
	IDEA B SSA 02-08	
	H027A020022	
	H027A080022	
	H173A080025	
	H173A020025	
	H173A040025	
	H173A050025	
	H173A070025	
	H173A020025	
	H173A060025	
	IDEA-B-HR 2-08	
	IDEA-B-619-SSA-2-08	
	IDEA-B HR 11-06	
	IDEA-B-SSA-9-08	
	IDEA-B-SSA-05-07	
	IDEA-B-619-SSA-11-07	
	IDEA-B-SSA-3-08	
	IDEA-B-619-SSA-1-08	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
84.042, 84.044, 84.047	P042A05107707 P042A05001207 P042A051077-08 P044A980332001 P044A070135 P044A070014 P044A070135-08 P044A070014-08 P047A070021 P047A03063406 P047A03106507 P047A080461 P047A070021-08 P047A080117 P047M990002/C P047M04008107 P047MO4025007 P047M080099 P047M080019 PO42A050012-08	TRIO Cluster
84.048	V048A060008 V048A070008 V048A080008 VEP3PS407 VE-P3-PS-5-08 V048A050008 V048A040008 V048A06008 V084A070008 CT-P4-PS-5-09	Career and Technical Education - Basic Grants to States
84.126	H126A070010 H126A080010 H126A07009 H126A080009 H126A090009 H126A090010	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	S287C050052 S287C060052 S287C070052 S287C080052 S387C060052	Twenty-First Century Community Learning Centers

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
84.357	S357A020008 S357A060008 S357A070008 S357A080008	Reading First State Grants
84.367	S367A020007 S367A060007 S367B060008 S367A070007 S367A080007 S367B070008A S367B080008	Improving Teacher Quality State Grants
93.044, 93.045, 93.053	07AADET3SP 08AADET3SP 09AADET3SP 07AADENSIP 08AADENSIP 09AADENSIP	Aging Cluster
93.268	2H23IP322567-06 5H23IP322567-07	Immunization Grants
93.283	U55/CCU321881-05 U90/CCU316980-07 3U58DP322784-05W1 1 U58 DP000823-01 5U90TP316980-08 1 U51PS000912-01 5U50CI000492-02 5U58DP000823-02 5U51PS000912-02 5U50CI000419-03	Centers for Disease Control and Prevention, Investigations, and Technical Assistance
93.558	G-0301DETANF G-0702DETANF G-0802DETANF G-0902DETANF	Temporary Assistance for Needy Families
93.563	0804DE4004	Child Support Enforcement
93.568	G-06B1DELIEA G-07B1DELIEA G-08B1DELIEA G-09B1DELIEA	Low Income Home Energy Assistance

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2008

CFDA Number	Federal Award Number	Program Name
93.596	G-0601DECCDF G-0701DECCDF G-0801DECCDF G-0901DECCDF 07072507A 07072507B 07072507C	Child Care Cluster
93.658	0101DE1401 0501DE1401 0701DE1401 0801DE1401 0901DE1401 9801DE1401/1404	Foster Care - Title IV-E
93.667	G-0701DESOSR G-0801DESOSR G-0901DESOSR G-0701DESOR	Social Services Block Grant
93.767	05-0705DE5021 05-0605DE5021	State Children's Health Insurance Program
93.775, 93.777, 93.778	010801DE5050 010901DE5050 05-0805-DE-5002 05-0805-DE-5000 050905DE5002 050905DE5001 05-0705DE5028/5048 05-0805DE5028/5048 MT5048 MP5028 05-0805DE5028 050905DE5000	Medical Assistance Cluster
93.917	X07HA00081 1 G24HA08411-01-00 6 X07HA00081-18-01 5G24HA08411-02-00	HIV Care Formula Grants
93.959	07B1DESAPT 2B08TI010009-08	Block Grants for Prevention and Treatment of Substance Abuse
96.001	040604DEDI00 04-07 04DEDI00 040904DEDI00	Social Security – Disability Insurance

CFDA Number	Federal Award Number	Program Name
97.004, 97.067	2004GET40021 2005-GE-T5-0011 2006-GE-T6-0060 2007-GE-T7-0020 2007RLT7K104	Homeland Security Cluster

(j) Dollar threshold used to distinguish between Type A and Type B programs: $4,176,557.

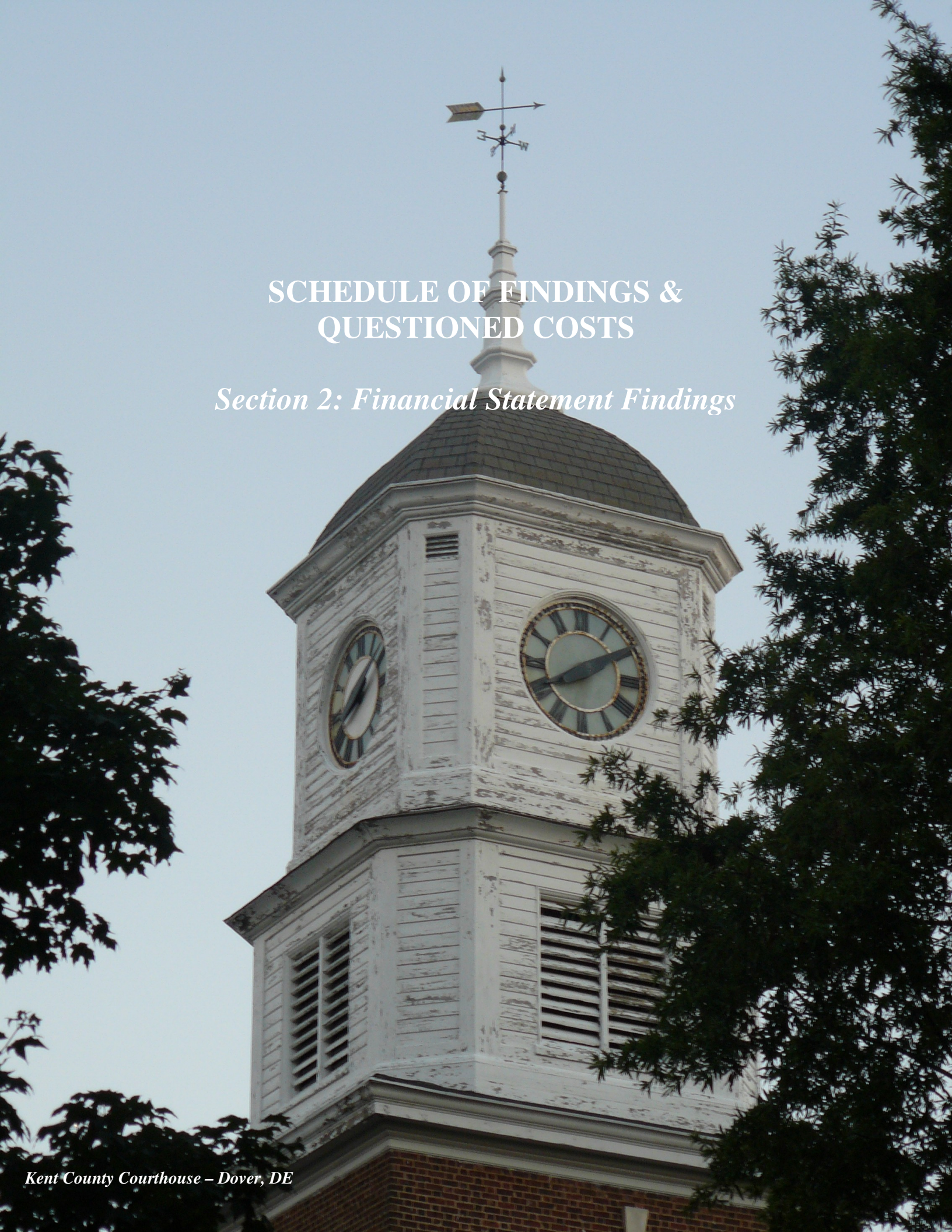
(k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

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

Eleven findings related to the basic financial statements for the year ended June 30, 2008, were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for items **2008-01** to **2008-11**.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 2: Financial Statement Findings



Kent County Courthouse – Dover, DE

Department of Finance
Reference Number: 2008-01
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over the Comprehensive Annual Financial Report (CAFR) Preparation

Background/Condition

During fiscal year 2008, the Division of Accounting (DOA) implemented a new process to prepare the State's CAFR using an ad-hoc report writer software program, CAFR 2000. CAFR 2000 assisted the State in producing the financial statements and eliminated a portion of the manual process. However, due to the decentralized organizational structure of the State, the CAFR preparation process still entails compiling worksheets, completing reconciliations, customizing reports, and recording various adjustments. The many sources of information and the extent of modification necessary to such information results in a financial reporting process that is highly complex and susceptible to errors. There was an internal review of the draft CAFR prior to submitting the document for audit, and the process produced a document that continues to be improved from the past. While a timeline was developed for the completion of major milestones for the CAFR process, some of the significant deadlines were not met due to the complexity of the process and the need to obtain a significant portion of financial data from the various agencies within the State.

The State's financial reporting process is dependent on cooperation from the State's component units and other agencies. The component units and several large funds have separate audits that need to be coordinated. When there is not a separate audit, in order to provide financial information in accordance with generally accepted accounting principles (GAAP), accrual accounting packages (GAAP packages) are completed annually by personnel in departments and agencies across the State. As a result, there are many manual processes completed by agency/department personnel. These processes include the development of accounts receivables and related allowances for uncollectible accounts, accruals of State obligations, the development of construction in progress related to capital assets, and the capture of cash and investment balances controlled outside of the Treasurer's Office. Many of the agencies use systems outside of the current statewide accounting system to gather and track the required information. This adds to the complexity of the year-end reporting and reconciliation process. In addition, the GAAP package reporting process includes the preparation of over 125 packages and relies heavily on agency personnel, many of whom lack the necessary experience and accounting background to properly complete the packages. DOA conducts training on the preparation of the packages and conducts internal reviews of the material packages to ensure that amounts are accurate and properly supported. However, these procedures were not completed until late in the financial statement preparation process and well after the established deadlines. Even after these reviews, various errors went undetected as follows:

Lack of Controls over the Estimation of the Allowance for Doubtful Accounts

Certain agencies did not properly calculate net accounts receivable and the related allowances for doubtful accounts as discussed below:

Department of Labor

The allowance for doubtful accounts for Department of Labor's Unemployment Insurance Trust Fund was originally calculated using the Federal reporting guidelines set forth by the U.S. Department of Labor, which are not considered to be in accordance with GAAP. Based on our analysis, we noted that the allowance was understated by approximately $4.6 million.

Division of Revenue

We noted that the Division of Revenue's allowance for doubtful accounts estimate was originally calculated using an erroneous percentage of gross accounts receivable resulting in an understatement of the allowance of approximately $7 million. We also noted that the analysis model used for the calculation was not based on actual current trends as it has not been updated since fiscal year 2001.

Lack of Controls over Grant Revenue and Receivables

Under the State's policy for recognizing revenue under the modified accrual basis of accounting, which is required to be used in the fund level financial statements, only funds available within the first 60 days after year-end are recognized as revenue. During our review of 24 grants receivable balances, we noted 5 grants totaling approximately $4.3 million where revenue was incorrectly recognized as the funds were not available within the sixty-day period.

Lack of Controls over Accounts Payable

During our review of 13 invoices relating to expenditures in the capital projects fund, we noted 3 expenditures relating to fiscal year 2008 and totaling approximately $7.4 million that were not properly accrued for in the financial statements. In addition, during our review of 48 invoices relating to expenditures in the government-wide activities, we noted one expenditure relating to fiscal year 2008 and totaling approximately $1 million that was not properly accrued for in the financial statements.

Lack of Controls over Compensated Absences

During our review of an original sample of 17 compensated absence balances, we detected errors that were the result of incorrect information manually input into the spreadsheets used to calculate the liability, a failure of employees to report accurate uses of sick and vacation time, as well as adjustments made after-the-fact to timecards that were not properly captured in the accrual.

Lack of Controls over Capital Asset Activity

We noted significant adjustments made by DOA to agency information to correct construction-in-progress, capital assets additions, and deletions. Specifically, we noted the following:

- DOA adjusted for approximately $59 million of construction-in-process additions that were erroneously omitted by the agencies, as well as approximately $24 million of projects that were incorrectly recorded as completed.

- DOA recorded a net adjustment of approximately $10 million related to prior periods for capital asset activity which was unrecorded at the agency level. Also, during the course of our audit, we noted one instance for which documentation did not exist to support the removal of an asset with a value of approximately $1.6 million.

- A parcel of land valued at approximately $13.7 million representing an easement donated in 2005 was not recorded until fiscal year 2008.

- The State of Delaware Office of Management and Budget has a policy to record construction-in-progress activity for the 12-month period of June through May as opposed to the actual 12 months in its fiscal year (i.e., July through June). Although the State is capturing 12 months of capital asset activity in each fiscal year, depending on the timing of capital projects, the State's policy could result in a material misstatement of capital assets. During fiscal year 2008, we noted that a net $1 million in capital assets that were not properly recorded in fiscal year 2008 as a result of this policy.

Lack of Controls over Other Revenue in the General Fund

We noted that the State used a multitude of cash adjustments flowing through the other revenue account that were used to reclassify revenue from one appropriation to another in order for the agencies to spend funds in accordance with the State's budget. There were numerous errors in this manual reclassification of revenue. Specifically, we noted approximately $26.6 million in other revenue and expenditures were double counted in the general fund. In addition, DOA was not able to readily determine or explain what transactions comprised the other revenue financial statement line item. We also noted a similar issue in the local school district fund's separate opinion unit, which is reported in a separate material weakness in finding No. 2008-03 below.

Lack of Proper Review of Financial Statement Information

We noted that the Department of Labor and the local school districts do not routinely perform a formal review of the related agency's financial information included in the State-wide financial statements prior to issuance. In addition, certain agencies were not able to explain fluctuations between current and prior year financial statement amounts nor were the agencies able to discuss the composition of the financial statement line item amounts.

In addition, we noted that the State relies heavily on the audit process to detect reporting errors (e.g., summation errors, consistency of information reported in notes and schedules to the financial statements and to ensure that new and existing accounting standards and literature are properly implemented).

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 in place and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP.

Cause

Personnel Assigned

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

As in fiscal year 2007, external assistance was used to facilitate the preparation of the CAFR. In fiscal year 2008, the external consultants had oversight responsibility for the review of the CAFR prior to submission for audit. Although the number of personnel involved in the preparation and review of the CAFR has expanded over the last two years, there is still insufficient staffing at DOA of individuals with appropriate accounting knowledge and experience to properly review the GAAP package information obtained from the agencies and external consultants and simultaneously prepare the financial statements for an entity of the size and complexity of the State of Delaware.

Technology

The Delaware Financial Management System (DFMS) is a cash basis financial management system that does not have the flexibility to accommodate modified and full accrual accounting, and it is difficult to obtain ad-hoc reports for financial reporting and analysis. The system does not easily identify by fund what cash balances are held by the Treasurer's office. As a result, reports utilized from DFMS require significant manual manipulation through spreadsheets to develop the trial balances and the CAFR..

Effect

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

Recommendation

We recommend that management continue with the progress made to date in refining the process used to complete the draft financial statements, notes to the financial statements, and all significant adjustments, conversion to accrual adjustments, and reconciliations. 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 inconsistencies and errors. Specific focus should be placed on achieving proper accounting cutoff and valuation of accounts associated with the GAAP package process and report preparation.

Because of the complexity of the report development process, management should re-evaluate the adjustments to convert budget-basis DFMS numbers to GAAP basis and limit reconciling adjustments to required material amounts.

During the audit, DOA filled the open CAFR manager position with a Certified Public Accountant that has financial statement preparation experience. We encourage the State to continue to use this person to monitor the agency accountants and expand the knowledge base of personnel who understand GAAP. This resource is critical to the successful oversight of the GAAP package process and financial reporting processes in the outside departments and agencies that report to 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 both the DOA and the State agencies.

We continue to recommend that the GAAP package preparation 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 the internal control resources in the DOA continue the progress to communicate and train the agency staff year-round to improve the year-end reporting process and develop better information sources to complete the packages. For example, the capital asset review process should be completed throughout the year to ensure the agencies are appropriately capturing activity for all projects, maintaining current records, and transferring construction in process to the final asset ledger timely so the GAAP packages are complete and accurate and in accordance with State's policy and generally accepted accounting standards. The current year training on GAAP package preparation should be updated to include more theoretical basis for what should be included in the packages. Areas of focus continue to include accounting estimates, receivable balances, and capital asset accounting.

Lastly, we understand that DOA is currently working closely with the implementation team of the State's new accounting system. We continue to recommend that every effort be made to consolidate as much GAAP Package accrual information as practical into the new central accounting system. These items include debt, capital assets, accounts payable, accruals of payroll and other liabilities, and accounts receivable for all the agencies. The benefits of a more robust central accounting system will include a

more efficient reporting process, as well as better internal controls and more complete information for management decision making throughout the year.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	We agree that the review process for all significant adjustments, conversion to accrual adjustments and reconciliations should include an evaluation of the reasonableness of individual financial statement line items. We continued to make significant strides during the current year GAAP and report preparation processes toward this goal. We implemented CAFR 2000, a proven software program that allows for a more automated CAFR statement process than in previous years; however, we agree there is always room for improvement. We are planning additional improvements to include evaluating and minimizing adjustments to the GAAP basis of accounting in order to further streamline the preparation of the financial statements. During fiscal year 2008, the division continued to increase the human resources assigned to prepare the State's CAFR by adding two new internal control positions, bringing the complement of the team to six (a manager who holds Certified Government Financial Manager (CGFM) and Certified Public Accountant (CPA) certifications; each member of the CAFR team is a Certified Internal Control Auditor (CICA); each member of the team also holds a Bachelor of Science degree in Accounting; and one member holds a Masters in Business Administration Finance.) By comparison, three years ago, only two full time employees were assigned to prepare the CAFR, with assistance from accounting consultants. We are also focusing on how to achieve proper accounting cut off and valuation of accounts associated with the GAAP package process and report preparation. An analysis of high risk areas is being performed and we are working with organizations to develop a better process to capture information. We are performing internal control reviews of organizations' financial reporting activities to enhance error detection and eliminate inconsistencies within the process. We will provide recommendations as a result of those reviews to the organizations' senior management for implementation.

	Management agrees that the State needs to expand its resources by hiring trained accountants to perform accounting functions within state organizations. The division director has worked with the State human resources management division to increase the educational and experiential requirements for the State Accountant series in the Division of Accounting and is promoting the use of this series statewide. This series creates structured promotional opportunities and requires professional education and/or certifications for advancement. We encourage and promote professional certifications within the division and will continue to develop CAFR staff through professional development opportunities and continuing professional education courses. We agree that the GAAP reporting package preparation process should be a priority for all departments and school districts included in the State's financial reporting entity. As a result, we have continued to make enhancements to the process. In 2008, the GAAP package reporting manual was revised and improvements were also made to the annual GAAP training to provide better guidance to state organizations and to ensure conformity and consistency in the reporting of year-end financial data in accordance with GAAP. GAAP training stresses the importance of timeliness in financial reporting and state organizations' responsibility for submitting accurate, complete, and timely GAAP reporting packages. In addition, audit debriefing meetings are conducted with State organizations to review adjustments to GAAP reporting information submitted to the division. Accurate reporting methodologies and improvements to reporting processes are suggested to minimize errors in future GAAP reporting packages. We will also be following up with organizations to ensure this process is followed. We have also made improvements to the capital asset reporting process by conducting interim reviews focused on accounting for capital construction project balances within the fiscal year and at year end. CAFR personnel have been continually involved with the design of the new financials system reporting requirements and the GAAP package accrual process. Processes and reports will be tested during fiscal years 2009/2010 to ensure adequate and accurate financial information is produced throughout the transition and production processes for CAFR preparation. We look forward to reaping the

	benefits of a more robust central system that produces greater efficiencies in all statewide financial processes.
Anticipated Completion Date	Ongoing

Department of Finance
Reference Number: 2008-02
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Journal Entries

Background/Condition
The DOA is responsible for the oversight of the processing of financial transactions in DFMS. We selected 141 journal entry transactions for testing and identified several ongoing internal control deficiencies including the following:

- We noted that for 19 journal entries, certain agencies/divisions/departments selected for review did not provide adequate supporting documentation or specify the business function or rationale to support the journal entries.

- We noted that for 4 journal entries, certain agencies/divisions/departments provided journal entries that were not properly authorized. Personnel are not required to have journal entries approved by another individual prior to submission to DFMS.

The total dollar value of the unsupported/unapproved journal entries was approximately $8 million.

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
Controls are not in place and operating effectively over the journal entry process.

Effect
Controls are not adequate to ensure amounts recorded in the general ledger and the financial statements were materially correct and properly supported. In addition, as proper controls do not exist over journal entries, it is possible for management to override other manual controls through the use of journal entries.

Recommendations
We recommend that DOA take appropriate action to ensure that journal entries are appropriately reviewed prior to submission into DFMS.

- Agencies/divisions/departments should take the appropriate steps to ensure journal entries are properly supported. The supporting documentation should include the business function and rationale for the journal entry.

- Agencies/division/department should designate an individual to prepare the journal entry within the agencies/division/department and have an individual, with sufficient knowledge of accounting and the business processes, but without journal entry preparation and posting responsibilities, to approve the journal entries for adequate separation of duties.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	We will communicate to state organizations the importance of applying stringent controls when reviewing and approving journal entry documents. Our internal control staff will be conducing reviews to ensure compliance. We are currently in the process of reviewing organizations' internal control policies to ensure an adequate segregation of duties exist and provide recommendations for improvement, as needed.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-03
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Accounting and Reporting at the Local School Districts

Background/Conditions
The local school districts (LSDs) report financial information to DOA through the use of GAAP packages as previously noted. Due to the inherent nature of these entities, the LSDs are extremely de-centralized from the rest of the State's primary government agencies. In addition, the majority of LSD personnel with the responsibility for the preparation and submission of the financial information used in the preparation of the State's financial statements lack the necessary experience and accounting background to properly complete the GAAP packages. During the course of our audit, we selected and reviewed the financial information for 9 LSDs as follows: Laurel, Cape Henlopen, Christina, Red Clay, Smyrna, Appoquinimink, New Castle County Vocational Technical, and Colonial. Although the information submitted by the local school districts is subject to review by DOA, we noted the following deficiencies during our audit:

Lack of Controls over Other Revenue
We noted numerous cash adjustments flowing through the other revenue account that were used to reclassify revenue from one appropriation to another in order for the agencies to spend funds in accordance with the State's budget. The inappropriate use of the cash adjustments resulted in $13.3 million misclassified as other revenue and numerous instances of the double counting revenues amounting to $3.3 million. When asked to explain the composition and fluctuations in the other revenue account, neither DOA nor LSD personnel were able to provide meaningful explanations.

Lack of Segregation of Duties in the Cash Management Operations
We noted that LSD personnel perform multiple incompatible cash management functions such as receipt, deposit, disbursement, recording and reconciling the accounts at the majority of the LSDs reviewed. We also noted several instances where there was no management review of cash reconciliation functions. In addition, there were several LSD bank accounts that had significantly aged outstanding checks. Lastly, we noted that, although subsequently deemed to be immaterial in amount, inappropriate activity occurred in one LSD's checking account as the result of the lack of proper segregation of duties and reconciliation controls.

Lack of Controls over Accrual Entries to Reclassify Senior Tax Credits
We noted that the debt service portion of the Senior Tax Credit was double counted in the other revenue and transfers-in categories as a result of various accrual journal entries to reclassify property tax receipts, Children's Services Cost Recovery Project (CSCRP) receipts, and LSD and charter school revenue to transfers-in and to record debt service fund activity. The same journal entries were made for all LSDs and resulted in an aggregated $1.4 million overstatement in transfers-in and understatement of real estate tax revenue.

Lack of Controls over Accounting for Tuition Vouchers

We noted that although the general public does not actually pay tuition, numerous Intra-governmental Voucher documents (IVE) were used to move tuition income from one LSD to another. This revenue was recorded to fund the costs for a student to attend a school and is primarily derived from taxes. For example, if a student living and paying taxes in one district (primary district) attends a different school district (secondary district), the primary district will transfer funds via an IVE to the secondary district. Instead of recording this transaction as a transfer-out from the primary district and a transfer-in to the secondary district, an entry is made to record this transaction as an expense to the primary district and tuition revenue to the secondary school district. Recording such an entry resulted in an overstatement of revenue as the pupil's costs were originally recorded as tax revenue in the primary district and again as tuition revenue in the secondary district, as well as an overstatement of expenditures as the primary district records tuition expenditures when it transfers the funds to the secondary district and again as operating expenditures for costs incurred throughout the year in the secondary district. These erroneous entries resulted in an approximately $27 million double counting of LSD revenues and expenditures and an understatement of transfers-in/out.

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

Controls are not in place and operating effectively over financial statement information provided by the LSDs for inclusion in the State's financial statements.

Effect

Due to the extremely 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 the DOA provide the LSDs with the appropriate level of training over GAAP reporting requirements to ensure that financial information submitted for inclusion in the State's financial statements is accurate and transactions are recorded in accordance with GAAP. We also recommend that the DOA perform account analyses of financial statement line items to ensure the propriety of the composition of financial statement amounts.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	We are providing training to the local school districts' chief financial officers on an as requested basis and will be providing formal training at the May 2009 chief financial officers' meeting. We plan to stress the importance of the information and processes used to compile GAAP package information. In addition, we will be performing analytics on the balances of the local school district's financial statements to ensure financial transactions are made in accordance with GAAP.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-04
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Investments

Background/Condition
The State Treasurer maintains the majority of the State's deposits and investments according to the guidelines set forth in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* by the State's Cash Management Policy Board.

Accounting for Investments
We noted the State's policy is to net investment receivables and payables. The State then adjusts the total investment balance by the net amount instead of properly presenting the separate gross receivables and payables. Specifically, we noted that the State netted approximately $10.7 million of receivables and approximately $13 million of payables and reduced the investment balance by approximately $2.3 million at June 30, 2008. Additionally, we noted that the State erroneously recorded investment income of approximately $4.1 million as opposed to correct amount of $7.9 million resulting in an understatement of investment income of approximately $3.8 million.

We also noted that the State does not record all of the reconciling items noted on the cash reconciliation prepared by the Office of the State Treasurer. This resulted in an understatement of investments of approximately $5.7 million at June 30, 2008.

Investment Due Diligence
Based on discussions with the Cash and Debt Manager in the Treasurer's Office and our review of documentation supporting the State's investment holdings, we noted that management does not adequately document procedures performed over investment due diligence. As such, we were unable to determine if certain investment impairment considerations due to the current economic climate were made by management. We also noted that management relies heavily on the work performed by its investment custodian and does not perform monitoring procedures over the custodian to ensure that the custodian is adequately performing the delegated responsibilities.

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
Controls are not in place and operating effectively to ensure that investment balances are fairly stated in accordance with GAAP.

Effect
Investment balances may be misstated.

Recommendation
We recommend that the State implement monitoring and review controls to ensure that the custodian is adequately performing the delegated responsibilities and that information provided by the custodian is adequate for GAAP financial reporting purposes.

Views of Responsible Officials

Agency Contact Name	Velda Jones-Potter, State Treasurer
Agency Contact Phone Number	(302) 672-6700
Corrective Action Plan	The Office of the State Treasurer has due diligence procedures for monitoring and review of investments as well as for GAAP reporting. These procedures help in monitoring the custodian's responsibilities and in improving controls. We are confident that strict adherence to these procedures will help to improve documentation.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-05
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Accounting for the Reserve for Encumbrances in the General Fund

***Background/Condit*ion**
The State routinely enters into contracts and purchase orders that will be fulfilled in a subsequent fiscal year. Although the contract or purchase order creates a legal commitment, the State incurs no liability until performance has occurred on the part of the party with whom the State has entered into the agreement. These commitments are encumbered and the related amounts are reported as a reserve of fund balance in the fund-level financial statements.

During our audit, we noted one instance in our sample of 22 general fund encumbrance balances for which the contract with the vendor was terminated, but the related encumbrance of approximately $5 million was not properly released from encumbrance.

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.

In addition, NCGAS 1, ¶91 states that encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. NCGAS 1, ¶91 also states that encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed contracts in process at year-end are completed.

Cause
Controls are not in place and operating effectively over encumbered funds.

Effect
The reserve for encumbrances may not be accurately stated to ensure effective budgetary control and accountability or facilitate effective cash planning and control.

Recommendation
We recommend that the State perform a review of encumbrances at year-end to ensure only valid encumbrances are reserved for in the financial statements.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	We are currently reviewing the encumbrance process and will release an accounting memorandum to all organizations reminding them of the State's encumbrance policies.
Anticipated Completion Date	Ongoing

Department of Finance
Reference Number: 2008-06
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over the Close-out of Third-Party Claims

Background/Conditions
The Medicaid Management Information System (MMIS) is used by the State to track Medicaid claims data for program participants. MMIS monitors payments made to health care providers and identifies the legal obligations of other parties, such as insurance companies, if/when a processed claim should be paid by a third party as opposed to the State. In such cases, the State requests reimbursement from third party insurers for payments made on behalf of Medicaid program participants and tracks the status of reimbursement requests through the MMIS system. Cases are closed when reimbursement is collected or third party claims are deemed uncollectible.

During our audit, we noted that 2 of the 8 third-party liability claims selected were not properly closed. Specifically, based on our review of the related case files, case notes and MMIS support, we noted that these cases were scheduled to be closed prior to year-end, as the balances were deemed uncollectible. However, the closeout and related write-off for each was not recorded in MMIS until November 6, 2008, subsequent to our request for the related case files.

Criteria
Per 42 CFR sections 433.135 through 433.154, States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought.

Cause
Controls are not in place and operating effectively over the review of case files to ensure that third-party liability claims are written off once payment is no longer sought and the balance is deemed uncollectible.

Effect
Accounts receivable related to third-party liability claims may be misstated.

Recommendation
We recommend that the State implement monitoring and review controls to ensure that the information in the case files is accurately reflected in MMIS.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	DMMA has implemented a new procedure effective March 2009 in which all cases that are closed on our case logs are currently being reviewed on a quarterly basis to ensure that they are also closed in the MMIS system.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-07
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Accounting for Other Post-Employment Benefits

Background/Conditions
During the year-ended June 30, 2008, the State adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* which establishes the financial statement and disclosure requirements for reporting by administrators or trustees of the postemployment benefit (OPEB) plan assets, liabilities, net assets, and changes in net assets held in trust for the payment of benefits and the disclosure of actuarial information about the funded status and funding progress of the plan and the contributions made to the plan by participating employers in comparison to the annual required contributions of the employer. The State also implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities or OPEB assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local governmental employers. The accounting and financial reporting related to the OPEB Plan was performed by the State Benefits Office (SBO).

Although the OPEB financial information submitted by the SBO is subject to review by DOA, we noted the following deficiencies during our audit:

<u>Lack of Controls over the Reconciliation of the Thomson MedStat Database to Third-party Administrators and DFMS</u>
The SBO has a written policy documenting the process for reviewing and reconciling enrollment and claims data received quarterly from each third party insurance administrator to data uploaded to the Thomson MedStat database. We noted that the written policy does not include 'acceptable difference thresholds' which would determine what level of variance between the two data sources should be investigated. There was also no evidence of review of the quarterly reconciliations by a party other than the preparer. Additionally, we noted that there is no process in place at the SBO or elsewhere to reconcile claims payments per the Thomson MedStat database to DFMS records. There is a process in place at the State's Office of Management and Budget to reconcile invoices received from the third party insurance administrators to expenditures recorded in DFMS, but this process is not linked to database records. The database is relied upon to generate key inputs for financial statement estimates and disclosures.

<u>Lack of Controls over Management Review of Claims Data at Third-party Administrators</u>
We noted that the SBO performs "audits" of claims data at the third party administrators periodically, at the discretion of the Governmental Health Insurance Program (GHIP) board. There were no such audits performed in fiscal year 2008. In addition, there is no review of administrator invoices prior to payment, other than a fluctuation analysis.

Lack of Management Review of Statement on Auditing Standards No. 70, *Service Organizations* (SAS 70) Reports for Service Providers

Because significant control processes occur at third party locations that are outside of the SBO control environment, SBO management should obtain and review all vendor SAS 70 reports. The review should include assessing the impact of any control exceptions noted, as well as appropriate consideration of any scope limitations noted in the report and 'user control considerations'. Management should document this review. We noted that SAS 70 reports for outside vendors are currently only reviewed in connection with a bidding process.

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

Controls are not in place and operating effectively over the reconciliation of the Thomson MedStat database and DFMS, the review of claims data, and the review of third-party administrators' SAS 70 reports.

Effect

The OPEB liability or asset and/or related disclosures and RSI may be omitted or misstated.

Recommendation

We recommend that the State perform implement controls to ensure the timely reconciliation of the Thomson MedStat database to third-party administrators and DFMS, a timely and thorough review of claims data at third-party administrators, and an assessment of the impact of any control exceptions in the third-party administrators SAS 70 reports.

Views of Responsible Officials

Agency Contact Name	Trisha Neely, Director – Division of Accounting
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	The Statewide Benefits Office has revised the SBO policy documenting the process for reviewing and reconciling enrollment and claims data received quarterly from each third party Insurance Administrator to data uploaded to the Medstat database to include acceptable difference thresholds not to exceed five percent. Additionally, management will review the quarterly reconciliation and verify in writing that the review is complete, accurate and acceptable. Using the procedures outlined in the October 14, 2008 memo,

	Statewide Benefits Office intends to implement a quarterly reconciliation of the claims paid per the MedStat database to claims expenditures per DFMS and the monthly Health Fund & Equity reports. A variance of no more than ten percent (10%) will be considered acceptable. Additionally, a similar reconciliation will be performed on an annual basis approximately three months following close of the fiscal year, which should reflect a variance not to exceed five percent (5%). Statewide Benefits Office intends to incorporate performance standards into upcoming contract amendments with the third party administrators and data mining vendor requiring these vendors to provide SAS70 reports on an annual basis. Additionally, Statewide Benefits Office will perform and document a review of the SAS70 reporting which shall include an assessment of the impact of any control exceptions noted as well as appropriate consideration of any scope limitations noted in the report and "user control considerations". Statewide Benefits Office intends to develop policies and procedures which will ensure a more consistent and indepth review and analysis of third party administrators invoices. Additionally, management intends to research and explore resources and methods available to verify third party administrator processes and systems have in place the proper controls to mitigate the risk of error or misstatement. The Statewide Benefits Office will be working with Medstat and the third party administrators to modify the file formats for enrollment and claims information being uploaded into the database so that a clear distinction can be made between those groups and participants who are "OPEB Eligible" versus "Non-OPEB Eligible". It is anticipated that these modifications will be completed no later than June 30, 2009. The Division of Accounting will monitor the controls outlined by the Statewide Benefits Office to ensure that recommendations are implemented.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-08
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over Accounting for Securities Lending Transactions

Background/Conditions
Based on our valuation testing over securities lending collateral and our review of the underlying contract, we noted that management was not properly accounting for market value decreases in the cash collateral provided by borrowers. We also noted that management did not adequately review the information provided by its custodian to determine that the information provided was inadequate for GAAP financial reporting purposes. This resulted in an adjustment of approximately $1.3 million.

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
Controls are not in place and operating effectively to ensure that investment and securities lending collateral balances are fairly stated in accordance with GAAP.

Effect
Investment and securities lending collateral balances may be misstated.

Recommendation
We recommend that the State implement monitoring and review controls to ensure that information provided by the custodian is adequate for GAAP financial reporting purposes.

Views of Responsible Officials

Agency Contact Name	Velda Jones-Potter, State Treasurer
Agency Contact Phone Number	(302) 672-6700
Corrective Action Plan	The need to revise the State of Delaware's GASB 2008 reporting was due to a custodian clerical error. To facilitate the preparation of GASB, inclusive of GASB 28 and 40, the custodian has developed internal data files reflecting activity of June 30th. The individual responsible for the preparation of the State of Delaware GASB reports inadvertently added the purchase cost amount plus accrued interest to come up with the June 30th accrued market value on collateral investments. The custodian's verification process relies on having a second individual verify the GASB totals and sub-totals to

	the data source totals. However, the error was not caught prior to distribution. To prevent this scenario from taking place in the future, the error was brought to the attention of the individual. Procedures will be revised to include more detailed spot-checks before distribution and master files will have data fields more clearly defined. All employees responsible for the production of these reports will be required to attend training on the revised process prior to the preparation of GASB 2009 reports. Additionally, The Bank of New York Mellon has developed an exact replication of their GASB reports on their newly acquired Workbench platform, which was the heritage Mellon client reporting platform. The custodian is confident that this will further eliminate the possibility of manual errors. In addition to the actions being taken by the custodian, the Cash and Debt Manager in the Treasurer's Office will implement the following monitoring and review controls to ensure that information provided by the custodian is adequate for GAAP financial reporting purposes: 1) Review the Securities Lending GASB report and the daily June 30th Securities Lending Investment Details Report to ensure reports are matching and labeled correctly. 2) Attach a copy of the daily June 30th Securities Lending Investment Details Report to the Securities Lending GASB report provided by the custodian. 3) The Cash and Debt Manager attaching the daily report as of June 30th will initial the reports to show the reports have been reviewed. A second signature will be obtained by another manager to signify the information was double-checked. 4) Cross-train the CAFR staff of the Division of Accounting so they are familiar with the reports and the information that is being provided. This cross-training will result in additional oversight.
Anticipated Completion Date	Ongoing.

Department of Finance
Reference Number: 2008-09
Type of Finding: Internal Control over Financial Reporting

Lack of Controls over System Access

Background/Conditions
As previously noted, DFMS is the State's financial management system. The State's payroll and human resource management system is the Payroll/Human Resource Statewide Technology System (PHRST). Recently, the PHRST System was successfully upgraded from client-based PeopleSoft v7.51 to web-based PeopleSoft v8.8. This system is used by approximately 800 users.

During our audit, we determined that one user had access to the development and production environments for DFMS and 4 users had access to the development and production environments for PeopleSoft. We noted that those with access to both the development and production environments for PeopleSoft are database administrators (DBAs). We also noted that 3 users had access to both the PeopleSoft Administrator and PHRST Security roles with access to security and the rights to make changes to the system files within the PeopleSoft application. The "PHRST Security" role is utilized in migrating development code into production. The "PeopleSoft Administrator" role is utilized for user and system administration. We determined that no segregation of duties existed for these roles.

Criteria
In order to achieve proper internal controls over the State's information technology environment, segregation of duties should exist between the production and development environments.

Cause
Controls are not in place and operating effectively over segregation of duties in the State's information technology environment.

Effect
Unauthorized changes may be made by an individual with access to both the production and development environments.

Recommendation
We recommend segregating development and production access for DBAs or instituting additional compensating controls including granting of temporary access to the production environment when needed.

Views of Responsible Officials

Agency Contact Name	Jim Sills, Secretary – Department of Technology and Information
Agency Contact Phone Number	(302) 739-9629
Corrective Action Plan	PHRST has reduced the number of users assigned to the PeopleSoft Administrator from nine users to four. The four users having this access are two PHRST PeopleSoft Administrators, a back up administrator and the PHRST Security Administrator. The access granted to these users is necessary for the requirement of their job functions as it ensures adequate support and back up exists for both the development/test and production environments.
Anticipated Completion Date	Ongoing.

Department of Transportation
Reference Number: 2008-10
Type of Finding: Internal Control over Financial Reporting

Accounting for Capital Assets and Infrastructure

Background, Condition, Criteria, Cause and Effect
In order to calculate the ending capital asset balances for the Department's financial statements, the Department uses various spreadsheets as well as expense reports from its general ledger system to calculate the balance of capital assets and infrastructure. The Department does not currently have a capital asset subsidiary ledger that can roll-forward all of the elements typically contained in capital asset records, including identification, location, historical cost, acquisition date, useful life, depreciation, accumulated depreciation, and funding source.

The application of the modified approach to infrastructure requires determining if capital program expenditures are for preservation and maintenance or additions to the capacity of infrastructure. The Department currently has a sub-appropriation code in its general ledger system that tracks infrastructure additions so expenses can be coded correctly when they relate to infrastructure; however, this coding has been inconsistently applied.

During the current fiscal year, the Department has developed and implemented an "Infrastructure Project Classification Policy." As a result of the policy, all projects were reviewed for conformance with the policy. The review identified several projects that had elements of both additions to capacity of the infrastructure as well as preservation and maintenance.

Recommendation
We continue to recommend that the balances of capital asset infrastructure be centrally managed in a capital assets subsidiary ledger with the capability to track additions and dispositions and, when necessary, to calculate depreciation.

We further recommend that the Department refine the guidelines in the new "Infrastructure Project Classification Policy" to clearly establish the procedures for allocating project costs between capital assets and expenses. The policy should draw on guidance provided in GASB Statement No. 34 and the GASB Statement No. 34 Implementation Guide.

Views of Responsible Officials

Agency Contact Name	Kathy English, Director of Finance – Department of Transportation
Agency Contact Phone Number	(302) 760-2687
Corrective Action Plan	Management will work with department staff in the Technology unit to determine the ability to track capital infrastructure assets in a manner more conducive to the recommendations provided in this report. A particular focus will be on the automation of the current asset summary sheet which allows for updates on an annual basis. Additionally, the Department will review infrastructure assets and compare to the Capital Transportation Program on an annual basis. This review will result in the tracking of projects which have transitions between Increased Capacity to Maintenance and Prevention. It is anticipated that a thorough review of the project numbering system will allow for the maintenance of projects to be tracked through the new ERP Accounting System separately from the construction project.
Anticipated Completion Date	Ongoing

Department of Transportation
Reference Number: 2008-11
Type of Finding: Internal Control over Financial Reporting

Financial Reporting

Background, Condition, Criteria, Cause, and Effect
The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

Additionally, there is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Recommendation
We recommend that the Department develop, for the 2009 audit cycle:

- A detailed list of balances (other than those in the Transportation Trust Fund and Delaware Transit Corporation) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances.

- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed.

- Interim review process to evaluate data before year-end to identify any issues and correct them before year-end close.

- A periodic monitoring process to ensure the timetable is adhered to.

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function.

- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor.

- Review data throughout the year for completeness and accuracy.

Views of Responsible Officials

Agency Contact Name	Kathy English, Director of Finance – Department of Transportation
Agency Contact Phone Number	(302) 760-2687
Corrective Action Plan	Management acknowledges the fact that the task associated with organizing and managing the details and reports for this audit are complex and detailed. The current level of staff continues to be a major problem for this effort. Unfortunately, a continued hiring freeze and lack of knowledge/expertise by other staff members has impeded the efforts to provide support to the current effort. Management will continue to work with the Human Resources Unit to identify opportunities for enhancing both expertise and staff levels. Additionally, the Finance Unit will work with the Audit Unit for assistance and guidance on automating many of the needed reports and data elements. It is anticipated that effort for the FY09 Audit will improve.
Anticipated Completion Date	Ongoing

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 3: Federal Award Findings & Questioned Costs

The Old Statehouse – Dover, DE

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2008

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133,* Section .510(a). This section is organized by state agency.

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Delaware Technical and Community College
All Campuses
Reference Number: 08-DTC-01
Program: 84.007, Student Financial Assistance Cluster
84.032,
84.033,
84.063
Type of Finding: Significant Deficiency
Compliance Requirement(s): Eligibility

In the prior year, the State of Delaware Office of Auditor of Accounts engaged a third party to perform a general controls review of the Banner Application, which supports the Student Financial Assistance Cluster at Delaware Technical and Community College (the College). Of the weaknesses noted on the prior report, the following findings still were outstanding as of June 30, 2008:

Policies and procedures for Information Technology processes and controls supporting the Banner Application could be improved. While the College has an acceptable technology usage policy in place, and several written procedures (including change management communications and backup procedures), several key policies are absent -- including change management testing, user access administration, authentication/password policies, and policies governing monitoring security events and problem identification/resolution. While the IT Department has initiated efforts to improve and build on their policies, the College should develop the following policies and procedures: (1) change management testing, (2) user access administration, (3) authentication/password policies, (4) security event monitoring, (5) problem identification and resolution, (6) full policies on data back-up and recovery.

The implementation of a dedicated help-desk solution to support problem identification and resolution for Banner Application-related user issues could be useful. A help-desk solution would ensure that financial-aid-related user issues related to the Banner application do not go unresolved. The ideal solution should include a 24-hour/7-days-a-week knowledge base and be able to answer users' frequently asked questions.

Recommendation
We recommend that the College continue to implement the recommendations as detailed in the above-referenced report.

Questioned Costs
There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Gerard M. McNesby, Vice President for Finance
Agency Contact Phone Number	(302) 739-4057
Corrective Action Plan	**Policies and Procedures** The primary Banner application does not support expiration of passwords or support enforcing password complexity as it is delivered from the vendor. The College has strived to keep customizations to the Banner system to a minimum to ensure the seamless flow of upgrades and patches. Since the software vendor does not support password policies natively, we do not recommend implementing a customization to meet this recommendation. Effective December 2008, the College has also deployed a new authentication model which no longer passes user credentials over the network. Central Authentication Services (CAS) now serves as the single entry point into the college's online applications. CAS enforces the password policies we have set inside our Active Directory system so that password must meet a minimum length and expire every 180 days. This is applied to all Bannerweb processes. The College's Data Analysts maintain a desk reference of procedures followed in day-to-day operations of the Banner system. These references are available in hard copy at the desk of the Analysts who maintains them. Custom scripts and code are stored centrally on a server with controlled access and archival systems ensuring the availability of the data. A subcommittee for creation of formal Policies and Procedures has been created and they are tasked with the formalization of all IT related policies and procedures. Change management and user access administration policies are already under review by this subcommittee. An additional policy has been created that outlines our backup and recovery procedures. A second subcommittee focusing on Identity Management has been created and it is tasked with developing the processes and proposing policies that surround user authentication, system access, and password policies.
Anticipated Completion Date	To be determined.

Corrective Action Plan	**Dedicated Help-Desk Solutions** The College portal has a section under "Help Center" tab which contains "frequently asked questions" that include a link for financial aid questions. College Administration is in the process of reviewing the Application Help Desk operating procedures and its reporting structure. This helpdesk is charged with supporting faculty, staff and students with questions about Banner and Bannerweb. The college does support the recommendation of tracking of application helpdesk calls; however, currently there is no system in place to support this. A commercial product for logging help desk calls and providing online self support services like FAQ's, Knowledgebase, and opening support tickets is under review; however, no formal budget has been established for funding this product. Open source products are being evaluated and a pilot system is currently being deployed for testing. This system provides a ticketing system for help requests.
Anticipated Completion Date	To be determined.

Delaware Technical and Community College
Wilmington Campus
Reference Number: 08-DTC-02
Program: 84.007, Student Financial Assistance Cluster
84.032,
84.033,
84.063
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

Criteria
Financial aid awards must be coordinated among the various programs and with other Federal and non-Federal aid to ensure that total aid is not awarded in excess of the student's financial need (FPL, FWS, and FSEOG, 34 CFR sections 673.5 and 673.6; FFEL, 34 CFR section 682.603).

Condition
During our testwork over the eligibility of 40 students, we noted that one student was awarded a Stafford subsidized loan instead of a Stafford unsubsidized loan for $1,069 and one student was underawarded a Pell grant by $800. The total amount of financial aid awarded to the 40 students sampled was $128,193.

Cause
The College's Wilmington Campus (the Campus) did not properly adjust the amount of the Stafford subsidized loan earned by the student due to lack of attendance during the fall and spring semesters.

The Campus did not adjust the student's Pell grant amount based on the final Institutional Student Information Records (ISIR) transaction. When the final ISIR was received, the previous ISIR transaction was not unlocked in the system and consequently the new ISIR data did not load properly.

Effect
The Campus inadvertently calculated two students financial aid awards based upon preliminary eligibility information.

Recommendation
We recommend that the Campus review its policies and procedures to ensure that any new ISIRs get properly updated to student accounts as well as generate safeguards or other reports in the Banner system that would help identify any possible overawards (negative need) and return any excess funding, as necessary.

Questioned Costs
There are no questioned costs relating to this finding.

Views of Responsible Officials

Agency Contact Name	Debra Troxler, Financial Aid Officer
Agency Contact Phone Number	(302) 571-5380
Corrective Action Plan	A Delaware Tech (DTCC) Stafford loan student was awarded a loan for the fall/spring semester, using a fall/spring budget. At that time, the student was eligible to receive a subsidized loan if they had been enrolled in classes. The student did not attend the fall or spring semester, but did attend and request a loan for the summer semester. The loan budget was changed to reflect the summer semester, but the loan eligibility remained at the subsidized level which reflected spring/summer eligibility. As an internal control measure, we are utilizing a new POPSEL query/report (Banner Population Selection of Students report) developed by/with DTCC technology staff. This POPSEL query/report allows DTCC to capture students that have negative need, but awarded a subsidized loan only. A DTCC PELL award student was awarded/disbursed a federal PELL grant on transaction 02 EFC 3129. The student should have been awarded/disbursed a federal PELL grant on transaction 04 EFC 2333. During data-load all incoming ISIRs are locked. When a new ISIR is received, DTCC has to manually unlock the previous record so the new ISIR will load. The student record was not unlocked so when the student's award was calculated, it was based on the older (not the new/most recent) ISIR transaction. As an internal control measure, DTCC is running a Banner POPSEL query/report that looks for ISIRs received after a student is packaged.
Anticipated Completion Date	Completed immediately upon finding, effective October 2008.

Delaware Technical and Community College
Wilmington Campus
Reference Number: 08-DTC-03
Program: 84.007, Student Financial Assistance Cluster
84.032,
84.033,
84.063
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Verification)

Criteria
An institution not participating under an ED-approved Quality Assurance Program (QAP) is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by the central processor, based on edits specified by ED, to verify the information specified in 34 CFR section 668.56. Information that must be verified or updated is adjusted gross income, U.S. income tax paid, aggregate number of family members in the household, number of family members in the household who are enrolled as at least half-time students in postsecondary educational institutions if that number is greater than one, and untaxed income and benefits (34 CFR sections 668.55 and 668.56).

Condition
For one out of 40 students selected for verification testwork, it was determined that the Campus did not perform verification of the student's information included on the ISIR.

Cause
Based on the student's first three Institutional Student Information Records (ISIRs), the student was not selected for verification and was put in a non-verify tracking group. When the fourth and final ISIR was received, the student's non-verify tracking was locked and not changed to identify the student as requiring verification.

Effect
The Campus neglected to verify the information included on the student's ISIR, which could affect eligibility.

Recommendation
We recommend that the Campus review its policies and procedures to ensure that any new ISIRs being uploaded for students properly allow for new requests for verification.

Questioned Costs
Questioned costs are undeterminable.

Views of Responsible Officials

Agency Contact Name	Debra Troxler, Financial Aid Officer
Agency Contact Phone Number	(302) 571-5380
Corrective Action Plan	On one sample student's first three ISIR transactions, the student was not selected for verification. A change was made to correct the student and parent's name, and at the time of the correction the tracking group was Student Excellence Equals Degree non-verify scholarship recipient (SEED- State of Delaware funded scholarship program). Once the fourth and final ISIR transaction for that student was returned to the College, the tracking group SEED non-verify was locked and the status was not updated. As a result, the system did not trigger a request for the verification form that was necessary to perform the verification process. As an internal control measure, DTCC is utilizing a new POPSEL query/report (Banner Population Selection of Students report) developed by/with DTCC technology staff. This POPSEL query/report captures students that need their tracking group changed, based on a new ISIR transaction being loaded into Banner.
Anticipated Completion Date	Completed immediately upon finding, effective October 2008.

Delaware Technical and Community College
Terry Campus
Reference Number: 08-DTC-04
Program: 84.042, TRIO Cluster
84.044,
84.047
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Condition
Based on a sample of eight payroll expenditures totaling $14,019, two Student Support Services (SSS) expenditures totaling $6,623 had completed time and effort reports, but they were not signed by the employee or their supervisor. In addition, one Upward Bound (UB) expenditure totaling $2,457 had a time and effort report that supported the employee's 50% effort to the program, but did not account for 100% of the employee's total activities.

Cause
While time and effort reports were being prepared, the program managers were not aware of certain specific requirements of OMB Circular A-87 to ensure the time and effort reports were approved and complete.

Effect
Salary and related costs allocated to the federal programs were not appropriately supported by complete and approved time and effort reports.

Recommendation
We recommend that the College's Terry Campus reinforce the need to have proper signatures on the employees' time and effort reports and ensure that 100% of each employee's activities are properly documented on those reports.

Questioned Costs
Questioned costs are $6,623, the amount related to the two SSS time and effort reports.

Views of Responsible Officials

Agency Contact Name	TRIO program managers: Rebecca Craft (Student Support Services Program) and Florence Pipes (Upward Bound Program)
Agency Contact Phone Number	(302) 857-1033 and (302) 857-1418
Corrective Action Plan	Student Support Services Program: Monthly certification reports were completed as required by federal regulations; however, the Program Manager's time and effort certifications (program manager working solely on this federal program for the periods covered/reported) were not signed off by the Dean of Students (program manager's direct supervisor). Time and effort reports for counseling and administrative staff were completed ensuring that 100% of each employee's activities were properly documented and approved by Program Manager as required. Program Manager monthly time and effort certification reports are provided to the Dean of Students for signature by the 5th day of the month following the month for which the report is due. In addition, Policy and Procedures Manual (revision) outlines the time and effort process for all staff including the Program Manager for future reference. Upward Bound Program: The time and effort certification reports were completed as required by federal regulations for all program employees working solely on this federal program for the periods covered/reported. However, one program employee was working on multiple program activities yet the personnel activity reports for this employee only reflected 50% of their time worked on behalf of the Upward Bound program. The distribution and charges for this employee's wages were for eligible activities and properly charged to eligible program funding lines (Upward Bound and non-Upward Bound) based on actual activities for covered periods. Time and effort reports for counseling and administrative staff are now completed ensuring that 100% of each employee's activities are properly documented and approved by Program Manager(s), including time and effort activities reporting, review and approval by other direct supervisor(s)/manager(s) for portions of non-Upward Bound activities during covered periods.

	Monthly reports are signed by each employee and provided to the Upward Bound Program Manager and other direct supervisors for non-Upward Bound activities (e.g. Director of Corporate & Community Programs) ensuring accounting for 100% of time/activities for signature by the 5th day of the month following the month for which the reports are due. In addition, Policy and Procedures Manual (revision) outlines the time and effort process for all staff including the Program Manager ensuring 100% activities accounting for future reference.
Anticipated Completion Date	Completed immediately upon finding, effective September 2008 monthly time and effort reporting.

Delaware Technical and Community College
Terry Campus
Reference Number: 08-DTC-05
Program: 84.042, TRIO Cluster
84.044,
84.047
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

Criteria
A student is eligible to participate in a Student Support Services (SSS) project if the student meets all of the following requirements: (a) Is a citizen or national of the United States or meets the residency requirements for Federal student financial assistance, (b) is enrolled at the grantee institution or accepted for enrollment in the next academic term at that institution, (c) has a need for academic support, as determined by the grantee in order to pursue successfully a postsecondary educational program and is (d) a low-income individual and a first generation college student or an individual with disabilities (34 CFR section 646.3).

An individual is eligible to participate in a Regular, Veterans, or Math-Science Upward Bound (UB) project if the individual meets all the following requirements: (a) is a citizen, national, or permanent resident of the United States, or is in the United States for other than a temporary purpose; (b) is a potential first-generation college student or a low-income individual; (c) has a need for academic support in order to pursue successfully a program of education beyond high school; and (d) at the time of initial selection has completed the 8th grade but has not entered the 12th grade and is at least 13 years old but not older than 19. A veteran, regardless of age, who meets all other criteria is eligible to participate (34 CFR section 645.3).

Condition
Based on a sample of 40 participants across both TRIO programs, it was noted that six of the 20 SSS participants' eligibility worksheets were not signed off the by SSS program manager in accordance with campus' policy. In addition, it was noted that 13 of the 20 applications for Upward Bound did not include the disclosure of whether the applicant is a citizen, national, or permanent resident of the United States.

Cause
While SSS eligibility worksheets were properly prepared, the internal control signifying the program manager's approval was inadvertently left off six of those worksheets. In addition, the requirement regarding U.S. citizenship was inadvertently deleted from some of the UB program applications.

Effect
Without evidence of supervisory review or certification of the U.S. citizenship status, ineligible students could be allowed to participate in the programs.

Recommendation

We recommend the College's Terry Campus ensure that SSS participants eligibility worksheets are reviewed and approved by the program manager and that the U.S. citizenship disclosure gets reinstated on all UB applications.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	TRIO program managers: Rebecca Craft (Student Support Services Program) and Florence Pipes (Upward Bound Program)
Agency Contact Phone Number	(302) 857-1033 and (302) 857-1418
Corrective Action Plan	Student Support Services Program: Although properly prepared, some student participant files omitted the program manager's approval as required. As an internal control measure, the Program Manager will review all student files on a weekly basis and ensure sign off on all new student eligibility forms as required. In addition, Policy and Procedures Manual (revision) outlines the internal control review and eligibility approval steps of the Program Manager. Upward Bound Program: Although otherwise properly prepared and ensuring individual applicants met all program requirements (and inclusive of United States residency status requirement for a portion of the population sampled), some Upward Bound applications inadvertently excluded the residency/citizenship disclosure line necessary to determine eligibility to participate based on the requirement that the applicant be a citizen, national, or permanent resident of the United States or in the United States for other than a temporary purpose. As an internal control measure and eligibility requirement, DTCC immediately ensured reinstatement of the United States citizenship/residency disclosure line of the Upward Bound Program application form.
Anticipated Completion Date	Completed immediately upon finding, effective September 2008.

Department of Education
Reference Number: 08-ED-01
Program: 84.287 Twenty-First Century Community Learning Centers
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Subrecipient Monitoring (Cash Management)

Criteria
Under the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act of 1992, codified at 31 USC 6501 and 31 USC 6503, the State of Delaware has entered into a Cash Management Improvement Act Agreement between the State of Delaware and the U.S. Secretary of the Treasury.

All CFDA numbers with expenditures of greater than $7.54 million are considered Subpart A programs under the jurisdiction of the Treasury-State agreement (note: that there is no clustering for purposes of the Treasury-State agreement). All other CFDA numbers (and programs without CFDA numbers) are considered Subpart B programs. For Subpart B programs, "cash advances to the State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs" (31 CFR section 205.7 and 205.20). The State of Delaware as a practical matter generally applies the same funding techniques required for its subpart A programs to its subpart B programs.

The predominant funding technique for the State is the Composite Clearance method, which is defined in the agreement as follows:

"The State shall request funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements, in accordance with the clearance pattern specified…The request shall be made in accordance with the appropriate Federal agency cut-off time specified...The amount of the request shall be the sum of the payments issued in the series of disbursements."

A State must submit to [the federal government] an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends… a State must submit a description and supporting documentation for liability claims greater than $5,000 (31CFR Part 205.26).

Condition

While the State Department of Education (DOE) has continued to strengthen its monitoring of its subrecipients, there was no specific guidance incorporated into the DOE's policies and procedures which substantiates funding its subrecipients on an installment basis, rather than a reimbursement basis. In addition, if the DOE is able to confirm that the installment basis is an acceptable basis for funding, then the DOE also needs to ensure it has specific policies and procedures in place to track the amount of unobligated funds provided to its subrecipients and minimize the time between any subrecipient advances and the subsequent disbursements.

The total amount of expenditures passed through to subrecipients was $3,238,440 for the year ended June 30, 2008. Total expenditures for the program as a whole were $4,176,198.

Cause

Because the objective of the Program is to establish or expand community learning centers, the DOE assumes that funding its subrecipients on an installment basis is an acceptable approach.

Effect

The DOE may be providing advance funding to its subrecipients that should only be funded on a reimbursement basis or, if advance funding is appropriate, there are no policies and procedures developed so that unobligated funds can be tracked and monitored to avoid excessive advance funding.

Recommendation

We recommend that the DOE confirm that an installment basis is an acceptable method for funding its subrecipients and that such confirmation be incorporated into its policies and procedures. In addition, if the installment basis is in accordance with Federal guidelines, the State DOE should develop a policy and procedure to track and monitor such funding so unobligated funds can be properly identified and minimize the time between the advances to subrecipients and the subrecipients subsequent disbursements.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 739-4269
Corrective Action Plan	We will confirm that the installment basis is an acceptable method for funding its subrecipients. We will also develop a policy so that unobligated funds can be properly identified and minimize the time between advances to subrecipients and the subrecipients subsequent disbursements.
Anticipated Completion Date	June 30, 2009

Department of Education
Reference Number: 08-ED-02
Program: 84.048 Career and Technical Education – Basic Grants to States
84.027, 84.173 Special Education Cluster (IDEA)
84.357 Reading First State Grants
84.367 Improving Teacher Quality State Grants
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria
Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Condition

Twenty-six payroll expenditures were tested at the State Department of Education, consisting of thirteen Career and Technical Educational expenditures, four Special Education expenditures and nine Reading First expenditures. While time and effort reports were present for each of the employees selected, four time and effort reports were not signed by the employee and/or their supervisor within 90 days of the end of the pay cycle end date being allocated and another fourteen time and effort reports did not indicate a date when they were signed.

In addition, as noted in a prior year finding, the State Department of Education was still in the process of developing procedures to make adjustments (quarterly or annually), as necessary, to payroll costs charged to federal awards in order to reflect the activity actually performed by their employees. DOE did have procedures in place that require employees to complete periodic time and effort certifications as required by OMB A-87; however, the costs charged to federal awards were based on budgeted amounts programmed through the State-wide payroll system. It was not until fiscal year 2009 that the DOE established a procedure to effectively adjust budgeted amounts to actual activity.

Cause

While the DOE does have procedures in place that require employees complete periodic time and effort certifications as required by OMB Circular A-87, the approval process, as evidenced by signature, for certifications is not always being performed on a timely basis or the timeliness of the approval process can not be determined because such approvals are not being dated.

Effect

The ability of employees and supervisors to verify accuracy of time being charged to federal programs may be diminished if the review and approval of the certifications occurs significantly after the period when the charges were incurred and if the time is initially based on budgeted amounts.

Recommendation

We recommend that DOE reinforce its policies and procedures to provide more timely reviews of time and effort certifications. We also recommend that DOE ensure that payroll charges reflect actual costs and accordingly, periodically adjust its payroll charges to federal awards based on the actual activity performed, as supported by the time and effort certifications.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Tammy Korosec
Agency Contact Phone Number	(302) 735-4045
Corrective Action Plan	Effective July 1, 2008, a new format was implemented in order to provide more timely review of time and effort certifications. The new format ensures that payroll charges reflect actual costs based on actual activity performed as supported by the time and effort certifications. This new format also allows for easier adjustments to payroll when necessary.
Anticipated Completion Date	July 1, 2008

Department of Education
Reference Number: 08-ED-03
Program: 84.010 Title I Grants to Local Educational Agencies
84.048 Career and Technical Education – Basic Grants to States
84.027, 84.173 Special Education Cluster (IDEA)
84.357 Reading First State Grants
84.367 Improving Teacher Quality State Grants
84.287 Twenty-First Century Community Learning Centers
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Criteria
To be allowable under federal awards, indirect costs must meet the following general criteria (34 CFR section 76.568).

A "restricted" indirect cost rate (RICR) must be used for programs administered by State and local governments and their governmental subrecipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds. Non-governmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless ED determines that the RICR would be lower. The formula for a restricted indirect cost rate is: RICR = (General management costs + Fixed costs) / (Other expenditures).

General management costs are costs of activities that are for the direction and control of the grantee's (or subgrantee's) affairs that are organization-wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as "Section I" costs and (2) departmental indirect costs. The term "general management" as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the "other expenditures" denominator:

(a) Divisional administration that is limited to one component of the grantee;
(b) The governing body of the grantee;
(c) Compensation of the chief executive officer of the grantee;
(d) Compensation of the chief executive officer of any component of the grantee; and
(e) Operation of the immediate offices of these officers.

Condition

The DOE has provided the school districts with a template for determining their indirect cost rates. While the template properly excludes the compensation of the chief executive officer (the superintendent), there is no evidence that the operation of the immediate offices of that officer (direct reports) are being properly excluded from general management costs.

Cause

The indirect cost rate template being utilized by the school districts does not address the need to review and possibly exclude any immediate offices of the superintendent from its indirect cost calculation.

Effect

If there are additional costs that should be excluded from the indirect cost amount then the indirect cost rates may be overstated.

Recommendation

We recommend that the DOE review its indirect cost rate template and ensure that all unallowable costs have been properly captured by the school districts and make adjustments to the template or its indirect cost rate instructions, as necessary.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Tammy Korosec
Agency Contact Phone Number	(302) 735-4045
Corrective Action Plan	Currently, we are under contract with Maximus to realign our LEA indirect cost formula in order to be in compliance with OMB A-87 to insure that all unallowable costs have been properly captured by school districts and charter schools.
Anticipated Completion Date	June 30, 2009

Department of Education
Appoquinimink School District
Brandywine School District
Cape Henlopen School District
Christina School District
Red Clay School District
Reference Number: 08-ED-04
Program: 84.010 Title I Grants to Local Educational Agencies
84.048 Career and Technical Education – Basic Grants to States
84.027, 84.173 Special Education Cluster (IDEA)
84.357 Reading First State Grants
84.367 Improving Teacher Quality State Grants
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria
Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Condition

Appoquinimink School District

Based on a sample of 13 payroll expenditures totaling $5,066, four employees charged to Special Education totaling $3,029 were missing time and effort reports. Total salaries and benefits charged by the Appoquinimink School District to the Special Education program amounted to $582,626.

Brandywine School District

Based on a sample of 30 payroll expenditures totaling $44,670, 10 employees totaling $14,593 were missing time and effort reports. In addition, five employees totaling $12,804 charged 100% of their time to the Special Education program based only on a 100% annual roster, rather than a semi-annual certification. Another 13 employees totaling $14,028 were charged to federal programs, but either did not account for 100% of their activities on their time and effort report or their time and effort reports were signed more than 3 months after the payroll period. Total salaries and benefits charged by the Brandywine School District to the above major federal programs amounted to $5,848,447.

Cape Henlopen School District

Based on a sample of eight payroll expenditures totaling $11,314, one employee totaling $1,139 charged to the Title I program was missing a time and effort report. Total salaries and benefits charged by the Cape Henlopen School District to the Title I program amounted to $963,800.

Christina School District

Based on a sample of 42 payroll expenditures totaling $98,178, one employee with two charges totaling $5,107 was erroneously being charged to the Reading First State Grants program instead of the Improving Teacher Quality State Grants program. Total salaries and benefits charged by the Christina School District to the Reading First Grants program amounted to $266,888.

Red Clay
Based on a sample of 70 payroll expenditures totaling $81,292, 13 employee charges for the Improving Teacher Quality program were, in the aggregate, $5,682 less than the percentages indicated on their signed time and effort reports. Total salaries and benefits charged by the Red Clay School District to the Improving Teacher Quality program amounted to $1,341,734.

Cause
The School Districts cited above either did not maintain proper and timely effort reporting for employees that were partially funded for federal programs or semi-annual certifications for employees charged 100% to federal programs or based their charges to federal programs based on estimates and not actual time and effort.

Effect
Salary and related costs allocated to these federal programs are not appropriately supported by the required semi-annual certifications or time and effort reports.

Recommendation
We recommend that the above School Districts maintain personnel activity reports (time and 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. These time and effort reports should only be signed to reflect actual effort expended on each respective program.

Questioned Costs
Known questioned costs amounted to an overcharge of $5,107 to the Reading First State Grants program. In addition, the following charges were related to the missing time and effort reports: $5,298 for the Special Education Program, $6,816 for the Title I program, and $6,647 for the Improving Teacher Quality program.

Views of Responsible Officials

Appoquinimink School District	
Agency Contact Name	Chuck Longfellow
Agency Contact Phone Number	(302) 376-4126
Corrective Action Plan	The District agrees with the finding. The District has created a standard semi-annual time-and-effort report format with the required elements and distributed it to all Federal program managers and their secretaries. A meeting was held with Federal program managers and secretaries to reinforce the importance of time-and-effort reporting.
Anticipated Completion Date	Immediately
Brandywine School District	
Agency Contact Name	David Blowman
Agency Contact Phone Number	(302) 793-5045

Corrective Action Plan	New forms have been developed for use by grant managers in capturing the required information on employees partially funded through federal programs. These documents make it very clear what information is required and the necessity for the information to be collected each month. E-mail reminders are sent periodically to remind these same program managers of the need to maintain the semi-annual rosters of employees totally funded through federal funds.
Anticipated Completion Date	April 30, 2009
Cape Henlopen School District	
Agency Contact Name	Oliver Gumbs
Agency Contact Phone Number	(302) 645-6686
Corrective Action Plan	The District agrees with the finding. The District will reinforce the requirements with all staff who are funded by federal funds.
Anticipated Completion Date	June 30, 2009
Christina School District	
Agency Contact Name	Robert Silber
Agency Contact Phone Number	(302) 552-2614
Corrective Action Plan	The one employee cited above was charged against Title II funds for the early part of 2007 – 2008. Our internal review of the Time and Effort Sheets identified that this person should be charged against the Reading First Grant. The District took corrective action to assure correct coding of expenses. We however failed to have a revised Time and Effort Sheet signed. The District currently maintains personnel activity reports for all employees who work on multiple programs or obtains semi-annual certifications for employees that have been solely engaged in activities supported by one funding source. We will revise our policy to reflect the requirement that a Revised Time and Effort form be completed and signed should payroll corrections for federal funds be processed that affect previously executed forms.
Anticipated Completion Date	Immediately
Red Clay School District	
Agency Contact Name	Jill Floore
Agency Contact Phone Number	(302) 552-3725

Corrective Action Plan	The District did keep records for the time and effort reporting. However, the District agrees the time and effort sheets incorrectly reported an average state/local split of 70%/30% for teachers. The State share of teacher salaries varies based on their degree and years of experience and can deviate slightly from the average 70% split. In the future, actual salary percentages based on the state salary schedule will be reflected on the time and effort sheets.
Anticipated Completion Date	Immediately

Department of Education
Christina School District
Reference Number: 08-ED-05
Program: 84.010 Title I Grants to Local Educational Agencies
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Criteria

If a Local Education Agency (LEA) or School District consolidates administrative funds, the LEA may not use any other funds from the consolidating programs for administration. A LEA that consolidates administrative funds is not required to keep separate records of administrative costs for each individual program. Expenditures of consolidated administrative funds are allowable if they are for administrative costs that are allowable under any of the contributing programs (Sections 9201 and 9203 of ESEA (20 USC 7821 and 7823)).

The LEA may treat the consolidated administrative cost objective as a "dedicated function." As a result, an employee who works solely on consolidated administrative activities may meet the semi-annual certification requirement under OMB Circular A-87, Attachment B, paragraph 8.h.(3), either by submitting semi-annual certifications to cover the consolidated activities or through time and attendance certifications accomplished under the State's or the LEA's normal standards for payroll documentation.

Under section 14203 of Title XIV, an LEA may consolidate administrative funds with the approval of its SEA (State Education Agency) or State Department of Education. The SEA must develop procedures for responding to requests from LEAs to consolidate administrative funds and those procedures must be developed in collaboration with LEAs. Therefore, the SEA has some discretion in determining whether its LEAs may consolidate administrative funds, but the LEAs also have input into that determination. An SEA, however, may not require its LEAs to consolidate administrative funds.

Condition

The School District did not obtain a formal positive confirmation from the State Department of Education to consolidate its administrative funds. In addition, the Career and Technical Education – Basic Grants to States program (CFDA 84.048) was being included as part of the consolidated administrative funds until February of 2008, even though that program is not a covered program for consolidation.

Cause

The consolidation of administrative funds was a relatively new initiative and some of the requirements did not get formally reviewed and documented before being implemented.

Effect

Since the consolidation of federal administrative funds was not formally approved, federal administrative staff may be required to complete monthly time and effort reports in place of the semi-annual certifications that are presently being maintained. The administrative staff was improperly including the Career and Technical Education – Basic Grants to States program as part of its consolidated administrative funds until February of 2008; however, because only 1% of actual effort was allocated from the two federal administrative staff, the amount allocated is not material to the program.

Recommendation

We recommend that the District obtain a formal positive confirmation from the State Department of Education to consolidate its federal administrative funds and ensure that such funds consist only of covered programs for consolidation.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Robert Silber
Agency Contact Phone Number	(302) 552-2614
Corrective Action Plan	We agree with the condition statement. Consolidation of Administrative Funds was done for federal appropriations (Title I, II, and IV), which is permitted by regulation. We requested formal approval from Delaware Department of Education (DDOE) on August 14, 2008. It was our belief that DDOE approval of the Consolidated Application (which documents the funding sources used for administration) would serve as formal approval of the consolidation. DDOE replied to our inquiry that DDOE would issue a separate formal letter of approval. To date, the District has yet to receive notification, from DDOE, as to the disposition of our request.
Anticipated Completion Date	June 30, 2009

Department of Education
Appoquinimink School District
Reference Number: 08-ED-06
Program: 84.010 Title I Grants to Local Educational Agencies
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility (Targeted Assistance)

Criteria

Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA, and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services (Title I, Section 1115 of ESEA (20 USC 6315)).

Condition

For five out of the 25 students selected for eligibility testwork, there were no files or other information available to support how the District determined that those students were eligible to receive Title I funds.

Cause

There were no files or other information maintained for certain students who were provided Title I services.

Effect

Federal funding for Title I services could have been provided to students who were not eligible to receive such services.

Recommendation

We recommend that the District develop procedures to ensure that files are maintained to verify the eligibility of each student who receives Title I, Part A services.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Chuck Longfellow
Agency Contact Phone Number	(302) 376-4126
Corrective Action Plan	The District agrees with the finding. The Title I Program Manager has written and distributed a checklist of items required to substantiate inclusion of students in Title I targeted assistance. She will also remind school Title I coordinators each year of the requirements. She will also provide one-on-one assistance as needed to the school which generated the finding to improve processes.
Anticipated Completion Date	Immediately

Department of Education
Brandywine School District
Cape Henlopen School District
Reference Number: 08-ED-07
Program: 84.010 Title I Grants to Local Educational Agencies
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Schoolwide Programs)

Criteria

A school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal (except Reading First), State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

a. To operate a schoolwide program, a school must include the following three core elements:
   (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
   (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
   (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).

b. A schoolwide plan also must include the following components:
   (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
   (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).
   (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
   (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
   (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).

Condition

Brandywine School District

We noted that the third and fifth elements in b. above were not included in one of the two Schoolwide plans we reviewed. The District had seven Schoolwide programs during the year ended June 30, 2008.

Cape Henlopen School District

We noted that the third and fifth elements in b. above were not included in one of the two Schoolwide plans we reviewed. We also noted that the fifth element in b. above was not included in the other Schoolwide plan we reviewed. The District had four Schoolwide programs during the year ended June 30, 2008.

Cause
The Districts did not ensure that each required component was present in each Schoolwide plan.

Effect
Three of the Schoolwide plans we reviewed were not in compliance with Federal regulations.

Recommendation
We recommend that the Districts develop procedures to ensure each Schoolwide plan incorporates all necessary components listed in the Federal regulations.

Questioned Costs
There are no questioned costs associated with this finding.

Views of Responsible Officials

Brandywine School District	
Agency Contact Name	Lynn Linscott
Agency Contact Phone Number	(302) 793-5014
Corrective Action Plan	The Brandywine School District is undergoing significant revisions to its School Improvement Plan to bring it in alignment with the State Success Planning online tool and the Ten Required Components for School Improvement Plans under Title I. The auditors mentioned that although one of the plans didn't specifically deal with Highly Qualified Teachers (HQT), the fact that the District had an overall policy and rate, they didn't consider it an exception. The District has an overall plan for transition activities with private preschools and Head Start programs in the area to prepare students for transition into kindergarten. A statement about those policies will become part of the School Improvement plans for Title I Schools.
Anticipated Completion Date	June 1, 2009
Cape Henlopen School District	
Agency Contact Name	Oliver Gumbs
Agency Contact Phone Number	(302) 645-6686
Corrective Action Plan	The District agrees with the finding. The District will ensure all components of the plans are reviewed for completeness upon submission and request revisions, as necessary.
Anticipated Completion Date	Immediately

Department of Education
Christina School District
Reference Number: 08-ED-08
Program: 10.553, Child Nutrition Cluster
10.555,
10.556,
10.559
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Criteria
The Committee of Sponsoring Organizations of the Treadway Commission's report Internal Control - Integrated Framework identifies segregation of duties as a control activity where "Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions . . . An appropriate segregation of duties often appears to present difficulties in smaller organizations, at least on the surface. Even (entities) that have only a few employees, however, can usually parcel out their responsibilities to achieve the necessary checks and balances." Segregation of duties is also identified as a monitoring activity. "Appropriate organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies . . . Also, duties of individuals are divided so that different people serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her suspect activities."

Federal funds are received by the State for the Child Nutrition Cluster, federal CFDA numbers 10.553, 10.555, 10.556, and 10.559. To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C):

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards. A cost generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be adequately documented.

Condition
The District's Child Nutrition program does not have adequate internal controls including management review and segregation of duties. A lack of sufficient internal controls within the District's Child Nutrition program resulted in a net loss of $5,498.39.

We determined that the Supervisor had access to the Child Nutrition bank account including a debit card for the account. We reviewed activity in the account for the period of July 1, 2007 through October 15, 2008 and found the following:

- The Director made $4,048.85 in personal purchases.
- Transactions totaling $5,062.33 lacked sufficient supporting documentation. After reviewing the vendor names, type of purchases, and discussing with CSD representatives, AOA determined that purchases totaling $3,614.64 were not for the benefit of the Child Nutrition Program.
- Computer equipment was purchased with Child Nutrition funds. The District was unable to locate the Director's laptop and other computer related equipment totaling $2,151.25.
- The Secretary for the Child Nutrition program indicated that the Director wrote 7 personal checks to CSD as reimbursement for his personal expenses. However, the Secretary was only able to produce documentation supporting 4 of the checks. CSD did not have support for 3 checks totaling $497.17. The 4 reimbursements reviewed, totaling $4,316.35, were all made in October 2008.
- Funds in the bank account reviewed included both local school district and federal funds received by the State of Delaware under the Child Nutrition Cluster program. We were unable to determine the portion of the unauthorized expenditures or the net loss to the District that is related to federal or local funds, since the monies within this account are commingled, and expenditures from the account are not marked as to source of funding.

Cause

The Director's intentional disregard for established policies and procedures as well an insufficient review at the District Office level.

The District did not ensure that all transactions were properly reviewed for allowability and properly documented and/or did not maintain documentation to support the transaction.

Effect

The lack of adequate internal controls resulted in a theft of funds, unsupported purchases, and noncompliance with policies and procedures.

Review of transactions prior to processing (as evidenced by signature on the transaction document) is the primary control regarding the allowability of costs charged to federal awards.

Recommendation

The District should strengthen internal controls. The following should be considered in order to strengthen controls:

- Monthly bank reconciliations should be performed outside of the Child Nutrition Office.
- Provide additional management oversight for all Child Nutrition operations.

The District should adhere to established policies and procedures to ensure that transactions are appropriately approved in accordance with State and District policy and that appropriate supporting documentation is maintained with all processed transactions.

In addition, the District should require repayment from the Director for the remaining net loss ($5,498.39).

Questioned Costs

The questioned costs associated with this finding are undeterminable as there is no record maintained by the District as to the source of funding (i.e. local or federal) used to pay for the questionable expenditures noted in the Child Nutrition program bank account, but the questioned costs could be no more than the total questionable expenditures noted of $9,814.74.

Views of Responsible Officials

Agency Contact Name	Robert A. Silber
Agency Contact Phone Number	(302) 552-2614
Corrective Action Plan	The District will require the repayment of $5,498.39 from the Supervisor (referred to above as Director) of Child Nutrition Services. The Christina School District has taken steps to tighten the internal controls over Child Nutrition Services. On a monthly basis the Business Office will: ▪ Review bank statements prior to reconciliation and identify items requiring support documentation. ▪ Review the bank reconciliations. ▪ Review Fuelman Account. ▪ Review use of Debit Card, to assure usage is limited to emergency purchases or purchases with pre-approval documentation. Additionally, the District Business Office will review the monthly profit and loss statement of Child Nutrition Services and review performance against budget.
Anticipated Completion Date	Immediately

Department of Health and Social Services
Reference Number: 08-DHSS-01

Program:	**10.551, 10.561**	**Food Stamp Cluster**
	66.468	**Capitalization Grants for Drinking Water State Revolving Funds**
	93.044, 93.045, 93.053	**Aging Cluster**
	93.268	**Immunization Grants**
	93.283	**Centers for Disease Control and Prevention, Investigations, and Technical Assistance**
	93.563	**Child Support Enforcement**
	93.558	**Temporary Assistance for Needy Families**
	93.959	**Block Grants for Prevention and Treatment of Substance Abuse**
	93.568	**Low Income Home Energy Assistance**
	93.596	**Child Care Cluster**
	93.667	**Social Services Block Grant**
	93.767	**State Children's Health Insurance Program**
	93.775, 93.777, 93.778	**Medical Assistance Cluster**
	93.917	**HIV Care Formula Grants**

Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Cash Management

Criteria

Under the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act of 1992, codified at 31 USC 6501 and 31 USC 6503, the State of Delaware has entered into a Cash Management Improvement Act Agreement (Agreement) between the State of Delaware and the U.S. Secretary of the Treasury.

All CFDA numbers with expenditures greater than $7.54 million are considered Subpart A programs under the jurisdiction of the Treasury-State agreement (note that there is no clustering for purposes of the Treasury-State agreement). All other CFDA numbers (and programs without CFDA numbers) are considered Subpart B programs. For Subpart B programs, "cash advances to the State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs" (31 CFR section 205.7 and 205.20). The State of Delaware as a practical matter generally applies the same funding techniques required for its subpart A programs to its subpart B programs.

The predominant funding technique for the State is the Composite Clearance method, which is defined in the agreement as follows:

"The State shall request funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements, in accordance with the clearance pattern specified…The request shall be made in accordance with the appropriate Federal agency cut-off time specified...The amount of the request shall be the sum of the payments issued in the series of disbursements."

A State must submit to [the federal government] an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends…a State must submit a description and supporting documentation for liability claims greater than $5,000 (31CFR Part 205.26).

Condition
For five of the 13 drawdowns selected for testing, we noted that the amount of the drawdown did not agree to supporting documentation from the State's general ledger, Delaware Financial Management System (DFMS). We noted in certain cases the drawdown request exceeded the supporting expenditure amounts in DFMS.

Cause
Lack of management review to ensure drawdown amounts are properly reconciled to the disbursements per the State's general ledger (DFMS).

Effect
Amounts drawn down may not be in compliance with the Agreement.

Recommendation
We recommend that the Department enhance its policies and procedures for drawing down federal funds in order to ensure they are in compliance with the terms of the Agreement.

Questioned Costs
Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Robert A. Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	DMS-Grants began using actual screen prints of current DFMS expenditures by appropriation for the weekly drawdowns as supporting documentation and not relying on the Daily Validity report. A revised procedures manual has been developed and is being used for the current process.
Anticipated Completion Date	March 2009

Department of Health and Social Services
Reference Number: 08-DHSS-02
Program: 10.551, Food Stamp Cluster
10.561
93.558 Temporary Assistance for Needy Families
93.596 Child Care Cluster
93.667 Social Services Block Grant
93.767 State Children's Health Insurance Program
93.775, Medical Assistance Cluster
93.777,
93.778
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Criteria
The State follows a Public Assistance Cost Allocation Plan (PACAP) that administers Federal programs within the Division of Social Services (DSS), Division of Medicaid and Medical Assistance (DMMA), and Divisions of Management Services, all of which are divisions within the Delaware Department of Health and Social Services (DHSS). The PACAP plan was effective for the period July 1, 2005 through September 30, 2008. A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR section 95.507).

Condition
The Department did not follow its cost allocation plan when charging costs related to DMMA. The PACAP plan designates DMMA costs to be charged directly to the Medicaid program or through the indirect charge method across all DMMA programs. However, the Department was incorrectly allocating the DMMA related costs among the DSS programs.

Cause
The State did not set up the proper allocation method within its general ledger system to allocate DMMA costs in accordance with the approved PACAP.

Effect
DMMA costs were charged incorrectly to DSS federal programs and were not charged in accordance with the approved PACAP.

Recommendation
We recommend the State ensures its general ledger, Delaware Financial Management System (DFMS), is properly configured to allocate costs out of the cost pool in accordance with its approved 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.

Questioned Costs
Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Robert A. Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	The Department initiated steps prior to the start of this audit to revise DFMS and the cost allocation to align with the PACAP. The conditional approval received by our federal agency required restating 2007 and 2008 federal reports. These revisions have been submitted for review and approval. DHSS continues to seek a resolution to these cost allocation concerns through the PeopleSoft Accounting system that will be implemented in state fiscal year 2011.
Anticipated Completion Date	July 2010

Department of Health and Social Services
Reference Number: 08-DHSS-03
Program: 93.044, Aging Cluster
93.045,
93.053
93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance
93.959 Block Grants for Prevention and Treatment of Substance Abuse
93.667 Social Services Block Grant
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Suspension and Debarment

Criteria
Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (CFR, Part II, "Government wide Debarment and Suspension").

Condition
The State uses a standard boiler plate contract to ensure adherence to the suspension and debarment requirements discussed above. However, the suspension and debarment clause in the boiler plate contract covers procurement expenditures for goods or services equal to or in excess of $100,000 instead of the $25,000 that is required for all contracts entered into after November 26, 2003 per the regulations above.

The following table details the total expenditures incurred during fiscal year 2008 related to vendor contracts entered into below the $100,000 threshold, but above the $25,000 threshold, and the amount of those expenditures included in the testing during 2008.

Federal Program	**Vendor contracts below $100,000 but above $25,000**	**Amount included in 2008 testing**
Aging Cluster	$ 683,135	$ 68,034
Centers for Disease Control and Prevention, Investigations, and Technical Assistance	1,003,548	30,000
Block Grants for Prevention and Treatment of Substance Abuse	534,719	126,190
Social Services Block Grant	1,057,331	221,221
Totals	**$3,278,733**	**$ 445,445**

Cause
The State did not perform the required suspension and debarment criteria, as detailed in the ***Criteria*** section above.

Effect
The Programs noted above may award federally funded contracts to disallowed vendors.

Recommendation
We recommend the State change its boilerplate contract to ensure that all procurements with federal funds are in compliance with federal procurement, suspension, and debarment requirements.

Questioned Costs
The questioned costs are $3,278,733.

Views of Responsible Officials

Agency Contact Name	Robert A. Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	The standard boiler plate contract has been revised and implemented which includes the federal regulations concerning suspension and debarment.
Anticipated Completion Date	Completed

Department of Health and Social Services
Reference Number: 08-DHSS-04

Program:	**10.551, 10.561**	**Food Stamp Cluster**
	10.557	**Special Supplemental Nutrition Program for Women, Infants, and Children**
	66.468	**Capitalization Grants for Drinking Water State Revolving Funds**
	93.268	**Immunization Grants**
	93.563	**Child Support Enforcement**
	93.558	**Temporary Assistance For Needy Families**
	93.568	**Low Income Home Energy Assistance**
	93.596	**Child Care Cluster**
	93.767	**State Children's Health Insurance Program**
	93.775, 93.777, 93.778	**Medical Assistance Cluster**
	93.917	**HIV Care Formula Grants**

Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Suspension and Debarment

Criteria
Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (CFR, Part II, "Government wide Debarment and Suspension").

Condition
The State uses a standard boilerplate contract to ensure adherence to the suspension and debarment requirements discussed above. However, the suspension and debarment clause in the boiler plate contract covers procurement expenditures for goods or services equal to or in excess of $100,000 instead of the $25,000 that is required for all contracts entered into after November 26, 2003 per the regulations above.

The following table details the total expenditures incurred during fiscal year 2008 related to vendor contracts entered into below the $100,000 threshold, but above the $25,000 threshold, and the amount of those expenditures included in the testing during 2008.

Federal Program	**Vendor contracts below $100,000 but above $25,000**	**Amount included in 2008 testing**
Food Stamp Cluster	$ 96,338	$ -
Special Supplemental Nutrition Program for Women, Infants, and Children	351,458	54,494
Capitalization Grants for Drinking Water State Revolving Funds	281,584	61,253
Immunization Grants	119,392	27,095
Child Support Enforcement	430,328	-
Temporary Assistance For Needy Families	143,622	69,651
Low Income Home Energy Assistance	77,050	-
Child Care Cluster	92,021	-
State Children's Health Insurance Program	33,023	-
Medical Assistance Cluster	347,823	-
HIV Care Formula Grants	163,064	-
Totals	**$2,135,703**	**$ 212,493**

Cause
The State did not perform the required suspension and debarment criteria, as detailed in the ***Criteria*** section above.

Effect
The Programs noted above may award federally funded contracts to disallowed vendors.

Recommendation
We recommend the State change its boiler plate contract to ensure that all procurements with federal funds are in compliance with federal procurement, suspension, and debarment requirements.

Questioned Costs
The questioned costs are $2,135,703.

Views of Responsible Officials

Agency Contact Name	Robert Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	The standard boilerplate contract has been revised and implemented which includes the federal regulations concerning suspension & debarment.
Anticipated Completion Date	Completed

Department of Health and Social Services
Reference Number: 08-DHSS-05
Program: 93.775, Medical Assistance Cluster
93.777,
93.778
Type of Finding: Significant Deficiency
Compliance Requirement(s): Allowable Costs

Criteria
To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C):

- Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
- Be adequately documented.

Condition
Two of 40 intrastate transactions selected for testwork, totaling $69,395, were not signed by two authorized signers, as required by Department policies and the State *Budget and Accounting Manual*. The total dollar value of the 40 transactions tested was $7,248,984. We noted that all 40 of these transactions were for allowable expenditures.

Cause
The Division of Medicaid and Medical Assistance (DMMA) did not ensure that all transactions were properly reviewed for allowability and properly documented and/or did not maintain documentation to support the transactions.

Effect
Intrastate vouchers were not appropriately approved by DMMA personnel in accordance with State and agency policy. Review of transactions prior to processing (as evidenced by signature on the transaction document) is the primary agency control to review the allowability of costs charged to federal awards.

Recommendation
We recommend DMMA ensure it follows its established policies and procedures to ensure that intrastate vouchers are appropriately approved in accordance with State and agency policy and that appropriate supporting documentation is maintained with all processed transactions.

Questioned costs
There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Robert A. Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	DHSS will ensure that staff follow established policies and procedures for Intergovernmental Vouchers and obtain two authorized signatures for all documents.
Anticipated Completion Date	Completed February 2009

Department of Health and Social Services
Reference Number: 08-DHSS-06
Program: 93.596 Child Care Cluster
93.558 Temporary Assistance for Needy Families
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting, Matching, Level of Effort, Earmarking

Criteria
Child Care Cluster

Reporting
ACF-696, *Child Care and Development Fund Financial Report (OMB No 0970-0163)* is due quarterly from States and territories. The ACF-696T, *Child Care and Development Fund Financial Report for Tribes* (*OMB No. 0970-0195)* is required from tribes. These reports are in lieu of the SF-269, *Financial Status Report.* Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).

Matching
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…To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53).

No more than 30 percent of State matching claims may be for pre-kindergarten services. The 30 percent threshold is based on a regulatory provision implemented beginning in fiscal year 2008…The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

Level of Effort
If a State requests Matching Funds (CFDA 93.596), State MOE (non-Federal) funds for child-care activities must be expended in the year for which Matching Funds are claimed in an amount that is at least equal to the State's share of expenditures for fiscal year 1994 or 1995 (whichever is greater) under former Sections 402(g) and (i) of the Social Security Act (42 USC 618). Private or public donated funds may be counted as State expenditures for this purpose.(45 CFR section 98.53).

No more than 20 percent of the MOE requirement may be met with State expenditures for pre-kindergarten services. The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

Earmarking

Administrative Earmark
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).

Quality Earmark
States and Territories must spend on quality and availability activities, as provided in the State/Territorial plan, not less than four percent of CCDF funds expended (i.e. the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed. (45 CFR Section 98.51)

Temporary Assistance for Needy Families

Reporting
ACF-196, *TANF Financial Report (OMB Control No. 0970-0247)* – States are required to submit this report quarterly in lieu of the SF-269, Financial Status Report. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds. States that received Federal Contingency Funds under section 3 of Pub. L. No. 109-68 will report expenditures on line g. of the current TANF ACF-196 Financial Report form.

Level of Effort
Every fiscal year, a State must maintain an amount of "qualified State expenditures" for eligible families (as defined in 42 USC 609(a)(7)(B)(i)(IV) and 45 CFR section 263.2(b)) at least at the applicable percentage of the State's historic State expenditures. Qualified expenditures with respect to eligible families may come from all programs, i.e., the State's TANF program as well as programs separate from the State's TANF program.

Earmarking
A State may not spend more than 15 percent for administrative purposes, excluding expenditures for information technology and computerization needed for required tracking and monitoring, of the total combined amounts available under the State family assistance grant, supplemental grant for population increases, and contingency funds (42 USC 604(b)(1) and (2); 45 CFR sections 263.0 and 263.13).

Condition

Child Care Cluster
The Division was not able to provide supporting documentation from the Delaware Financial Management System (DFMS) to support the amounts reported in the ACF 696 for the quarters ended September 30, 2007 and June 30, 2008 for grant expenditures made during fiscal year 2008. The unsupported amount for the ACF 696 reports totaled $118,886. In addition, due to the lack of supporting documentation for the amounts presented on these reports, we were not able to test compliance with the matching, level of effort and earmarking requirements.

Temporary Assistance for Needy Families
The Division was not able to provide supporting documentation from DFMS to support the amounts reported in the ACF 196 for grant year 2008, 2007, 2006 and 2005 expenditures made during fiscal year 2008. The unsupported amount for the ACF 196 reports totaled $24,406,585. In addition, due to the lack of supporting documentation for the amounts presented on these reports, we were not able to test compliance with the level of effort and earmarking requirements.

Cause
Management did not maintain copies of the supporting documentation and was not able to provide data from the DFMS system for the time periods in question.

Effect
Certain amounts reported on the ACF 696 and ACF 196 for Child Care and TANF, respectively, cannot be validated for accuracy. Also, due to the lack of support, we were unable to verify compliance with the level of effort and earmarking requirements for both programs.

Recommendation
We recommend that management maintain copies of supporting documentation for all reports required by the grant.

Questioned Costs
Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Robert A. Bubacz
Agency Contact Phone Number	(302) 255-9247
Corrective Action Plan	DHSS has implemented changes in July 2008 which will more accurately track TANF and CCDF expenditures using reporting categories and improved spreadsheets which will provide the needed supporting documentation for all reports.
Anticipated Completion Date	Completed October 2008

Department of Health and Social Services
Reference Number: 08-DHSS-07
Program: 93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Davis-Bacon Act

Criteria
Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).

Condition
During fiscal year 2008, $35,300 in federal funds were expended in Public Health Preparedness Section (PHPS) construction projects for which the contractor did not contemporaneously submit certified payroll records to the State. The projects were 100% federally funded.

Although the PHPS was aware that the federal prevailing wage rates applied and the contractor was so informed, the PHPS did not have policies and procedures in place to require submission of and monitor certified payrolls.

Cause
Federally funded construction projects are infrequent for most State agencies, including the PHPS.

Under State law, State-funded construction projects follow a separate set of prevailing wage rate regulations. Under these regulations, contractors are not required to submit certified payrolls to the State of Delaware but must retain them on file for a period of three years. The State Department of Labor, Division of Labor Law Enforcement is responsible for oversight of prevailing wage rates for State-funded construction projects, but does not have responsibility for Federally funded projects.

Effect
Differences between State and federal requirements concerning prevailing wage rates have resulted in a lack of clarity concerning requirements and responsibilities related to Federally funded or jointly funded construction projects.

Recommendation

Because the State Department of Labor, Division of Labor Law Enforcement does not have responsibility for oversight of Federal construction projects, we recommend that the PHPS develop policies and procedures related to Federally funded construction projects that include procedures and assignment of responsibility for monitoring Davis-Bacon Act submissions from contractors at the Department level.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Michael Bundek
Agency Contact Phone Number	(302) 255-9278
Corrective Action Plan	Procedure has been developed and responsibility to review the submitted payrolls has been assigned to the Capital Program Administrator. All payrolls submitted for fiscal year 2009 will be reviewed.
Anticipated Completion Date	Completed

Department of Health and Social Services
Division of Services for Aging and Adults with Physical Disabilities
Reference Number: 08-AGI-01
Program: 93.044, Aging Cluster
93.045,
93.053
93.667 Social Services Block Grant
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria
Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample result.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Condition
Employees who are 100% charged to the Aging Cluster complete semi-annual certifications in accordance with OMB Circular A-87. For employees who work on multiple cost objectives, the Division of Services for the Aging and Adults with Physical Disabilities (DSAAPD) has not yet developed a system to accurately allocate costs based on actual effort.

Cause
DSAAPD is in the process of implementing a system to appropriately allocate salary costs based on effort.

Effect
Salaries may be inappropriately allocated to the Aging Cluster and SSBG programs.

Recommendation
We recommend that the DSAAPD continue development of procedures to allocate salaries based on time studies performed in accordance with its Summary Status of Prior Year Findings.

Questioned Costs
Questioned costs for the Aging Cluster are $1,334,962, which represent total salaries of $922,470 and fringe costs of $412,492 allocated to the program for individuals subject to time studies. Questioned costs for SSBG are $81,820, which represents total salaries of $56,158 and fringe costs of $25,662 allocated to the program.

Views of Responsible Officials

Agency Contact Name	Albert Griffith
Agency Contact Phone Number	(302) 255-9355
Corrective Action Plan	The Division of Services for Aging and Adults with Physical Disabilities (DSAAPD) utilizes a federally approved cost allocation system for tracking employee time. This cost allocation plan was recently updated and revised. Through this process prospective employee funding changes are initiated; these changes address future payroll expenditures. The Division then initiates documents to correct employee payroll expenditures. Making mass payroll changes to approximately half of the Division's payroll coding presents a significant challenge given the ongoing hiring freeze and current 50% vacancy rate in the Fiscal Office. The Division will make every effort to make the mass payroll changes.
Anticipated Completion Date	July 1, 2010

Department of Health and Social Services
Division of Services for Aging and Adults with Physical Disabilities
Reference Number: 08-AGI-02
Program: 93.044, Aging Cluster
93.045,
93.053
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Criteria
A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's Fiscal Year have met the audit requirements of OMB Circular A-133…and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

Condition
Subrecipients with expenditures less than $500,000 do not receive an audit according to OMB Circular A-133. For 23 of the 24 planned subrecipient monitoring visits, we noted that management was not performing site visits to ensure that program requirements were being followed; including program income being reported by these subrecipients was correct or complete. Thus, we were unable to determine that program income for these entities was being applied to the program according to the applicable federal requirements. Only one monitoring site visit out of 24 planned subrecipient monitoring visits was completed during fiscal year 2008. During fiscal year 2008, the latest available OMB Circular A-133 reports were not obtained from all the subrecipients or in the case for subrecipients that expend less than $500,000 in federal awards, a certification that no A-133 report is required.

Cause
We noted that site visits are not being performed in accordance with the criteria noted above due to low staffing levels. During site visits that are performed, program income is not reviewed to ensure the subrecipient has a system in place to properly collect and record all voluntary program income and ensure all the program income is properly reported to DSAAPD.

Effect
Subrecipients may not be in compliance with applicable federal program requirements.

Recommendation

We recommend DSAAPD perform monitoring site visits and obtain the latest available OMB Circular A-133 reports or certifications that an A-133 report is not required from subrecipients to ensure their compliance with federal regulations. We also recommend that management implement procedures during its site visits to review controls in place at the subrecipient level over collecting, tracking and reporting program income and that DSAAPD consider verifying the program income reported by subrecipients on quarterly reports submitted to DSAAPD against supporting documents during its site visits.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Albert Griffith
Agency Contact Phone Number	(302) 255-9355
Corrective Action Plan	Due to a statewide hiring freeze, the Division's Contract Unit is operating at 40% of normal staffing. Therefore, we are implementing a desk audit procedure where Contract Unit staff will have the subrecipient complete a series of self monitoring tools along with quarterly financial and performance reports. The Division will continue to collect, review and follow-up on subreceipent A-133 audit reports or statements. The program income monitoring issue has been addressed in policy, training, and with a newly developed invoice.
Anticipated Completion Date	July 1, 2010

Department of Health and Social Services
Division of Child Support Enforcement
Reference Number: 08-CSE-01
Program: 93.563 Child Support Enforcement
Type of Finding: Material Weakness, Material Noncompliance
Compliance Requirement(s): Special Tests and Provisions (Paternity and Support Obligations and Medical Support Obligations)

Criteria

Paternity and Support Obligations

Federal regulations require that the agency responsible for child support enforcement (IV-D agency) attempt to establish paternity and a support obligation for children born out of wedlock. The IV-D agency must establish a support obligation where paternity is not an issue by providing services within specified time frames to ensure that these services are carried out. (CFR § 303.3(b) (3)).

Medical Support Obligations

Federal regulations require that the IV-D agency attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for DCSE services. The IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court to include medical support in the form of health insurance coverage in all new or modified orders for support. In cases where medical support is ordered, the agency is required to verify that it was obtained or enforce the court order if it was not obtained. Finally, the agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR § 303.31).

Condition

In prior years, it was recommended that DCSE establish appropriate steps to review worklists generated by the Delaware Automated Child Support Enforcement System (DACSES) computer system to determine cases requiring action in order to provide adequate lead time for employees to complete actions necessary to comply with time requirements. It was also recommended that DCSE enhance DACSES to include documentation regarding:

- Documentation of health insurance coverage obtained by the custodial parent,
- Confirmation of health insurance available (or unavailable) at a reasonable cost by the non-custodial parent, and
- Additional enforcement action taken to obtain available reasonable-cost health insurance.

It was further recommended that DCSE replace DACSES with a computer system that could better facilitate establishment of paternity, support and medical support obligations. It is also noted DCSE should ensure evidence of appropriate documentation of programmer access or change control for programmers be maintained in the new computer system.

DCSE continues to work toward implementation of these recommendations. However, per DCSE's Summary Status of Prior Year Findings, recommendations were only partially implemented as of June 30, 2008.

In the current year, one out of 60 cases selected for testwork had no record of attempt to establish paternity and two out of 60 cases selected for testwork had no support for enforcement of support obligations.

Cause
Management is continuing to work on the implementation of the findings from prior years and has not been able to fully implement all corrective actions in the current year.

Effect
If action is not taken within the required time frames, paternity is not established, when applicable, and support obligations therefore cannot be established.

Recommendation
We recommend that management continue with its corrective action plan including the following initiatives:

- Work list management initiative
- Training initiative
- Redistribution of caseloads
- Division of Child Support Enforcement/Division of Social Services interface
- New post-court DACSES screen
- National medical support notice
- New DACSES system

Questioned Costs
Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Theodore Mermigos, Midge Holland, and Andrew Haman
Agency Contact Phone Number	(302) 395-6520
Corrective Action Plan	**Work list management initiative** ***(Partially corrected see phases below)*** Phase I: Eliminate the creation of duplicate worklist items. **Completed - September 5, 2004** Phase II: Consolidation of the creation of the worklist items, including a new hierarchy of the worklist items. **Completed - April 17, 2005** Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers. **Completed - June 20, 2007** Phase IV: All processes and worklists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to worklist items. A**nticipated completion date: May 2009** Phase V: Evaluation Completion of the total Worklist Management initiative is projected for December 2010 (significant amount of time is required for data cleanup as this is the final phase). **Training initiative** DACSES Worklist Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing worklist management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a worklist utilizing the new functionalities in the Worklist Management screen. Worklist Management training will continue on a regular basis to DCSE employee.

	Completed- June 9, 2006, June 21, 2006 and anticipated in June 2009. **Redistribution of caseloads -** ***(No longer warranting further action)*** DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case. There will two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county. Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases. **Completed - January 22, 2008** **Division of Child Support Enforcement/Division of Social Services interface** ***(Partially corrected)*** Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month. Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data. **Completed –October 2008**

	The DSS interface will be reengineered with the implementation of the new DACSS system scheduled for completion in 2012 **New post-court DACSES screen - (*action taken different than original corrective action;*** While the post court screen would still be a valuable tool for workers, dedicating the programming resources to develop and test the screen have proved difficult. Because the data necessary for the medical interface is currently captured in other areas of DACSES, management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced. **National medical support notice -*(No longer warranting further action)*** DCSE fully implemented the National Medical Support Notice **Completed July of 2004** **New DACSES system(partially corrected)** DCSE has submitted the federally required Feasibility, Alternatives and Cost benefit analysis for the replacement project. Final federal approval of that study was received on January 30, 2009. DCSE is preparing the RFP and IAPD for submission to OCSE approval of which will launch the development phase for the replacement project. Kick off for that effort is projected for June 2009.
Anticipated Completion Date	June 2012

Department of Health and Social Services
Division of Medicaid and Medical Assistance
Reference Number: 08-DMMA-01
Program: 93.775, Medical Assistance Cluster
93.777,
93.778
Type of Finding: Significant Deficiency, Noncompliance
Compliance Requirement(s): Allowable Costs

Criteria
States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability (TPL) is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).

Condition
For 60 TPL claims tested in 2008, we noted that the State's third party service provider sought reimbursement from at least one insurance provider for all claims tested. However, we were unable to determine the extent to which reimbursement was sought for the claims with open reimbursement status. This represents 11 of the 60 claims reviewed. We also noted the State does not currently communicate with the service provider regarding the status of open claims and does not monitor the claims collection process.

Cause
DMMA does not have a policy manual that outlines State and third party service provider responsibilities over the management of open TPL claims.

Effect
There is a risk that reimbursement for claims will not be adequately sought. There is also a risk that TPL related accounts receivable and collections will not be properly recorded and presented in financial reports.

Recommendation
The State is currently in the process of developing a TPL policy manual. We continue to recommend that the manual includes specific language as to the responsibilities of all parties involved and that the policies noted in the manual be immediately implemented by the State.

Questioned Costs
Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Laura Scott
Agency Contact Phone Number	(302) 255-9524
Corrective Action Plan	DMMA completed the TPL policy manual in June 2008. The manual outlines the responsibilities of all parties which includes the third party biller and DMMA. The policies include the review of open claim statistics on a bi-monthly basis and follow-up with the unresponsive carriers. Initial letters were mailed in November 2008.
Anticipated Completion Date	Completed November 2008

Department of Health and Social Services
Division of Public Health
Reference Number: 08-DPH-01
Program: 93.268 Immunization Grants
93.917 HIV Care Formula Grants
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria
Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems, which use sampling methods, must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be

allocated based on sample results.

- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.

(OMB Circular A-87, Attachment B.8.h.6)

Condition

Immunization Grants and HIV Care Formula Grants

Employees who are charged 100% to the program complete semi-annual certifications in accordance with OMB Circular A-87. However, for employees who work on multiple cost objectives, the Division of Public Health has not yet developed a system to accurately allocate costs based on actual effort. In prior years, we have recommended these programs implement controls to reconcile the semi-annual certifications employees complete in accordance with OMB Circular A-87 to the budgeted amounts allocated to federal grants.

The programs continue to work toward implementation of these recommendations. However, per the Summary Status of Prior Year Findings, recommendations were only partially implemented as of June 30, 2008.

Cause

Immunization Grants and HIV Care Formula Grants

Employees' salaries and benefits are charged to Federal grants based on its full-time equivalent ratio, which is how the budget is set up in the PHRST payroll system. The budgeted amounts are used exclusively, and there is no control to true up the allocation based on semi-annual certifications that are signed by the employees.

Effect

Salaries and benefits of employees who did not work 100% on the federal grant are charged to programs without proper documentation.

Recommendation

We continue to recommend an internal control be implemented at the program level to reconcile semi-annual cost certifications to the budget and allocate the differences to each federal grant. We also recommend all certifications are maintained on file as support for each employee's time charged to the grant.

Questioned Costs

Immunization Grants

Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual time spent working on each grant, but the questioned costs could be no more than the total payroll costs of $895,402 charged to the grant.

HIV Care Formula Grants

Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual time spent working on each grant, but the questioned costs could be no more than the total payroll costs of $329,034 charged to the grant.

Views of Responsible Officials

Agency Contact Name	Martin Luta
Agency Contact Phone Number	(302) 744-1050
Corrective Action Plan	In May 07, the Health Promotion and Disease Prevention Section (which includes Immunizations and HIV) set up an internal process to ensure employee certification. Certification is accomplished at the end of each quarter. In May 08, this system was in place for a year and is fully mature.
Anticipated Completion Date	Completed May 2008

Department of Health and Social Services
Division of Public Health
Reference Number: 08-DPH-02
Program: 93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Equipment and Real Property Management

Criteria

The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information:

a. A description of the equipment.
b. Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
c. Source of the equipment, including the award number.
d. Whether title vests in the recipient or the Federal Government
e. Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.
f. Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
g. Location and condition of the equipment and the date the information was reported.
h. Unit acquisition cost.
i. Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.

(2) Equipment owned by the Federal government shall be identified to indicate federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment record at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the cause of the differences. The recipient shall, in connection with the inventory, verify existence, current utilization, and continued need for the equipment. (OMB Circular A-110, Subpart C – 34 (f))

Condition

Public Health Preparedness Section (PHPS) has not maintained records of federally funded equipment or tracked it according to OMB Circular A-110, Subpart C. In addition, the physical inventory of equipment taken in fiscal year 2008 has not been reconciled to the general ledger.

Cause

Although there are policies and procedures in place, those policies and procedures do not adequately address the federal requirements for equipment purchases.

Effect

Equipment purchased with federal funds related to the PHPS could not be identified for testing and therefore could be used for unauthorized projects or improperly disposed of.

Recommendation

We recommend that the CDC Program maintain accounting records and track equipment in accordance with Circular A-110. We also recommend that CDC ensure periodic physical inventories are taken and reconciled at least once every two years.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Joe Hughes
Agency Contact Phone Number	(302) 223-1720
Corrective Action Plan	The equipment list SFY04 & SFY05 and SFY08 have been completed and reconciled to financial purchases. The Equipment list for SFY06 & SFY07 are not up to date, but the reconciliation is in progress. The full reconciliation will be conducted with the implementation of the Public Health Emergency Preparedness (PEPR) Inventory Management System.
Anticipated Completion Date	September 30, 2009

Department of Health and Social Services
Division of Public Health
Reference Number: 08-DPH-03
Program: 93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs

Criteria
The Secretary of Health and Human Services, acting through the Director of the Centers for Disease Control and Prevention, may make grants to States on the basis of an established competitive review process for the purpose of carrying out programs to:

(1) Screen women for breast and cervical cancers as a preventive health measure;
(2) Provide appropriate referrals for medical treatment of women screened pursuant to paragraph (1) and to ensure, to the extent practicable, the provision of appropriate follow-up services and support services such as case management;
(3) Develop and disseminate public information and education programs for the detection and control of breast and cervical cancers;
(4) Improve the education, training, and skills of health professionals (including allied health professionals) in the detection and control of breast and cervical cancers;
(5) Establish mechanisms through which the States can monitor the quality of screening procedures for breast and cervical cancers, including the interpretation of such procedures; and
(6) Evaluate activities conducted under paragraphs (1) through (5) through appropriate surveillance or program-monitoring activities

(42 USC § 300k.)

The Minimum Data Elements (MDE's) are a set of standardized data elements developed to ensure that consistent and complete information on screening location, patient demographic characteristics, screening results, diagnostic procedures, tracking and follow-up, and treatment information are collected on women screened and/or diagnosed with NBCCEDP funds. These are the data items that are minimally necessary for NBCCEDP-sponsored Programs and the CDC to monitor clinical outcomes (NBCCEDP Policies and Procedures Manual, III-1).

Public Law 101-354 requires:

- A non-federal share match of $1 for every $3 of federal support for NBCCEDP. In making a determination of the amount of non-federal contributions for this purpose, only non-Federal contributions in excess of the average amount of non-Federal contributions made by the State in the 2-year period preceding the first fiscal year for which the State is applying will be included (42 USC § 300l)
- A limit on administrative costs of no more than 10% of costs (42 USC § 300n(f))

Additionally, per cooperative agreement U55/CCU321881, carry forward of funds from one budget period to the next must be requested by the State, and an annual SF-269 report is due at the conclusion of each budget period.

Condition

We noted that, in order to ensure provider claims are accurately paid, significant manual manipulation of the Screening for Life (SFL) database is required, including:

- Reviewing the data for duplicate claims and suppressing payment on duplicates as appropriate.
- Reviewing and changing as appropriate State appropriation codes and fiscal years.
- Reviewing suspended items for propriety and changing status as appropriate.
- Reviewing claims denied for propriety and changing status as appropriate.

We also noted that:

- There is no up-to-date system documentation including support of changes that have been made to the system since inception, which may result in difficulties in updating the SFL system for programmatic changes.
- The system is based on Access 97, which is an application that is no longer supported by Microsoft. This may result in difficulties in updating the SFL system for programmatic changes.
- Test and production databases are on the same server, which may result in data being erroneously changed.
- The system does not include all MDE's mandated by the grantor, which may result in difficulty providing adequate screening data to the grantor agency.
- Physical and logical security surrounding the SFL system contain weaknesses, such as the ability of users to potentially by-pass the data entry screens and manipulate underlying data, that may result in data being changed without the knowledge of program personnel.

Total breast/cervical screening claims paid with federal funds for the year ended June 30, 2008 were $508,814. This amount impacts other financially related compliance requirements, including matching, maintenance of effort, period of availability, and financial reporting. Total expenditures for CFDA number 93.283 were $10,878,883.

Cause

The Screening for Life (SFL) Program experienced significant turnover in key personnel from 2002-2005. The maintenance of the SFL application was not a priority during this time.

We recommended in the prior year that the SFL Program implement a secure application that accurately and appropriately processes SFL claims data in accordance with program regulations. Per the Summary Status of Prior Year Findings, corrective action is in process and has not yet been completed.

Effect
Inability of SFL personnel to effectively and efficiently process SFL claims and related financial information.

Recommendation
We recommend that the SFL Program continue to implement its corrective action plan, which includes a proposal to enhance the Screening for Life database to a server modular based application.

Questioned Costs
Total cancer screening claims paid under the NBCCEDP for state fiscal year 2008 of $508,814.

Views of Responsible Officials

Agency Contact Name	Jill Rogers
Agency Contact Phone Number	(302) 744-1000
Corrective Action Plan	Additional funds have been identified for data and billing processes. During calendar year 2009, Screening For Life will undertake a second RFP process for outsourcing of eligibility, enrollment, claims processing and claims payment business processes. If this process is successful, long-term upgrades to the SFL data/billing system will not be necessary. If this process is unsuccessful, work will resume on long-running upgrade of existing system with anticipated completion date of January 2011.
Anticipated Completion Date	January 2011

Department of Health and Human Services
Division of State Service Centers
Reference Number: 08-SSC-01
Program: 93.568 Low Income Home Energy Assistance
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Criteria
A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133…and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

Condition
The Low Income Home Energy Assistance Program's (LIHEAP) policy is to perform an annual review of both the fiscal and program activities at the subrecipient in order to meet the requirements noted in the ***Criteria*** section above. For the subrecipient selected for testwork, there was evidence of program review and testing; however, the Division could not provide evidence of any monitoring of the fiscal activities. We were also not able to assess the level of testing that should have been performed by management as management had not performed a risk assessment on the subrecipient.

Total expenditures made to subrecipients for the fiscal year ended June 30, 2008 were $6,261,846.

Cause
LIHEAP has not fully implemented policies and procedures pertaining to subrecipient monitoring activities.

Effect
LIHEAP did not fulfill its responsibilities related to subrecipient monitoring and follow-up.

Recommendation

We recommend that LIHEAP enhance its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., performance reports, site visits, etc.), to ensure that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved.

Management should also perform a risk assessment of the subrecipient to determine the level and extent of testing over the direct and material compliance requirements as required by Circular A-133.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Hansella Cannon and Sonya Battle
Agency Contact Phone Number	(302) 255-9695 and (302) 255-9888
Corrective Action Plan	The Division of State Service Centers'(DSSC) fiscal unit will conduct an annual audit in compliance with OMB Circular A-133. A program monitoring site visit was conducted by DSSC, LIHEAP Administrator on July 30, 2008. The LIHEAP Administrator shared a Risk Assessment Tool, which was discussed in detail during the site visit. This form will be used during future site visits.
Anticipated Completion Date	September 2009

Department of Labor
Reference Number: 08-DOL-01
Program: 17.258, 17.259, 17.260 WIA Cluster
84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
96.001 Social Security - Disability Insurance
Type of Finding: Significant Deficiency
Compliance Requirement(s): Cash Management

Criteria
Under the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act of 1992, codified at 31 USC 6501 and 31 USC 6503, the State of Delaware has entered into a Cash Management Improvement Act Agreement (Agreement) between the State of Delaware and the U.S. Secretary of the Treasury.

All CFDA numbers with expenditures greater than $7.54 million are considered Subpart A programs under the jurisdiction of the Treasury-State agreement (note that there is no clustering for purposes of the Treasury-State agreement). All other CFDA numbers (and programs without CFDA numbers) are considered Subpart B programs. For Subpart B programs, "cash advances to the State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs" (31 CFR section 205.7 and 205.20). The State of Delaware as a practical matter generally applies the same funding techniques required for its subpart A programs to its subpart B programs.

The predominant funding technique for the State is the Composite Clearance method, which is defined in the agreement as follows:

"The State shall request funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements, in accordance with the clearance pattern specified…The request shall be made in accordance with the appropriate Federal agency cut-off time specified...The amount of the request shall be the sum of the payments issued in the series of disbursements."

A State must submit to [the federal government] an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends…a State

must submit a description and supporting documentation for liability claims greater than $5,000 (31CFR Part 205.26).

Condition

WIA Cluster

For four of 13 documents selected for testing, we noted that the preparer of the drawdown and cash receipt (CR) document also signed the document as the reviewer. In addition, the supporting drawdown requests for those four CR documents were prepared and approved by the same individual.

Rehabilitation Services - Vocational Rehabilitation Grants to States

For three of 10 documents selected for testing, we noted that the preparer of the drawdown and cash receipt (CR) document also signed the document as the reviewer.

Social Security - Disability Insurance

For two of the 11 documents selected for testing, we noted that the preparer of the drawdown and cash receipt (CR) document also signed the document as the reviewer.

Cause

Staff turnover in the Department of Labor as well as a lack of management oversight over processing of federal cash drawdowns.

Effect

There is a lack of segregation of duties within the federal cash drawdown process.

Recommendation

We recommend that the Department enhance its policies and procedures for drawing down federal funds in order to ensure a proper segregation of duties.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	We agree to adhere to our policies and procedures for drawing down federal funds.
Anticipated Completion Date	Immediately

Department of Labor
Reference Number: 08-DOL-02
Program: 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
Type of Finding: Noncompliance
Compliance Requirement(s): Eligibility

Criteria
According to 29 USC 722(a)(6), the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless -
(A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B).

Condition
For two out of 40 clients selected for testing, the client's eligibility for services was not determined within the required 60-day timeframe. One client's eligibility was determined in 68 days while the other client's eligibility was determined in 155 days after receipt of the application. Both clients were ultimately determined to be eligible to receive services.

Cause
A lack of oversight on the part of management in maintaining client files.

Effect
DOL did not make determinations of client eligibility within the timeframe required by federal regulations.

Recommendation
DOL should reinforce its policies and procedures to ensure that all eligibility determinations are made within the required 60-day timeframe, unless exceptions granted by the federal regulations occur and are properly documented in the client file.

Questioned Costs
There are no questioned costs associated with this finding, as both clients were deemed eligible to receive services.

Views of Responsible Officials

Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302)761-8024
Corrective Action Plan	We agree to be more diligent in adhering to our policies and procedures for ensuring that eligibility determinations are made within the 60-day timeframe.
Anticipated Completion Date	Immediately

Department of Labor
Reference Number: 08-DOL-03
Program: 17.258, WIA Cluster
17.259,
17.260
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Suspension and Debarment

Criteria
Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (CFR, Part II, "Government wide Debarment and Suspension").

Condition
For 2 of the 2 certified training providers selected for testing, we noted that the training contracts did not contain language requiring the provider to certify that they were not suspended or debarred nor did the Delaware Workforce Investment Board (DWIB) check the EPLS website to verify that these providers were not suspended or debarred. Total expenditures paid to the two training providers selected for testing totaled $335,457 during Fiscal Year 2008. Total expenditures paid to certified training providers by the program during Fiscal Year 2008 totaled $893,644.

Cause
The program did not perform the required suspension and debarment functions, as detailed in the criteria section above.

Effect
The program may award federally funded contracts to disallowed providers.

Recommendation
DOL and DWIB should implement policies and procedures to ensure that the required suspension and debarment verification procedures are performed.

Questioned Costs

There are no questioned costs associated with this finding; none of the certified training providers selected for testing were on the EPLS based on our audit procedures.

Views of Responsible Officials

Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302)761-8024
Corrective Action Plan	We agree to write policies and procedures to ensure that the required suspension and debarment verification procedures are performed
Anticipated Completion Date	June 30, 2009

Department of Labor
Reference Number: 08-DOL-04
Program: 17.258, WIA Cluster
17.259,
17.260
Type of Finding: Significant Deficiency, Noncompliance
Compliance Requirement(s): Eligibility

Criteria
Clients are eligible for benefits under the Workforce Investment Act (WIA) Program if the following criteria are met:

All Programs

No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

All Subtitle B Statewide and Local Programs

- An adult must be 18 years of age or older.
- A dislocated worker means an individual who meets the definition in 29 USC 2801(9).
- A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10).
- Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310):
    - Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program.
    - Selected a training service linked to the employment opportunities.
    - Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training.

Subtitle B Youth Activities

A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literary skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205 and .210). In addition, at least 95 percent of eligible youth participants be disadvantaged low-income youth as defined in 29 USC 2801(25).

Condition

In determining if a client is eligible for WIA benefits, a case manager prepares an Employment Development Plan (EDP) justifying the training the client should receive with WIA funds. A manager reviews the EDP and approves or denies the client for services.

For two out of 40 clients selected for testing, the EDPs were missing from the client files. The total amount of benefits paid on behalf of these clients was $3,500.

Cause

The EDPs were never completed or were misplaced.

Effect

An ineligible individual may have been permitted WIA benefits.

Recommendation

We recommend that DOL implement policies and procedures to ensure that all EDPs are properly reviewed and maintained in the client files.

Questioned Costs

Questioned costs are $3,500, the amount of benefits paid on behalf of the two clients.

Views of Responsible Officials

Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302)761-8024
Corrective Action Plan	We agree to write policies and procedures to ensure that all EDP's are properly reviewed and maintained in the client files.
Anticipated Completion Date	June 30, 2009

Office of Management and Budget
Government Support Services
Reference Number: 08-OMB-01
Program: 93.563 Child Support Enforcement
45.310 Grants to States
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Suspension and Debarment

Criteria
Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods and services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity (CFR, Part II, "Governmentwide Debarment and Suspension").

There are approximately 115 Statewide contracts that are administered by the Office of Management and Budget - Government Support Services (GSS) for items that are commonly used by multiple agencies. These contracts are mandated for use by State agencies per Title 29, Subchapter 6903 of the Delaware Code.

Condition
For two of the 10 Statewide contracts selected for testwork, federal suspension and debarment certification language was not included in the contract between the State and the vendor. There is also no evidence that GSS reviewed the list of excluded parties (federal EPLS) to determine whether the vendor was federally suspended or debarred prior to issuing the contract. The two contracts selected that did not include the proper suspension and debarment language were in the following major programs: Child Support Enforcement (93.563) and Grants to States (45.310).

Cause
GSS has procedures in place to ensure that contractors are not suspended or debarred as required by OMB A-133. These procedures include federal suspension and debarment certification language as part of the standard State contract; however, GSS is not fully implementing these procedures.

Effect

State agencies may be inappropriately contracting with parties that are suspended or debarred or whose principals are suspended or debarred.

Recommendation

We recommend that GSS fully implement their procedures to ensure that all Statewide contractors are not federally suspended or debarred by ensuring that suspension and debarment certification language is included as part of the standard State contract.

Questioned Costs

There are no questioned costs associated with this finding; the contracted entities were not on the EPLS based on our audit procedures.

View of Responsible Officials

Agency Contact Name	Blaine Herrick
Agency Contact Phone Number	(302) 857-4552
Corrective Action Plan	All vendors submitting bids/proposals to OMB/GSS/Contracting are required to sign and notarize the Non-Collusion statement which also includes a statement of Affirmation that the vendor signing the Non-Collusion statement has not been suspended or debarred within the past five years. If they check, YES, they must explain the circumstances of suspension or debarment.
Anticipated Completion Date	Currently in effect.

Department of Safety and Homeland Security
Delaware Emergency Management Agency (DEMA)
Reference Number: 08-DSHS-01
Program: 97.004, Homeland Security Cluster
97.067
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee (OMB Circular A-87, Attachment B.8.h.4).

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made; costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances (OMB Circular A-87, Attachment B.8.h.5).

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval, if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems that use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled (OMB Circular A-87, Attachment B.8.h.6).

Condition

Specific allocations are made from each employee's salary to the grant. Some employees' salaries are charged 100% to the grant, while only a portion of other employees' salaries is charged to the grant. For the first six months of fiscal year 2008, there were no personnel activity reports that reflect after-the-fact distributions of the actual activity on the grants charged. DEMA implemented procedures in the third quarter of the current fiscal year to have employees complete effort reporting for each pay period, which is used as the basis to charge the programs based on actual hours worked by each employee in accordance with the requirements of OMB Circular A-87, Attachment B.11.h.4(e). We selected 40 payroll transactions and noted that DEMA did not update allocation percentages in the PHRST payroll system for any of the items selected for test work.

Cause

During fiscal year 2008, management implemented a process to adjust the allocation of payroll based on the actual hours of effort reported by the employees. However, this process was implemented half-way through the fiscal year, therefore, during the first six months of the fiscal year, procedures were not in place to ensure the allocation of payroll based on actual hours.

Effect

DEMA is not in compliance with federal allowability guidelines to allocate time to grants based on actual and not budgeted amounts.

Recommendation

We have reviewed the procedures implemented by DEMA during 2008 to properly meet the effort reporting requirements and allocate payroll costs based on this effort reporting. Based on our review of these procedures, we have no further recommendations to correct this finding and bring the program into compliance with the federal regulations.

Questioned Costs

The questioned costs associated with this finding are undeterminable as there were not sufficient records maintained by DSHS as to the actual time spent working on each grant during the first six months of the fiscal year, but the questioned costs could be no more than the total payroll costs charged to the grant during the period July 1, 2007 though December 31, 2007, which are as follows:

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2008

CFDA No.	Salary Costs	Fringe Costs
97.004	$ 14,197.57	$ 8,356.80
97.067	118,773.28	52,533.32
Total	$132,970.85	$60,890.12

View of Responsible Officials

Agency Contact Name	Bob Harrison
Agency Contact Phone Number	(302) 659-2244
Corrective Action Plan	During fiscal year 2008, DEMA implemented procedures and controls to ensure the charges to each grant are adjusted in the PHRST system to reflect actual effort reports. DEMA began making any required changes/adjustments on a bi-weekly basis effective January 1, 2008. DEMA has adjusted the division's bi-weekly timesheets to allow better documentation of hours worked, and intend to charge the applicable grant at the time the hours are worked.
Anticipated Completion Date	January 1, 2008

Department of Safety and Homeland Security
Delaware Emergency Management Agency (DEMA)
Reference Number: 08-DSHS-02
Program: 97.004, Homeland Security Cluster
97.067
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Suspension and Debarment

Criteria
Nonfederal 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 procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity (CFR, Part II, "Govermentwide Debarment and Suspension").

Condition
DEMA may procure goods and services from various vendors with the use of Homeland Security Grant funds. We selected four vendors that DEMA has expended more than $25,000 during fiscal year 2008 from Homeland Security Grant funds for test work. For one of the four vendors selected for test work, DEMA did not verify that the entity was not suspended or debarred.

Cause
DEMA's internal control structure to ensure that the requirements of the suspension and debarment rules are followed is ineffective.

Effect
DEMA may do business with disallowed vendors.

Recommendation
We recommend that DEMA add procedures to ensure that the required suspension and debarment requirement is reviewed prior to execution of the vendor contract.

Questioned Costs
There are no questioned costs associated with this finding. The contracted entity was not on the EPLS based on our audit procedures.

View of Responsible Officials

Agency Contact Name	Bob Harrison
Agency Contact Phone Number	(302) 659-2244
Corrective Action Plan	The division's contract checklist includes an item requiring the vendor be vetted through the on-line excluded parties listing maintained by the federal government. Additionally, a screen shot will be placed in the file as further proof the vendor was checked. All division personnel with contracting responsibilities have been briefed again on this requirement.
Anticipated Completion Date	December 31, 2008

Department of Safety and Homeland Security
Office of Highway Safety (OHS)
Reference Number: 08-DSHS-03
Program: 20.600, Highway Safety Cluster
20.601,
20.602,
20.605,
20.609,
20.612,
20.613
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Suspension and Debarment

Criteria
Nonfederal 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 procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity (CFR, Part II, "Govermentwide Debarment and Suspension").

Condition
OHS may procure goods and services from various vendors with the use of Highway Safety Grant funds. We selected three vendors that OHS has expended more than $25,000 during fiscal year 2008 from Highway Safety Grant funds for test work. For three of the vendors selected for test work, OHS did not verify that the entity was not suspended or debarred.

OHS passes Highway Safety Grant funds through to other local governmental units and nonprofit organizations, which are defined as subrecipients. We selected five subrecipients receiving Highway Safety Grant funds for test work. For five of the subrecipients selected for test work, OHS did not verify that the entity was not suspended or debarred.

Cause
OHS Highway Safety Grant personnel were not aware of their responsibility to check for subrecipient or vendor suspension and debarment.

Effect
OHS may do business with or transfer equipment to disallowed subrecipients or vendors.

Recommendation

We recommend that OHS add procedures to ensure that the required suspension and debarment verification is obtained from subrecipients at the time of the sub-award and from vendors prior to execution of the contract.

Questioned Costs

There are no questioned costs associated with this finding. The contracted entities were not on the EPLS based on our audit procedures.

View of Responsible Officials

Agency Contact Name	Stephanie Young
Agency Contact Phone Number	(302) 744-2673
Corrective Action Plan	OHS has updated its contracting checklist used to ensure all the appropriate steps have been completed before entering into a contract with a vendor or a subrecipient. OHS has specifically added a step to check the Federal EPLS website for suspension and debarment.
Anticipated Completion Date	December 31, 2008

Department of Safety and Homeland Security
Office of Highway Safety (OHS)
Reference Number: 08-DSHS-04
Program: 20.600, Highway Safety Cluster
20.601,
20.602,
20.605,
20.609,
20.612,
20.613
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee (OMB Circular A-87, Attachment B.8.h.4).

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made; costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances (OMB Circular A-87, Attachment B.8.h.5).

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval, if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems that use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled
- The results must be statistically valid and applied to the period being sampled (OMB Circular A-87, Attachment B.8.h.6).

Condition
Specific allocations are made from each employee's salary to the grant. Some employees' salaries are charged 100% to the grant, while only a portion of other employees' salaries is charged to the grant. There are no personnel activity reports that reflect after-the-fact distributions of the actual activity on the grants charged. OHS have procedures in place to perform "effort reporting" for seasonal/casual employees, however, these reports are not utilized to charge the employee's salary to a specific grant based on actual time spent working on each grant. We selected 40 payroll transactions and noted that OHS did not charge payroll costs to each grant based on the effort reporting for any of the items selected for test work.

Cause
Management does not require any of DSHS employees to perform effort reporting based on grants worked on during the reporting period. In addition, management does not obtain semi-annual certifications for those employees charged 100% to the grants during the previous period.

Effect
OHS is not in compliance with federal allowability guidelines to allocate time to grants based on actual time spent working on each grant.

Recommendations
We recommend that OHS's personnel implement procedures and controls to ensure that effort certifications are obtained from each employee, stating the grants worked on during the period covered by the certification. In addition, we recommend that OHS utilize the procedures in place to perform "effort reporting" for seasonal/casual employees, and that these reports be used to charge the employee's salary to a specific grant based on actual time spent working on each grant.

Questioned Costs

The questioned costs associated with this finding are undeterminable as there are insufficient records maintained by DSHS as to the actual time spent working on each grant, but the questioned costs could be no more than the total payroll costs charged to the grant as follows:

CFDA No.	Salary Costs	Fringe Costs
20.600	$351,197.67	$107,334.07
20.613	33,810.34	3,201.86
Total	$385,008.01	$110,535.93

View of Responsible Officials

Agency Contact Name	Stephanie Young
Agency Contact Phone Number	(302) 744-2673
Corrective Action Plan	OHS will use a standard Semi-Annual Salary Certification Form for employees to certify the time spent working on specific grant programs. A certification will be completed by each employee and approved by their supervisor.
Anticipated Completion Date	June 30, 2009

Department of Services for Children, Youth, and Their Families
Reference Number: 08-CYF-01
Program: 93.658 Foster Care – Title IV-E
Type of Finding: Disclaimer of Opinion
Compliance Requirement(s): All

Criteria
Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHSS, DCA), if any of the following events occur:

The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.

A material defect is discovered in the cost allocation plan by the Director, DCA, or the State.

The State plan for public assistance programs is amended so as to affect the allocation of costs.

Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid." (45 CFR §95.509)

The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or it's failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).

Condition
The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 8, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part:

"Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999.

After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2."

The report further states that:

"The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised [95-2] methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003."

And that:

"Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan."

The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates."

DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS.

For the period under audit for purposes of the Single Audit (July 1, 2007 through June 30, 2008), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and HHS Grants Administration Manual Chapter 6-200.

Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2008 were $2,560,157, representing 46% of the total program costs of $5,506,888.

In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.

Cause
Differing interpretations of Federal regulations concerning allocable costs.

Effect
Failure to obtain timely approval of the cost allocation plan could result in questioned costs.

Recommendation

We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.

Questioned Costs

Questioned costs are not determinable.

Views of Responsible Officials

Agency Contact Name	Harry Roberts
Agency Contact Phone Number	(302) 892-4534
Corrective Action Plan	DSCYF continues to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 with which it concurred in a letter dated May 25, 2005. As a result, programming of the DSCYF client information system (FACTS) to document foster care candidacy has been completed using the DSCYF methodology the RO concurred with. Division of Family Services workers began using FACTS for documenting candidacy on 4/1/08. DSCYF has been actively working with the RO to address all of the RO concerns regarding the DSCYF random moment time study (RMTS), activity descriptions and related issues. The final set of items for resolution were received from the RO on 1/30/09. Once these issues are resolved and incorporated into the overall RMTS process and procedures, all of the other preceding changes and updates requested by the RO will be incorporated into a revised DSCYF Cost Allocation Plan (CAP). The revised CAP is targeted to be finalized and submitted in the second quarter of 2009 with successful negotiations targeted for conclusion later in 2009.
Anticipated Completion Date	2009

Department of Services for Children, Youth, and Their Families
Reference Number: 08-CYF-02
Program: 93.658 Foster Care – Title IV-E
Type of Finding: Significant Deficiency
Compliance Requirement(s): Eligibility (Provider Approval)

Criteria
The Title IV-E Foster Care child and provider eligibility requirements as outlined in 45 CFR 1356.71 and Section 472 of the Act; the purpose of which are to ensure that appropriate payments were made on behalf of eligible children and to eligible homes and institutions.

Condition
During the week of August 14, 2006, ACF staff from the Central and Regional Offices and State of Delaware staff conducted an eligibility review of Delaware's Title IV-E Foster Care program. A review of a sample of 80 cases was drawn for the review period October 1, 2005 to March 31, 2006. The review team determined 6 cases were ineligible for federal funding and concluded that Delaware's Title IV-E program was not in substantial compliance with federal child and provider eligibility requirements for the review period.

During fiscal year 2008, we tested 60 case files for provider eligibility requirements. Those files included supporting documentation showing compliance with federal child and provider requirements for the year ended June 30, 2008. However, we noted the internal controls surrounding periodic review of the case files were not being performed timely in accordance with State and agency policies.

Per the Summary Status of Prior Year Findings, the Department of Services for Children, Youth and Families (DSCYF) has started to implement action steps and system changes, however, the corrective action is still in process and has not yet been completed.

Cause
The emphasis of DSCYF is on placing children in need of foster care as quickly as possible.

Effect
Foster care payments may be made to placements that have not met requirements to be an approved foster care provider.

Recommendation
We recommend that DSCYF continue to implement its corrective action plan, which includes enhancement of the controls surrounding foster care provider approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.

Questioned Costs
There are no questioned costs associated with this finding.

Views of Responsible Officials

Agency Contact Name	Harry Roberts
Agency Contact Phone Number	(302) 892-4534
Corrective Action Plan	Region III ACF has received and accepted quarterly reports submitted related to DSCYF's Program Improvement Plan (corrective action plan) which included this component. The action steps and the staff training have been completed. This includes contract and policy changes implemented on 7/1/08. DFS conducted a random sample review of foster home records during August 2008 for state supervised foster homes and selected contracted foster homes for compliance with annual review timeliness. The review resulted in implementing a tracking system for all supervisory agencies and requires a monthly reporting of compliance. The IV-E Secondary Review is scheduled for the week of April 20, 2009 by a team of federal and local reviewers. A total of 150 cases are to be reviewed for payment and eligibility compliance.
Anticipated Completion Date	Completed

Department of State
Reference Number: 08-DOS-01
Program: 45.310 Grants to States
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria
Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.

- The results must be statistically valid and applied to the period being sampled.

(OMB Circular A-87, Attachment B.8.h.6)

Condition

Specific allocations are made from each employee's salary to the grant. Some employee's salaries are charged 100% to the grant, while only a portion of other employees' salaries are charged to the grant. For all 40 payroll expenditures selected for testwork, there were no supporting personnel activity reports that reflected after-the-fact distributions of the actual activity being charged to the grant, and no semiannual certifications were prepared for employees working exclusively on the grant.

Cause

The Division's management was not aware of the requirement to obtain time and effort certifications from personnel working on federal grants.

Effect

Salaries may be inappropriately allocated to the Grants to States program.

Recommendation

We recommend that the Division of Libraries follow Circular A-87 guidance to develop policies and procedures to ensure that all employees being paid with federal grants complete and sign time and effort certifications to support the payroll costs, as well as require supervisory review and approval of the certifications.

Questioned Costs

Questioned costs are $591,038, which represent total salaries of $435,834 and $155,204 of fringe benefits allocated to the program during Fiscal Year 2008.

View of Responsible Officials

Agency Contact Name	Annie Norman, Director, and Despina Wilson, Management Analyst
Agency Contact Phone Number	(302) 739-4748 x126 and (302) 739-4748 x128
Corrective Action Plan	As of September 30th 2008, the Division of Libraries began obtaining payroll certifications for employees. Because there are both partially- and fully-funded employees, Division of Libraries will exceed A-87 regulations by obtaining certifications for both on a monthly basis beginning from the third quarter of state fiscal year 2009.
Anticipated Completion Date	January 1, 2009

Department of State
Reference Number: 08-DOS-02
Program: 45.310 Grants to States
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Suspension and Debarment

Criteria
Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 ($25,000 after November 26, 2003).

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (CFR, Part II, "Government wide Debarment and Suspension").

Condition
The Division of Libraries may procure goods and services from various vendors with the use of Grants to States funds. We selected one vendor that the Division has expended more than $25,000 during fiscal year 2008 from Grants to States funds for test work. For the one vendor selected for test work, the Division did not verify that the entity was not suspended or debarred.

Cause
The Division did not perform the required suspension and debarment functions, as detailed in the criteria section above.

Effect
The Division may award federally funded contracts to disallowed vendors.

Recommendation
We recommend that the Division implement policies and procedures to ensure that the required suspension and debarment verification procedures are performed.

Questioned Costs
There are no questioned costs associated with this finding; the contracted entity was not on the EPLS based on our audit procedures.

View of Responsible Officials

Agency Contact Name	Annie Norman, Director, and Despina Wilson, Management Analyst
Agency Contact Phone Number	(302) 739-4748 x126 and (302) 739-4748 x 128
Corrective Action Plan	Following the Audit findings meeting, the following language was inserted in the Division of Libraries vendor contract: "Affirmation: The Contractor must affirm that within the past five (5) years the firm or any officer, controlling stockholder, partner, principal, or other person substantially involved in the contracting activities of the business is not currently suspended or debarred and is not a successor, subsidiary, or affiliate of a suspended or debarred business." For vendors outside state contract, Division of Libraries accounting will check EPLS website, print report and attach to the purchase order.
Anticipated Completion Date	December 18, 2008

Department of Transportation
Reference Number: 08-DOT-01
Program: 20.205 Highway Planning and Construction Cluster
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Cash Management

Criteria
Under the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act of 1992, codified at 31 USC 6501 and 31 USC 6503, the State of Delaware has entered into a Cash Management Improvement Act Agreement between the State of Delaware and the U.S. Secretary of the Treasury.

All CFDA numbers with expenditures of greater than $7.54 million are considered Subpart A programs under the jurisdiction of the Treasury-State agreement (note that there is no clustering for purposes of the Treasury-State agreement). All other CFDA numbers (and programs without CFDA numbers) are considered Subpart B programs. For Subpart B programs, "cash advances to the State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs" (31 CFR section 205.7 and 205.20). The State of Delaware as a practical matter generally applies the same funding techniques required for its subpart A programs to its subpart B programs.

The predominant funding technique for the State is the Composite Clearance method, which is defined in the agreement as follows:

"The State shall request funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements, in accordance with the clearance pattern specified…The request shall be made in accordance with the appropriate Federal agency cut-off time specified...The amount of the request shall be the sum of the payments issued in the series of disbursements."

A State must submit to [the federal government] an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends…a State must submit a description and supporting documentation for liability claims greater than $5,000 (31CFR Part 205.26).

Condition

Similar to the prior year, we noted that the State was not properly complying with the composite clearance method for the Highway Planning and Construction Cluster.

We noted that out of ten draws selected, seven were made five days subsequent the midpoint of the group of composite disbursements, and one was made six days subsequent to the midpoint of the group of composite disbursements. The weighted average clearance for all disbursements per the Treasury-State agreement is seven days. Total drawdowns included in the sample were $21,102,179, of which $11,255,075 were drawn on the fifth day and $2,464,528 was drawn on the sixth day.

The State did not report any interest liability on its annual report for the year ended June 30, 2008.

Cause

The State's Office of Management and Budget (OMB) has overall responsibility for the State's compliance with the Treasury-State agreement, including:

- Negotiation of the Treasury-State agreement,
- Determination of and distribution to program agencies of weighted average days outstanding for programs under the composite clearance method,
- Oversight of the State's cash management activities, and
- Reporting to the federal government regarding annual interest liabilities.

Although the State's OMB continues to work toward implementation of the prior year audit recommendations, there are still no formalized Statewide policies and procedures regarding federal cash management. Agencies have not received copies of the executed Treasury-State agreement. Additionally, there has been no formal training for individuals responsible for federal cash management activities.

Effect

It was not until recently that many agencies, including the Department of Transportation, began to review their drawdown procedures so that could properly apply the terms of the Treasury-State agreement.

The Cash Management Improvement Act interest was 4.00% (0.04) for Fiscal Year 2008, which represents a daily interest rate of 0.01095% (0.0001095).

Recommendation

We recommend that the State's OMB continue with its corrective action plan by implementing the following initiatives:

- Develop Statewide policies and procedures related to federal cash management activities,
- Provide copies of the Treasury-State agreement to each impacted agency, and
- Provide periodic training sessions for individuals responsible for federal cash management

activities.

Questioned Costs

Based on a sample of expenditures, the amount of excess interest calculated on the noncompliance with the Treasury-State agreement cited above was less than $1,600.

A full review of expenditures and clearance patterns would be necessary to identify the entire amount of any excess interest.

Views of Responsible Officials

Agency Contact Name	Kathy English
Agency Contact Phone Number	(302) 760-2687
Corrective Action Plan	The Department of Transportation has adopted a drawdown pattern of 10 days to correspond with the new State Cash Management Improvement Act Agreement with the U.S. Department of the Treasury.
Anticipated Completion Date	July 1, 2008

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, 2008

Matrix of Findings by Federal Agency

Finding	USDA	DOL	DOT	IMLS	EPA	ED	HHS	SSA	DHS
Prefix	**10**	**17**	**20**	**45**	**66**	**84**	**93**	**96**	**97**
08-DTC-01						X			
08-DTC-02						X			
08-DTC-03						X			
08-DTC-04						X			
08-DTC-05						X			
08-ED-01						X			
08-ED-02						X			
08-ED-03						X			
08-ED-04						X			
08-ED-05						X			
08-ED-06						X			
08-ED-07						X			
08-ED-08	X								
08-DHSS-01	X				X		X		
08-DHSS-02	X						X		
08-DHSS-03							X		
08-DHSS-04	X				X		X		
08-DHSS-05							X		
08-DHSS-06							X		
08-DHSS-07							X		
08-AGI-01							X		
08-AGI-02							X		
08-CSE-01							X		
08-DMMA-01							X		
08-DPH-01							X		
08-DPH-02							X		
08-DPH-03							X		
08-SSC-01							X		
08-DOL-01		X				X		X	
08-DOL-02						X			

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

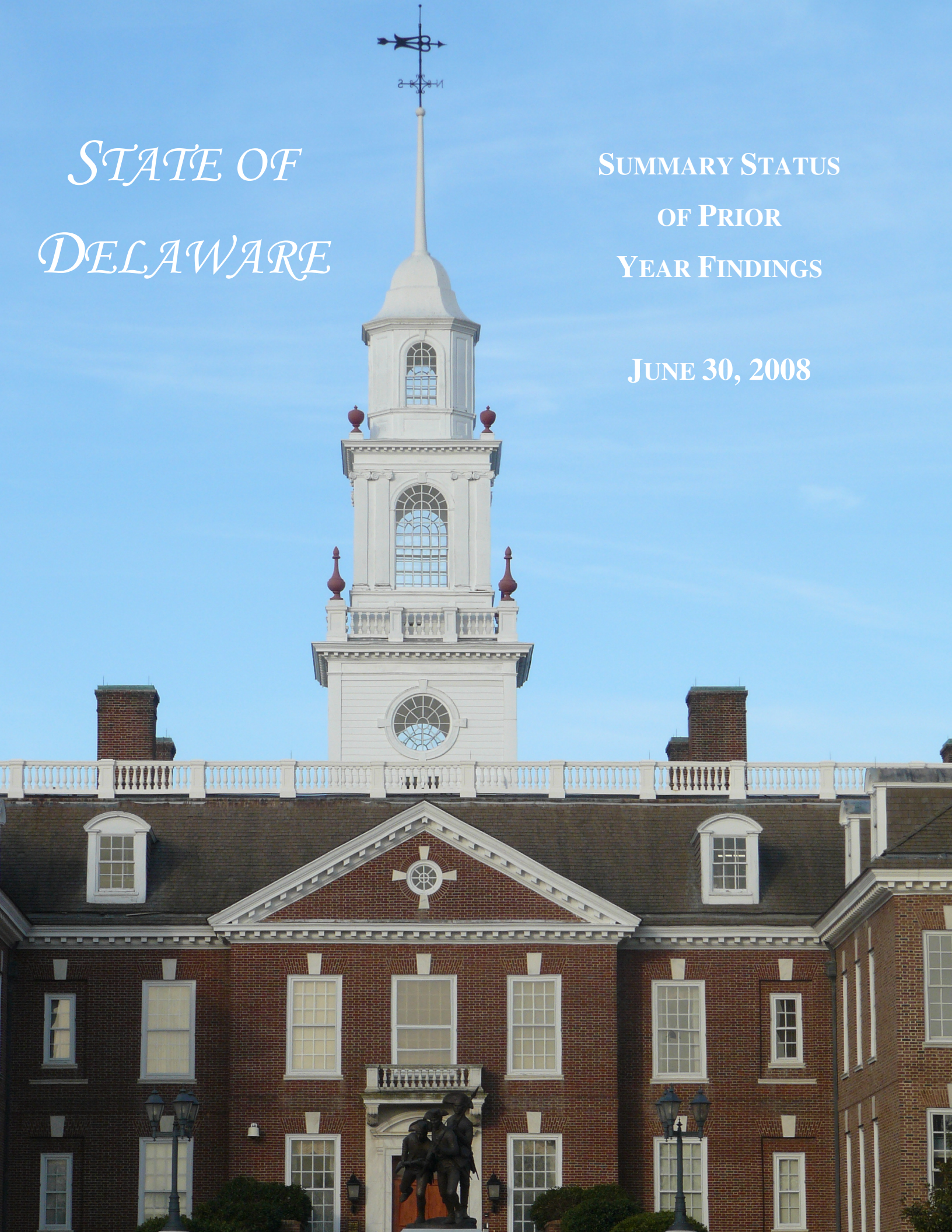
Year ended June 30, 2008

Finding	USDA	DOL	DOT	IMLS	EPA	ED	HHS	SSA	DHS
Prefix	**10**	**17**	**20**	**45**	**66**	**84**	**93**	**96**	**97**
08-DOL-03		X							
08-DOL-04		X							
08-OMB-01				X			X		
08-DSHS-01									X
08-DSHS-02									X
08-DSHS-03			X						
08-DSHS-04			X						
08-CYF-01							X		
08-CYF-02							X		
08-DOS-01				X					
08-DOS-02				X					
08-DOT-01			X						

STATE OF DELAWARE

SUMMARY STATUS OF PRIOR YEAR FINDINGS

JUNE 30, 2008



Finding Number: **06-DNR-04**
Fiscal Year: **2006**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **66.460 Nonpoint Source Implementation Grants**

Condition

DNREC expends federal funds to both vendors and subrecipients. Management could not identify which recipients of funding were vendors and which were subrecipients for our testing purposes. As a result, during our test work procedures, we noted that DNREC was not complying with Procurement, Suspension, and Debarment or Subrecipient Monitoring requirements.

Recommendation

We recommend that DNREC reinforce its policies and procedures to ensure that procurement, suspension and debarment as well as subrecipient activities are monitored on a timely basis, and that monitoring visits are documented and reviewed by a supervising official. We further recommend that DNREC ensure that the required financial reporting and outcome-based data are collected from the subrecipients and reviewed on an annual basis.

In addition, DNREC should track vendors and subrecipients separately to enable agency personnel to perform the required compliance functions for both procurement, suspension, and debarment and subrecipient monitoring.

Agency Contact

Brian M. Leahy, Deputy Principal Assistant (302) 739-9921

Finding Status

Fully corrected.

Status

The policies and procedures referenced in the recommendation were completed by June 30, 2007. They were signed and included in the Division's Policy Manual on 7/1/2007 under Policy #SW-1004 Federally Funded Procurement Policy and Procedures. In addition, as a result of the FY2007 FMA audit, Policy #SW-1004 was updated and signed on 3/31/2008 to reinforce our policies and procedures to ensure that subrecipient activities are monitored on a timely basis, and that monitoring visits are documented and reviewed by a supervising official. Training was provided to the appropriate Grant Program personnel in August 2007 to ensure compliance with the policy. The revised policy was also presented to the appropriate Grant Program personnel.

Finding Number: **2007-1**
Fiscal Year: **2003**
Related Prior Findings: **03-FIN-01, 04-FIN-01, 05-FIN-01, 06-FIN-01, 03-FIN-02, 04-FIN-02, 05-FIN-02, 06-FIN-02**
Current Year Findings: **2008-1**

Condition

Comprehensive Annual Financial Report (CAFR) Preparation

Process for Preparation

The CAFR process entails compiling worksheets, completing reconciliations, customizing reports, and recording various adjustments. The many sources of information and the extent of modification necessary results in a financial reporting process that is highly complex and susceptible to errors. In 2007, there was an internal review of the CAFR build-up prior to submitting the document for audit, and the process resulted in a draft document that was improved from the past. In addition, the personnel responsible for the CAFR development prepared a detailed roll forward reconciliation of the transactions in the central accounting system (DFMS) to the cash balances in the Office of the Treasurer prior to the drafting of the statements. The roll forward was also used to validate the accuracy of the transactions posted to the financial statement preparation worksheets and confirm that a $12 million carryover variance had only a deminimus change since the prior year. We also noted increased interaction between the State and Component Unit financial management to ensure that numbers reconciled. While a timeline was developed for the completion of major milestones for the CAFR process, some of the significant deadlines were not met as a result of the more robust review and reconciliation process and the learning curve of new personnel. As a result, a significant amount of the preparation process was completed well after year end.

Additionally, the financial reporting process is dependent on cooperation from component units and other agencies. The component units and several large funds have separate audits that need to be coordinated. When there is not a separate audit, accrual accounting (GAAP) packages are completed annually by personnel in departments and agencies across the State. As a result, there are many manual processes completed by agency/department personnel. These processes include the development of accounts receivables, allowance for uncollectible accounts, accruals of state obligations, the development of construction work in process and the capture of cash and investment balances controlled outside the Treasurer's Office. Many of the outside agencies use systems outside of the current statewide accounting system to gather and track this information since the current system is not robust enough to meet their needs which adds to the complexity of the year end closing and reconciliation process. The GAAP package reporting process, which includes the preparation of over 180 packages, relies on agency personnel, many of whom were new to their positions, to complete the packages. The Division of Accounting (DOA) conducts training on the preparation of the packages and in 2007 conducted internal reviews of the material packages to ensure that amounts are accurate and properly supported. One of the focus areas for the review of GAAP packages was capital assets, the DOA internal controls personnel identified numerous errors including untimely transfer of work in process to the capital asset ledger, failure to capture of all expenditures that should be capitalized, and cutoff errors. The review was also more robust in other selected agencies 2007 than in the past, but these procedures were not completed until later in the closing process. Even after these reviews some errors went undetected as described in the following paragraph.

Although the process has been improved from prior years, as part of our audit, we detected errors in cutoff for grants and interest income. Additionally, several items were not properly included in capital assets. Lastly, we identified underling data or assumption errors associated with tax and accounts receivables.

Personnel Assigned

In 2007, external consultant assistance was used to facilitate the preparation of the CAFR. The external consultant had oversight responsibility for the supervision of the State's internal control personnel who were instrumental in the completion of the CAFR and the review of the external GAAP packages. As a result, the number of personnel involved in the preparation and review has appropriately expanded over the last two years. During our audit we noted that additional on the job training of new personnel and the adoption of a more robust documentation process led to the untimely receipt of several key deliverables needed for us to adequately perform our audit. Other than the hired consultant assistance, none of the key personnel involved with the process had experience before 2006 with the preparation of a financial statement with the size and complexity of the State of Delaware.

Additionally, many of the personnel assigned to complete the GAAP packages sent to the Division of Accounting by the agencies are not trained accountants, and there was a significant amount of turnover at the agencies with the personnel responsible for completing the GAAP packages.

Technology

The DFMS system is a cash basis accounting system that does not have the flexibility to accommodate modified accrual accounting and it is difficult to obtain ad-hoc reports for financial reporting and analysis. The system does not easily identify by GAAP fund what cash balances are held by the Treasurer's office. As a result, reports utilized from DFMS require significant manual manipulation through spreadsheets to develop the trial balances and the CAFR. In addition, the financial schedules and the Balance Sheet are rolled forward from year to year using an Excel spreadsheet for a $10 billion operation.

Recommendation

We recommend that management continue with the progress made to date in refining their workpapers used to complete the draft CAFR and all significant adjustments, conversion to accrual adjustments and reconciliations. The review process should include an evaluation of the reasonableness of individual financial statement line items by an individual with sufficient financial reporting experience to detect inconsistencies and errors. Specific focus should be placed on cutoff and valuation accounts associated with the GAAP package process and report preparation.

Because of the complexity of the report build-up process, management should re-evaluate the adjustments to convert budget-basis DFMS numbers to GAAP basis and limit reconciling adjustments to required material amounts. Additional DFMS reports by GAAP fund should be investigated and utilized for the financial statement build-up process in place of the existing spreadsheet analysis that is completed. In Fiscal Year 2008, consistency should be put aside as management evaluates the necessity of the adjustments made to the core DFMS reports for CAFR preparation with a focus toward making the year-end financial statements more consistent with management reporting done throughout the year.

We continue to encourage the Division of Accounting to fill the open CAFR manager position with a person that has significant financial statement preparation experience with CPA or similar credentials. We encourage the State to continue to use their new resources to monitor the agency accountants and expand the knowledge base of personnel who understand GAAP. These resources are critical to the successful oversight of the GAAP package process and financial reporting processes in the outside departments and agencies that report to the Division of Accounting for year-end financial reporting.

We continue to recommend Component Units' processes be more formalized and the financial management of those agencies be provided with control numbers for items expected to be identified in the financial statements, including; transfer amounts, debt, cash, and due to/from. These numbers should be identified by the Division of Accounting as soon as the first cash basis close is completed so that the other departments and agencies can work toward verification of the balances through their own closing process.

The GAAP package preparation process should 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 the internal control resources in the Division of Accounting continue the progress to communicate and train the agency staff year-round to improve the year-end reporting process and develop better information sources to complete the packages. For example, the capital asset review process should be completed throughout the year to insure the agencies are appropriately capturing activity for all projects, maintaining current records, and transferring construction in process to the final asset ledger timely so the GAAP packages are complete and accurate and in accordance with State's policy and generally accepted accounting standards. The current year training on GAAP package preparation should be updated to include more theoretical basis for what should be included in the packages. Areas of focus continue to include accounting estimates, receivable balances and capital asset accounting. The number of GAAP packages and personnel assigned to complete them should be reviewed as part of the improvements to year-end reporting to ensure that they comply with the State's policies over internal control and segregation of duties.

Lastly, as the State continues to prepare for the implementation of the new accounting system, every effort should be made to consolidate as much GAAP package accrual information as practical into the new central accounting system. These items include debt, fixed assets, accounts payable, accruals of payroll and other liabilities, and accounts receivable for all the agencies. The benefits of a more robust central accounting system will include a more efficient closing process, as well as better internal controls and more complete information for management decision making throughout the year.

Agency Contact

Trisha Neely, Director – Division of Accounting (302) 672-5500

Finding Status

Not corrected or partially corrected.

Status

The Division of Accounting has made significant strides to ensure future releases of an accurate and timely CAFR. To date, we have:

- Implemented CAFR 2000, a financial reporting software used by other state governments, such as Maryland and West Virginia, that will minimize errors associated with the use of prior Excel spreadsheets and improve the overall effectiveness and efficiency of the reporting process.

- Continued improvement to the GAAP reporting package process to include:

    1. Conducted debrief meetings with organization management to discuss Division of Accounting's review and/or KPMG's audit findings and required adjustments in order to improve their reporting process;

    2. Enhanced the annual GAAP reporting package training to include more theoretical basis for what should be included in the packages and stressing the importance of accurate and timely submission of the financial information;

    3. Consolidated budget units within several organizations which resulted in a decrease in the number of GAAP reporting packages; and

    4. Stressed the importance of a review process to ensure information submitted in the GAAP reporting packages is accurate and complete.

- Developed procedures to provide Component Units with control totals for State appropriations (restricted/unrestricted) and cash received.

- Performed interim capital asset addition and construction work in progress reviews.

- Negotiated a contract with TMS, II, LLC for accounting services to review all components of the 2008 CAFR. This consultant assisted with the CAFR preparation for the past four years and managed the project plan for the preparation of the 2007 CAFR. The consultant will include an evaluation of the reasonableness of individual financial statement line items with the ability to detect inconsistencies and errors.

- Further developed our in-house team of experts comprised of a CPA, a CICA and two State Accountant IVs who served in comptroller roles in the private sector. On August 18, 2008, two additional individuals will join the CAFR team as Internal Control Analysts (State Accountant IV positions). The additional human resources will expand our internal knowledge base, allow us to segregate internal control responsibilities, better divide the responsibilities of the CAFR preparation and review processes, and provide greater oversight of the entire financial reporting process.

- Continued involvement of CAFR personnel with the new financials system through definition of financial reporting requirements, design of the new processes, and testing of reports to ensure adequate and accurate information is produced throughout the transition and production processes.

We will not be able to fill the CAFR manager position by the end of the summer, as previously indicated. We are working with the Department's HR Manager and the Office of Management and Budget to get the position reclassified to a higher pay grade. We are committed to enhancing the competitiveness of the position and plan to have it filled by early 2009.

Anticipated Completion Date

Ongoing.

Finding Number: **2007-2**
Fiscal Year: **2006**
Related Prior Findings: **06-FIN-05**
Current Year Findings: **2008-2**

Condition

DFMS Journal Entries
The Department of Finance, Division of Accounting is responsible for the oversight of the processing of financial transaction in DFMS. The State of Delaware Office of the Auditor of Accounts issued a report entitled *Statewide Journal Entry Performance Audit, July 1, 2005 – February 28, 2006* in 2006 which contained findings related to the initiation and processing of financial transactions using documents contained in the Delaware Financial Management System (DFMS). During the current year audit, KPMG selected 30 journal entry transactions for testing and identified several ongoing internal control deficiencies including the following:

- Twenty-one of the entries selected for review did not provide complete supporting documentation or specify the business function or rationale to support the journal entries.
- Four of the journal entries were not properly authorized. Personnel are not required to have journal entries approved by another individual prior to submission to DFMS.

Recommendation

We recommend that the Department of Finance, Division of Accounting, take appropriate action to ensure that journal entries are appropriately reviewed prior to submission into DFMS.

- Agencies/Divisions/Departments should take the appropriate steps to ensure that supporting documentation for journal entries are filed in a timely manner. The supporting documentation should include the business function and rationale for the journal entry.

Additionally, the Agency/Division/Department should designate an individual to prepare the journal entry within the department/agency/division and have a separate individual that is authorized to approve the journal entries for adequate separation of duties.

Agency Contact

Trisha Neely, Director – Division of Accounting (302) 672-5500

Finding Status

Not corrected or partially corrected.

Status

During fiscal year 2008, two accounting memoranda (08-10 and 08-11) were sent to state organizations discussing internal controls and segregation of duties. All state organizations were required to provide copies of existing or newly developed policies and procedures to the division. Also addressed were: methods of achieving internal control; establishing control objectives; confidentiality of security code and access; and the use of the facsimile signature stamp.

All central organizations that prepare Journal Vouchers were contacted and instructed to either include supporting documentation along with the submission of the JV for processing or to fully document reasons for the transaction on the document. Our Internal Control personnel are notifying state organizations for improvement of their control activities as a follow-up to the division's internal review testing of journal vouchers for fiscal year 2008.

Anticipated Completion Date

August 2008

Finding Number: **2007-3**
Fiscal Year: **2006**
Related Prior Findings: **06-DOT-01**
Current Year Findings: **2008-10**

Condition

Accounting for Capital Assets and Infrastructure
In order to calculate the ending capital asset balances for the Department of Transportation (DelDOT) financial statements, the Department uses various spreadsheets as well as expense reports from its general ledger system to calculate the balance of capital assets and infrastructure, the Department does not currently have a capital asset subsidiary ledger that can roll-forward all of the elements typically contained in capital asset records, including identification, location, historical cost, acquisition date, useful life, depreciation, accumulated depreciation, and funding source.

The application of the modified approach to infrastructure requires determining if capital program expenditures are for preservation and maintenance or additions to the capacity of infrastructure. The Department currently has a sub-appropriation code in its general ledger system that tracks infrastructure additions so expenses can be coded correctly when they relate to infrastructure, however this coding has been inconsistently applied. The result is that projects are reviewed at year-end to determine whether they are capacity-building and there are no clear procedures surrounding this review.

Recommendation

In the prior year, we recommended that the balances of capital asset infrastructure be centrally managed in a capital assets subsidiary ledger with the capability to track additions, deletions, and calculate depreciation.

We further recommended that the Department establish clear guidelines and procedures for determining whether a project adds capacity for purposes of financial reporting when a project is established, rather than at each year-end, so that capacity-building expenditures can be readily identified for financial reporting purposes.

The Department is in the process of developing a policy to address these recommendations, however these recommendations had not been implemented as of June 30, 2007. We continue to recommend that the Department both develop a capital asset subsidiary ledger and establish clear guidelines and procedures for determining whether a project adds capacity for purposes of financial reporting when a project is established.

Agency Contact

Kathy S. English (302) 670-2688

Finding Status

Not corrected or partially corrected.

Status

Department of Transportation Policy Implement Number A-33 was written to establish an Infrastructure – Project Classification Policy. The policy determines the process for DelDOT to adopt a standardized method of assigning project costs to a proper infrastructure classification that will be compliant with mandates by the Governmental Accounting Standards Board. The Policy Implement became effective on 7/18/08.

DelDOT's BACIS accounting system does not have a centrally managed fixed asset subsidiary ledger and one is not anticipated to be established, inasmuch as the BACIS accounting system is over 25 years old. This issue should be addressed with the implementation of the Statewide PeopleSoft Accounting System.

Finding Number: **2007-4**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**

Condition

Nonroutine Transactions at DelDOT
We recommended in the prior year that the Department establish a formal review process over contracts entered into by the Department affecting revenue for the purpose of determining accounting treatment for year-end financial reporting. Although the Department implemented policies to perform such reviews going forward in response to this recommendation, contracts that were executed prior to this fiscal year may also have continuing impact on revenue.

In the current year, the Department received $5.5 million in payment for the sale of land. We recommended, and management recorded, an audit adjustment to appropriately reflect the transaction on the Department's financial statements.

Recommendation

We recommend that, in addition to the contract review for new contracts, the Department also establish a formal review process for significant nonroutine transactions for the purpose of determining appropriate accounting treatment.

Agency Contact

Kathy S. English (302) 670-2688

Finding Status

Fully corrected.

Status

Department of Transportation Policy Implement Number A-32 was written to establish a formal review process for all contracts entered into by the Department of Transportation that result in revenue being received by the Department and to ensure that the appropriate accounting treatment is implemented to properly record all revenues received. The Policy Implement was issued on 4/07/08, and became effective on 5/06/08.

Finding Number: **2007-5**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **2008-11**

Condition

Financial Reporting at DelDOT
The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Department Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

Additionally, there is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Recommendation

We recommend that the Department develop, for the 2008 audit cycle:

- A detailed list of balances (other than those in the Transportation Trust Fund and Delaware Transit Corporation) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances.
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed.
- Interim review process to evaluate data before year-end to identify any issues and correct them before year-end close.
- A periodic monitoring process to ensure the timetable is adhered to.

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules, and documentation to others within the accounting function.
- Provide for an independent review of information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor.
- Review data throughout the year for completeness and accuracy.

Agency Contact

Kathy S. English (302) 670-2688

Finding Status

Not corrected or partially corrected.

Status

DelDOT will explore the opportunities to implement this recommendation. Although we recognize the need for expanded knowledge and staffing, due to the current hiring freeze implemented by the Governor, the Department is not in a position to hire additional staff. Efforts will be made to improve this process through cross training of

staff. It is anticipated that with the implementation of the Statewide PeopleSoft Accounting System, many of the data collection issues/items will be resolved.

Anticipated Completion Date

Ongoing.

Finding Number: **2007-6**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**

Condition

Change Control over Toll System Host Computer
The toll system host computer and related software is used to process, record, and reconcile over $128 million in toll revenue from both cash and EZ Pass customers.

There are four toll system software support positions, all of which have the ability to develop changes to the toll system and the ability to migrate them into the production environment. Typically, such duties are segregated to mitigate the risk that changes are disruptive to system operations either intentionally or unintentionally.

Although there is a change management policy requiring review and approval of changes, the ability exists to circumvent the approval process because of the lack of segregation of duties.

Recommendation

We recommend that the development of system changes be segregated from the ability to migrate changes into production.

Agency Contact

Kathy S. English (302) 670-2688

Finding Status

Fully corrected.

Status

Office of Information Technology/Toll Operations Policy S.O.I. Number SYS-04 was written to establish an effective and functional system for software changes. The S.O.I. contains instructions/policy to be followed for requesting and implementing software changes to the Toll System Servers/lane hardware and software applications/executables. The Policy Implement became effective October 2007.

Finding Number: **07-CJC-01**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **16.575 Crime Victim Assistance**

Condition

Of the 10 payroll expenditures selected for test work, 4 of the time and effort certifications were not properly reviewed and approved as evidenced by a lack of a supervisor signature. We also noted that CJC could not provide a signed time and effort certification for one of the employees selected.

Recommendation

We recommend that CJC fully implement their procedures to ensure that all employees being paid with federal awards complete and sign time and effort certifications to support the payroll costs, as well as require supervisory review and approval of the certifications.

Agency Contact

Christian Kervick (302) 577-5030

Finding Status

Fully corrected.

Status

The Criminal Justice Council will adhere to its current policies and procedures and have all time sheets and Time and Effort Certifications reviewed and signed by supervisors.

Finding Number: **07-DTC-01**
Fiscal Year: **2004**
Related Prior Findings: **04-DTC-09, 05-DTC-05, 06-DTC-01**
Current Year Findings: **08-DTC-01**
Program: **84.007, Student Financial Assistance Cluster**
84.032,
84.033,
84.038,
84.063,
84.376

Condition

In the prior year, the State of Delaware Office of the Auditor of Accounts engaged a third party to perform a general controls review of the Banner Application, which supports the Student Financial Assistance Cluster at Delaware Technical and Community College. Of the weaknesses noted on the prior report, the following findings still existed as of June 30, 2006:

- Policies and procedures are not formalized (documented).
- Backup and Recovery.
- Change Control.

In the current year, an updated general controls review was performed of the Banner Application and the following findings were identified as of June 30, 2007:

Policies and procedures for Information Technology processes and controls supporting the Banner Application could be improved. While the College has an acceptable technology usage policy in place, and several written procedures (including change management communications and backup procedures), several key policies are absent - including change management testing, user access administration, authentication/password policies, and policies governing monitoring security events and problem identification/resolution. While the IT Department has initiated efforts to improve and build on their policies, the College should develop the following policies and procedures: (1) change management testing, (2) user access administration, (3) authentication/password policies, (4) security event monitoring, (5) problem identification and resolution, (6) full policies on data back-up and recovery.

The implementation of a dedicated help-desk solution to support problem identification and resolution for Banner Application-related user issues could be useful. A help-desk solution would ensure that financial-aid-related user issues related to the Banner application do not go unresolved. The ideal solution should include a 24 hour/7 day knowledge base and be able to answer users' frequently-asked questions.

Testing of the restorability of the Banner Programs should be performed at least annually. As of June 30, 2007, there was no comprehensive plan to ensure that Banner Application programs and data could be recovered effectively from an off-site location.

A weekly transmission of backup data should be taken to another campus. As of June 30, 2007, while media containing backed-up data was taken to a second building on the Dover campus, such media should be taken further away to ensure that data is recoverable in the event of a catastrophic event on the Dover Campus.

Recommendation

We recommend that Delaware Technical and Community College continue to implement the recommendations as detailed in the above-referenced report.

Agency Contact

Gerard M. McNesby, Vice President of Finance (302) 739-4057

Finding Status

Not corrected or partially corrected.

Status

Policies and Procedures

The primary Banner application does not support expiration of passwords or support enforcing password complexity as it is delivered from the vendor. The College has strived to keep customizations to the Banner system to a minimum to ensure the seamless flow of upgrades and patches. Since the software vendor does not support password policies natively, we do not recommend implementing a customization to meet this recommendation.

The College's Data Analysts maintain a desk reference of procedures followed in day-to-day operations of the Banner system. These references are available in hard copy at the desk of the Analysts who maintains them. Custom scripts and code are stored centrally on a server with controlled access and archival systems ensuring the availability of the data.

A subcommittee for creation of formal Policies and Procedures is tasked with the formalization of all IT related policies and procedures on an ongoing basis. Change management, user access administration, and data back-up and recovery policies are already under review by this subcommittee.

A second subcommittee focusing on Identity Management is tasked with developing the processes and proposing policies that surround user authentication, system access, and password policies.

Policies have been developed that outline user access administration, authentication and password policies within Banners limitations, along with additional policies governing the backup and recovery process for Banner to include the remote recovery location equipment. Policies will be an on-going process and development will continue through the Banner System lifecycle.

Dedicated Help-Desk Solutions

The college portal has a section under "Help Center" tab which contains "frequently asked questions" that include a link for financial aid questions.

College Administration is reviewing the Application Help Desk operating procedures and its reporting structure on an ongoing basis. This helpdesk is charged with supporting faculty, staff and students with questions about Banner and Bannerweb. The college does support the recommendation of tracking of application helpdesk calls; however, currently there is no system in place to support this. A commercial product for logging help desk calls and providing online self support services like FAQ's, Knowledgebase, and opening support tickets is under review; however, no formal budget has been established for funding this product.

The structure of the Collegewide help desk has been changed to ensure faculty, staff, and students are provided with the correct help desk point of contact initially.

Testing of Restorability

At the end of October 2007, a server, safe for tape storage, and Tape archival system were relocated to the Owens Campus in Georgetown. This server provides line office support for the Banner system in the event of a catastrophic failure. During this transition, this system was tested to ensure the tapes could indeed restore the

Banner data from the backups created in Dover. Another formal and comprehensive plan to test that restoration took place in the first quarter of 2008. This recommendation is complete.

Location of Backup Data

This recommendation is complete. As of October 31, 2007, a safe has been located in Georgetown at our Owens campus and weekly tape backups are been transported and stored in that safe. The Georgetown campus is located about 40 miles south of our data center.

Anticipated Completion Date

Ongoing.

Finding Number:	**07-DTC-02**
Fiscal Year:	**2006**
Related Prior Findings:	**06-DTC-02**
Current Year Findings:	**None**
Program:	**84.007, Student Financial Assistance Cluster**
	84.032,
	84.033,
	84.038,
	84.063,
	84.376

Condition

In the prior year, it was noted the College was not in full compliance with the requirement to notify students with FFEL aid within 30 days of crediting the student account stating the date and amount of the disbursement or the student's, or parent's, right to cancel all or a portion of the loan or loan disbursement and have the loan proceeds returned to the holder of that loan.

In the current year, for the 15 students tested with FFEL aid across all campuses, it was noted this same finding only continued for the Fall semester of Fiscal Year 2007 and was corrected by the Spring semester of Fiscal Year 2007.

Recommendation

We recommend that the campuses continue to ensure that the controls over FFEL disbursement notifications are operating effectively.

Agency Contact

Debra McCain, Financial Aid Officer (302) 571-5380
Veronica Oney, Financial Aid Officer (302) 855-1667
Jennifer Grunden, Financial Aid Officer (302) 857-1042

Finding Status

Fully corrected.

Status

Within 30 days of crediting FFEL or PLUS loan recipients'/students' accounts, Banner generated Loan Disbursement Letters are printed on College letterhead and sent to the students. The letter includes the actual disbursement date, actual amount of the disbursement for each student, and a statement concerning the right of the student or parent to cancel all or a portion of the loan and then have the loan proceeds returned to the holder of the loan.

Finding Number: **07-ED-01**
Fiscal Year: **2005**
Related Prior Findings: **05-ED-03, 06-ED-01**
Current Year Findings: **08-ED-01**
Program: **84.287 Twenty-First Century Community Learning Centers**

Condition

The State Department of Education (DOE) could not provide evidence that they have received or were due any A-133 single audit reports from those subrecipients expending more than $500,000 in federal awards. While the DOE have requested such reports as required, there has been no response from the subrecipients. Accordingly, the DOE should request a positive confirmation from the subrecipients that A-133 single audit report is not required and consider holding back funding until that subrecipient's confirmation is received. In addition, the DOE should continue to strengthen its monitoring of the subrecipients by initiating the following:

- Include specific guidelines within the subrecipients' applications that would cause the suspension of continued funding.
- Ensure funding is on a reimbursement basis by verifying proof of expenditures prior to the reimbursing the subrecipients.
- Provide a standard report format for each subrecipient visit to ensure consistency and timeliness of periodic report. The standardized report should include any corrective actions required to be implemented and the consequences on not correcting those deficiencies.

The total amount of expenditures passed through to subrecipients was $2,927,260 for the year ended June 30, 2007. Total expenditures for the program as a whole were $4,434,928.

Recommendation

We recommend that DOE reinforce its policies and procedures to ensure that subrecipient activities are monitored on a timely basis, and that the monitoring visits are consistently documented and reviewed by a supervising official. The monitoring visits should also reinforce the need to address deficiencies identified during those visits and the consequences of not correcting such deficiencies.

Agency Contact

Theresa Vendrzyk Kough (302) 739-4269

Finding Status

Not corrected or partially corrected.

Status

Requests for A-133 audit information were requested via e-mail on September 27, 2007. As of August 5, 2008 no A-133 reports have been filed. My office is currently in contact with each affected grantee and requesting that the information be forwarded to my office by August 15, 2008. Because of the continued poor response by the grantees, proof of A-133 financial reporting will now be required as part of their annual Continuation Application. Failure to provide A-133 financial documentation will result in loss of grant funds.

Anticipated Completion Date

Ongoing.

Finding Number: **07-ED-02**
Fiscal Year: **2005**
Related Prior Findings: **05-ED-05, 06-ED-03**
Current Year Findings: **08-ED-02**
Program: **84.048 Vocational Education – Basic Grants to States**
84.027, Special Education Cluster
84.173
84.367 Improving Teacher Quality State Grants

Condition

Thirty payroll expenditures were tested at the State Department of Education, consisting of 24 Vocational Educational expenditures, four Special Education expenditures and two Improving Teacher Quality expenditures. While time and effort reports were present for each of the of employees selected, 11 of the time and effort reports were not signed by the employee and/or their supervisor within 90 days of the end of the pay cycle end date being allocated.

In addition, as noted in a prior year finding, the State Department of Education is still in the process of developing procedures to make adjustments (quarterly or annually), as necessary, to payroll costs charged to federal awards in order to reflect the activity actually performed by their employees. DOE does have procedures in place that require employees to complete periodic time and effort certifications as required by OMB A-87; however, the costs charged to federal awards are ultimately based on budgeted amounts programmed through the State-wide payroll system.

Recommendation

We recommend that DOE reinforce its policies and procedures to provide more timely reviews of time and effort certifications. We also recommend that DOE develop procedures to periodically adjust payroll costs charged to federal awards based on the actual activity performed, as supported by the time and effort certifications.

Agency Contact

Tammy Korosec (302) 735-4045

Finding Status

Not corrected or partially corrected.

Status

We will be reinforcing our policies and procedures as well as implementing the new format of time and effort reporting which will make reporting easier to report and reconcile. Reconciliations will be done on a regular basis and adjustments will be made based upon the reconciliations in accordance with OMB A-87. The Time and Effort process will be discussed with all employees affected, stressing the importance of accuracy.

Anticipated Completion Date

December 2008

Finding Number:	**07-ED-03**
Fiscal Year:	**2007**
Related Prior Findings:	**None**
Current Year Findings:	**None**
Program:	**84.010 Title I Grants to Local Educational Agencies**
	84.048 Vocational Education – Basic Grants to States
	84.027 Special Education Cluster
	84.173
	84.367 Improving Teacher Quality State Grants
	84.287 Twenty-First Century Community Learning Centers

Condition

Intrastate transactions

Appoquinimink School District
Based on a sample of 14 intrastate transactions selected for testwork totaling $98,414, two intrastate transactions for budgeted audit fees of $5,500 were not supported by actual expenditures and therefore not an allowable cost.

Total intrastate transactions for the Appoquinimink School District for the year ended June 30, 2007 were $304,054.

Lake Forest School District
Based on a sample of 15 intrastate transactions selected for testwork totaling $20,436, two intrastate transactions for budgeted audit fees of $1,250 were not supported by actual expenditures and therefore not an allowable cost.

Total intrastate transactions for the Lake Forest School District for the year ended June 30, 2007 were $214,997.

Red Clay School District
Based on a sample of 32 intrastate transactions selected for testwork totaling $396,257, there was one intrastate transaction totaling $5,122 that was not approved by the appropriate personnel.

Nonpayroll transactions

Capital School District
Of the seven nonpayroll transactions selected for testwork totaling $1,267, one transaction for $259 was charged to Title I for the reimbursement of college credits, which is not considered an allowable cost in accordance with Title I program requirements and OMB Circular A-87.

Total nonpayroll transactions for the Capital School District for the year ended June 30, 2007 were $927,193.

Red Clay School District
Of the 54 nonpayroll transactions selected for testwork totaling $203,774, one transaction for $147 was not approved by the appropriate personnel.

Recommendation

We recommend that the School Districts cited above implement policies and procedures to ensure that payment and interstate vouchers are appropriately approved in accordance with State and District policy and that appropriate supporting documentation is maintained with all processed transactions.

Agency Contact

Appoquinimink School District – Maryellen Brown	(302) 376-4128
Capital School District – Sean Sokolowski	(302) 672-1512
Lake Forest School District – Christine DaCosta	(302) 284-3020
Red Clay School District – Jill Floore	(302) 552-3725

Finding Status

Fully corrected.

Status

Appoquinimink School District

The practice of transferring money into a local appropriation for audit fees has been discontinued and Appropriation 8920 has been eliminated. Now, the District follows the State-recommended practice of encumbering audit fees against the grants using a purchase order.

Capital School District

The corrective action has been implemented. We do not charge Tuition Reimbursements to federal funds anymore.

Lake Forest School District

Lake Forest found the error prior to the audit, worked with the Department of Education to determine corrective action. Paid back funds with a corrective IV prior to the audit, the funds were never spent just put into a holding account, which allowed the district to return the funds in the same fiscal period. Lake Forest will not allow an expense for audit fees in the future unless an actual audit was performed.

Red Clay School District

Policies have been established to ensure approval by appropriate personnel.

Finding Number:	**07-ED-04**
Fiscal Year:	**2006**
Related Prior Findings:	**06-ED-11**
Current Year Findings:	**08-ED-04**
Program:	**84.010 Title I Grants to Local Educational Agencies**
	84.048 Vocational Education – Basic Grants to States
	84.027 Special Education Cluster
	84.173
	84.367 Improving Teacher Quality State Grants

Condition

Brandywine School District
Based on a sample of 21 payroll expenditures totaling $26,235, seven employees totaling $6,344 were charged 100% to federal programs, but lacked semi-annual time and effort reports signed by either the employee or their supervisor. In addition, four employees totaling $5,361 were charged to federal programs, but did not account for 100% of their time on their time and effort report.

Caesar Rodney School District
Based on a sample of 15 payroll expenditures totaling $16,564, one employee was charged 80% to a federal program which did not agree to the 100% reported on the employee's time and effort certification. In addition, five time and effort reports did not indicate the date they were signed by the employee.

Christina School District
Based on a sample of 32 payroll expenditures totaling $74,854, one employee totaling $1,532 was erroneously charged to the Improving Teacher Quality State Grants program. In addition, the time and effort reports for the remaining sample tested did not indicate the date they were signed by the employee.

Delmar School District
Based on a sample of 2 payroll expenditures totaling $321, both employees in the sample who worked on multiple federal programs did not have monthly time and effort reports.

Lake Forest School District
Based on a sample of 20 payroll expenditures totaling $15,213, one employee was charged 64% to a federal program which did not agree to the 50% of actual effort supported by the employee's time and effort report, resulting in an overcharge of $306 to the Special Education Cluster. Two employees totaling $2,791 were charged to federal programs, but did not account for 100% of their time on their time and effort report. In addition, one other employee charged federal programs for $435, but did not indicate the percentages of actual effort on their time and effort report.

Seaford School District
Based on a sample of 12 payroll expenditures totaling $11,880, seven employees totaling $4,853 who worked on multiple federal programs did not sign their time and effort reports. Four of these effort reports totaling $3,952 were not approved by the employee's supervisor. In addition, seven employees' time and effort reports totaling $6,538 were approved by the employee's supervisor prior to the actual time being incurred.

Recommendation

We recommend that the above School District maintain 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. These effort reports should only be signed to reflect actual effort expended.

Agency Contact

Brandywine School District – David Blowman	(302) 793-5045
Caesar Rodney School District – Ada Twitchell	(302) 697-2173
Christina School District – Patrick O'Rourke	(302) 552-2614
Delmar School District – Charity Phillips	(302) 846-9544
Lake Forest School District – Christine DaCosta	(302) 284-3020
Seaford School District – Donna Blackburn	(302) 629-4587

Finding Status

Not corrected or partially corrected.

Status

Brandywine School District

The revised version of the partially federally funded employee time reporting form as provided by DE DOE was forwarded to all applicable federal programs monitors with guidance as to their purpose and the requirements to ensure their timely completion and to have them available for inspection. Also, at the same time, the requirement for the completion of a semiannual roster of fully federally funded employees was communicated.

Caesar Rodney School District

Reported employee time and effort certifications will agree to actual payroll expenditures.

In addition to the time frame listed in the narrative of the time and effort logs, a date line will be included with the signature line so that the employee will indicate the actual date of signature.

Christina School District

The Christina School District procedure for Time and Effort Reporting (BUS-P001) includes guidance for Consolidating administrative funds. This procedure has been revised to incorporate the guidance from "QUESTIONS AND ANSWERS on CERTAIN PROVISIONS of TITLE XIV of the ELEMENTARY AND SECONDARY EDUCATION ACT OF 1965", about which funds can be consolidated, to add the requirement for SEA approval, and to add a date line on the semi-annual certification form.

Delmar School District

The district will convene a Data Payroll Documentation Meeting with all staff who are funded partly or in full by federal funds. The purpose of this meeting will be to explain the procedures

Lake Forest School District

The problem was the T&E was done by unit instead of actual time, we implemented the change immediately and have implemented the new form for split funding employees, July 1, 2008.

Seaford School District

The recent federal audit findings for the Seaford School District involved several employee time and effort reports that were either missing signatures or were approved prior to the actual time being incurred.

The Seaford School District has adopted the new Time and Effort Forms and procedures recommended by the Delaware Department of Education. We will maintain accurate 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. These effort reports will only be signed to reflect actual effort expended.

Anticipated Completion Date

FY 2009

Finding Number: **07-ED-05**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **84.048 Vocational Education – Basic Grants to States**

Condition

For one of the five vendors selected for testwork, the District did not follow the proper procurement process. The District could not provide supporting documentation that the vendor was selected through a competitive bidding process or that an approved exception to the process (sole source statement) had been made.

Total payments made to the one vendor with federal funds were $52,295 for the year ended June 30, 2007.

Recommendation

We recommend that the District ensure that all contracts awarded with federal funds are awarded on a competitive basis in accordance with the State's procurement policies and procedures. In cases where competition is limited, justification and approval should be documented in the contract file via a sole source statement.

Agency Contact

Ada Twitchell (302) 697-2173

Finding Status

Fully corrected.

Status

The Caesar Rodney School District does and will ensure that all contracts awarded with federal funds are awarded on a competitive basis in accordance with the State's procurement policies and procedures. The District will document the justification and approval in the contract file where competition is limited and/or where exceptions to competitive bidding apply.

Finding Number: **07-ED-06**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **08-ED-05**
Program: **84.010 Title I Grants to Local Educational Agencies**

Condition

The School District did not obtain formal approval from the State Department of Education to consolidate its administrative funds. In addition, the Vocational Education program was being included as part of the consolidated administrative funds, even though that program is not a covered program for consolidation.

Recommendation

We recommend that the District obtain formal approval from the State Department of Education to consolidate its federal administrative funds and ensure that such funds only consist of covered programs for consolidation.

Agency Contact

Patrick O'Rourke (302) 552-2614

Finding Status

Not corrected or partially corrected.

Status

The Christina School District procedure for Time and Effort Reporting (BUS-P001) includes guidance for Consolidating administrative funds. This procedure has been revised to incorporate the guidance from "QUESTIONS AND ANSWERS on CERTAIN PROVISIONS of TITLE XIV of the ELEMENTARY AND SECONDARY EDUCATION ACT OF 1965", about which funds can be consolidated, to add the requirement for SEA approval, and to add a date line on the semi-annual certification form.

Finding Number: **07-COE-01**
Fiscal Year: **2006**
Related Prior Findings: **06-COE-01**
Current Year Findings: **None**
Program: **90.401 Election Reform Payments**

Condition

Nonpayroll transactions
One of 10 nonpayroll transactions selected for test work totaling $1,200 was not signed by two authorized signers, as required by Department policies and the State *Budget and Accounting Manual*. The total dollar value of the 10 transactions was $3,063,695. This transaction was for an allowable expenditure.

Total nonpayroll transactions processed by the program for the year ended June 30, 2007 totaled $3,842,318.

Intrastate transactions
Three of 9 intrastate transactions selected for test work totaling $44,848 were not signed by two authorized signers, as required by Department policies and the State *Budget and Accounting Manual*. The total dollar value of the 9 transactions was $168,869. These transactions were for allowable expenditures.

Total intrastate transactions (intergovernmental vouchers and expenditure correction documents) processed by the program for the year ended June 30, 2007 totaled $325,894. Total expenditures for the program were $4,277,000.

Recommendation

We recommend that COE implement policies and procedures to ensure that payment vouchers and intergovernmental vouchers are appropriately approved in accordance with State and agency policy.

Agency Contact

Elaine Manlove (302) 739-4277

Finding Status

Fully corrected.

Status

This office no longer uses a signature stamp or processes vouchers without two signatures. All vouchers are signed by the Commissioner of Elections.

Finding Number: **07-COE-02**
Fiscal Year: **2006**
Related Prior Findings: **06-COE-02**
Current Year Findings: **None**
Program: **90.401 Election Reform Payments**

Condition

Although the Department of Elections is exempt from State procurement law, the U.S. Election Assistance Commission did not provide an exemption to COE regarding federal procurement, suspension, and debarment policies. As a result, COE is required to comply with federal regulations/requirements when procuring materials/services with federal funds.

For two out of three vendors tested, COE asserted that the procurements were made based on sole source justification. However, the appropriate documentation to support this determination was not available. Also, the COE could not provide evidence of an executed contract between the COE and the vendors for the services provided during the audit period. Total voting machine and voting machine upgrade expenditures paid to the two vendors for Fiscal Year 2007 totaled $3,001,625. Total program expenditures for Fiscal Year 2007 totaled $4,277,000.

Recommendation

We recommend that COE implement internal control policies and procedures to ensure that all procurements with federal funds are in compliance with federal procurement, suspension, and debarment requirements.

Agency Contact

Elaine Manlove (302) 739-4277

Finding Status

Fully corrected.

Status

A sole source statement is now on file in this office.

Finding Number: **07-COE-03**
Fiscal Year: **2006**
Related Prior Findings: **06-COE-03**
Current Year Findings: **None**
Program: **90.401 Election Reform Payments**

Condition

The SF-269 Form submitted for the period ended September 30, 2006, did not properly separate outlays between the federal share and the required state match. All expenditures incurred during the reporting period are reported as federal outlays, resulting in an overstatement of the federal share by $24,488 and a corresponding understatement of the state share. In addition, one of the three SF-269 reports submitted to the EAC during the audit period did not contain an authorized signature as evidence of proper review and approval.

Recommendation

We recommend that COE implement internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-269 Form to the U.S. Election Assistance Commission.

Agency Contact

Elaine Manlove (302) 739-4277

Finding Status

Fully corrected.

Status

These reports were corrected and resubmitted by David Ward to the EAC immediately during the audit. Copies are filed in the reports book marked and dated as corrected.

Finding Number:	**07-DHSS-01**
Fiscal Year:	**2007**
Related Prior Findings:	**None**
Current Year Findings:	**08-DHSS-01**
Program:	**10.551, Food Stamp Cluster** **10.561** **66.468 Capitalization Grants for Drinking Water State Revolving Funds** **93.044, Aging Cluster** **93.045,** **93.053** **93.268 Immunization Grants** **93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance** **93.563 Child Support Enforcement** **93.558 Temporary Assistance For Needy Families** **93.959 Block Grants for Prevention and Treatment of Substance Abuse** **93.568 Low Income Home Energy Assistance Program** **93.596 Child Care Cluster** **93.667 Social Services Block Grant** **93.767 State Children's Health Insurance Program** **93.775, Medical Assistance Cluster** **93.777,** **93.778** **93.917 HIV Care Formula Grants**

Condition

For 9 of the 10 drawdowns selected for testing, we noted that the amount of the drawdown did not agree to supporting documentation from the State's general ledger, Delaware Financial Management System (DFMS). We noted in certain cases the drawdown request exceeded the supporting expenditure amounts in DFMS.

Recommendation

We recommend that the Department enhance its policies and procedures for drawing down federal funds in order to ensure they are in compliance with the terms of the Agreement.

Agency Contact

Robert Bubacz (302) 255-9247

Finding Status

Not corrected or partially corrected.

Status

Effective March 2008, DMS-Grants began using actual screen prints of current DFMS expenditures by appropriation for the weekly drawdowns as supporting documentation. A procedures manual has been developed for the current process.

Anticipated Completion Date

March 2008

Finding Number:	**07-DHSS-02**
Fiscal Year:	**2007**
Related Prior Findings:	**None**
Current Year Findings:	**08-DHSS-02**
Program:	**10.551, Food Stamp Cluster**
	10.561
	93.558 Temporary Assistance For Needy Families
	93.596 Child Care Cluster
	93.667 Social Services Block Grant
	93.767 State Children's Health Insurance Program
	93.775, Medical Assistance Cluster
	93.777,
	93.778

Condition

The Department did not follow its cost allocation plan when charging costs related to DMMA. The PACAP plan designates DMMA costs to be charged directly to the Medicaid program or through the indirect charge method across all DMMA programs. However, the Department was incorrectly allocating the DMMA related costs among the DSS programs, as the Department was still in transition in separating the DMMA division from DSS during Fiscal Year 2007.

Recommendation

We recommend the State ensures its general ledger, Delaware Financial Management System (DFMS), is properly configured to allocate costs out of the cost pool in accordance with its approved 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.

Agency Contact

Robert Bubacz (302) 255-9247

Finding Status

Not corrected or partially corrected.

Status

DHSS received conditional approval for the submitted 2005 PACAP plan. An updated PACAP plan with proposed changes to DMMA allocations was submitted September 2007. Implementation for the allocation changes should be completed in SFY 2009.

Anticipated Completion Date

April 2009

Finding Number:	**07-AGI-01**
Fiscal Year:	**2002**
Related Prior Findings:	**02-AGI-01, 02-DHSS-01, 03-AGI-01, 04-AGI-01, 05-AGI-01, 06-AGI-01**
Current Year Findings:	**08-AGI-01**
Program:	**93.044, Aging Cluster**
	93.045,
	93.053
	93.667 Social Services Block Grant

Condition

Employees who are 100% charged to the Aging Cluster complete semi-annual certifications in accordance with OMB Circular A-87. Employees work on multiple cost objectives; however, while tracking of effort is performed for employees in the Client Services Unit, the Division of Services for the Aging and Adults with Physical Disabilities (DSAAPD) has not yet developed a system to accurately allocate costs based on actual effort.

Recommendation

We recommend that the DSAAPD continue development of procedures to allocate salaries based on time studies performed in accordance with its Summary Status of Prior Year Findings.

Agency Contact

Albert Griffith (302) 255-9355

Finding Status

Not corrected or partially corrected.

Status

Cost Allocation process had been developed and is in place effective July 2008.

Finding Number:	**07-AGI-02**
Fiscal Year:	**2007**
Related Prior Findings:	**None**
Current Year Findings:	**08-AGI-02**
Program:	**93.044, Aging Cluster** **93.045,** **93.053**

Condition

Subrecipients with expenditures less than $500,000 do not receive an audit according to OMB Circular A-133. Of the 10 subrecipients tested, we noted that management was not performing any testing during its site visits to ensure that program income being reported by these subrecipients was correct or complete. Thus, we were unable to determine that program income for these entities was being applied to the program according to the applicable federal requirements.

Recommendation

We recommend that management implement procedures during its site visits to review controls in place at the subrecipient level over collecting, tracking and reporting program income. We recommend that DSAAPD consider verifying the program income reported by subrecipients on quarterly reports submitted to DSAAPD against supporting documents during its site visits.

Agency Contact

Albert Griffith (302) 255-9355

Finding Status

Not corrected or partially corrected.

Status

Hiring freeze has limited our ability to resolve this finding. The Unit's vacancy rate is currently 57%. One of the vacant positions is the Internal Auditor that will be visiting the providers and verifying project income activities among other things. Once approval obtained to recruit for vacant position, we will begin site visits and verify project income.

Anticipated Completion Date

July 2009

Finding Number: **07-CSE-01**
Fiscal Year: **2004**
Related Prior Findings: **04-CSE-01, 05-CSE-01, 06-CSE-01, 04-CSE-02, 05-CSE-02, 06-CSE-02**
Current Year Findings: **08-CSE-01**
Program: **93.563 Child Support Enforcement**

Condition

In prior years, it was recommended that the Division of Child Support Enforcement (DCSE) establish appropriate steps to review worklists generated by the Delaware Automated Child Support Enforcement System (DACSES) computer system to determine cases requiring action in order to provide adequate lead time for employees to complete actions necessary to comply with time requirements. It was also recommended that DCSE enhance DACSES to include documentation regarding:

- Documentation of health insurance coverage obtained by the custodial parent,
- Confirmation of health insurance available (or unavailable) at a reasonable cost by the non-custodial parent, and
- Additional enforcement action taken to obtain available reasonable-cost health insurance.

It was further recommended that DCSE replace DACSES with a computer system that could better facilitate establishment of paternity, support and medical support obligations. It is also noted DCSE should ensure evidence of appropriate documentation of programmer access or change control for programmers be maintained in the new computer system.

DCSE continues to work toward implementation of these recommendations. However, per DCSE's Summary Status of Prior Year Findings, recommendations were only partially implemented as of June 30, 2007.

Recommendation

We recommend that management continue with its corrective action plan including the following initiatives:

- Work list management initiative
- Training initiative
- Redistribution of caseloads
- Division of Child Support Enforcement/Division of Social Services interface
- New post-court DACSES screen
- National medical support notice
- New DACSES system

Agency Contact

Theodore Mermigos, Midge Holland, and Andrew Haman (302) 395-6520

Finding Status

Not corrected or partially corrected.

Status

Work list management initiative

Phase I: Eliminate the creation of duplicate worklist items. *Completed -September 5, 2004*

Phase II: Consolidation of the creation of the worklist items, including a new hierarchy of the worklist items. *Completed April 17, 2005*

Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers. *Completed June 20, 2007*

Phase IV: All processes and worklists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to worklist items.

Phase V: Evaluation

Completion of the total Worklist Management initiative is projected for December 2008 (significant amount of time is required for data cleanup as this is the final phase).

Training initiative

DACSES Worklist Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing worklist management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. *Completed June 9, 2006*

The training was developed to enable staff to be able to navigate and manage a worklist utilizing the new functionalities in the Worklist Management screen. *Completed June 21, 2006.*

Redistribution of caseloads- ***(No longer warranting further action)***

DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case.

There will two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county.

Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases. *Completed January 22, 2008*

Division of Child Support Enforcement/Division of Social Services interface

Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface one a month. One outstanding issue related to notation on the DACSES case events screens when information is sent via the interface. Once programming is finished; the entry will appear for all cases sent to Medicaid, starting with May 2008 data.

New post-court DACSES screen

While the post court screen would still be a valuable tool for workers, dedicating the programming resources to develop and test the screen have proved difficult. Because the data necessary for the medical interface is

currently captured in other areas of DACSES, management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced.

National medical support notice

DCSE fully implemented the National Medical Support Notice. *(Completed July of 2004)*

New DACSES system

DCSE has submitted the federally required Feasibility, Alternatives and Cost benefit analysis for the replacement project. Final federal approval of that study is pending. When received, DCSE will launch the development phase for the replacement project. Kick off for that effort is projected for June 2009.

Anticipated Completion Date

June 2012

Finding Number:	**07-DMMA-01**
Fiscal Year:	**2006**
Related Prior Findings:	**06-DMMA-01**
Current Year Findings:	**08-DMMA-01**
Program:	**93.775, Medical Assistance Cluster** **93.777,** **93.778**

Condition

For 40 TPL claims tested in 2007, we noted that the State's third party service provider sought reimbursement from at least one insurance provider by for all claims tested. However, we were unable to determine the extent to which reimbursement was sought for claims with open reimbursement status. This represents 4 out of the 40 claims reviewed. We also noted the State does not currently communicate with the service provider regarding the status of open claims and does not monitor the claims collections process.

Recommendation

The State is currently in the process of developing a TPL policy manual. We recommend that the manual includes specific language as to the responsibilities of all parties involved and that the policies noted in the manual be immediately implemented by the State.

Agency Contact

Nicci Johnson (302) 255-9546

Finding Status

Not corrected or partially corrected.

Status

The TPL Unit has worked with Electronic Data Systems (EDS) and their contractor Health Management Services (HMS) to track all outstanding claims. TPL meets with HMS on a bi-monthly basis to review the status reports of outstanding claims activities. The TPL unit has developed letters to be sent to providers with the highest levels of non-compliance. All of this information will be contained in the TPL policy manual once it is completed. The completed manual will outline the responsibilities of all parties that are involved in the process.

Anticipated Completion Date

September 2008

Finding Number:	**07-DMMA-02**
Fiscal Year:	**2004**
Related Prior Findings:	**04-DSS-01, 05-DSS-01, 06-DMMA-03**
Current Year Findings:	**None**
Program:	**93.775, Medical Assistance Cluster** **93.777,** **93.778**

Condition

We reviewed 40 provider overpayments identified during the year and noted that the State has not fully implemented a process as of June 30, 2007, to properly track individual provider overpayments collected via check. While the State does reduce the reimbursement from the Medicaid program by way of summary level cash collections reports, there was no current way to track individual checks received in order to ensure that cash collections were properly accounted for and managed. Starting in Fiscal Year 2008, the State has implemented the necessary processes and reports to track the individual provider overpayments collected via check.

Recommendation

We continue to recommend that DMMA implement procedures to track individual provider overpayments collected via check. This will ensure that reports currently used by DHSS to determine federal reimbursement credits are complete and accurate.

Agency Contact

Melissa Motter-Pelletier (302) 255-9249

Finding Status

Fully corrected.

Status

Testing was performed last year after the exit conference with external audit firm.

Finding Number:	**07-DMMA-03**
Fiscal Year:	**2006**
Related Prior Findings:	**06-DSS-03**
Current Year Findings:	**None**
Program:	**93.596 Child Care Cluster** **93.558 Temporary Assistance for Needy Families** **93.775, Medical Assistance Cluster** **93.777,** **93.778**

Condition

For two of 70 participants selected for eligibility test work, a recipient file, which typically includes documentation of individual eligibility, was unable to be found by program staff. Due to the missing documentation, it was indeterminable if the participant was eligible according to the criteria stated above.

Also, for three of 40 cases selected for MEQC eligibility test work, the case file, which includes documentation of eligibility re-determinations, was unable to be located by program staff.

Recommendation

The Divisions should implement policies and procedures to aid in the maintenance and storage of participant case files. Also, we recommend that case files are reviewed to ensure that all eligible cases are properly supported by adequate levels of documentation.

Agency Contact

Barbara Hanson (302) 255-9580

Finding Status

Fully corrected.

Status

Original case either found or reconstructed.

Finding Number: **07-DPH-01**
Fiscal Year: **2006**
Related Prior Findings: **06-DPH-01**
Current Year Findings: **08-DPH-01**
Program: **10.557 Supplemental Nutrition Program for Women, Infants, and Children**
93.268 Immunization Grants
93.917 HIV Care Formula Grants

Condition

Supplemental Nutrition Program for Women, Infants, and Children (WIC)
All employees who work for WIC are 100% charged to the program and are therefore required to fill out semi-annual certifications in accordance with OMB Circular A-87. One out of 11 employees selected for testing did not certify their time.

Immunization Grants
Employees who are 100% charged to the program complete semi-annual certifications in accordance with OMB Circular A-87. However, for employees who work on multiple cost objectives, the Division of Public Health has not yet developed a system to accurately allocate costs based on actual effort. Thirteen out of 18 employees selected for testing did not certify their time.

HIV Care Formula Grants
Employees who are 100% charged to the program complete semi-annual certifications in accordance with OMB Circular A-87. However, for employees who work on multiple cost objectives, the Division of Public Health has not yet developed a system to accurately allocate costs based on actual effort. Four out of 8 employees selected for testing did not certify their time.

Recommendation

We recommend an internal control be implemented at the program level to reconcile semi-annual cost certifications to the budget and allocate the differences to each federal grant.

Agency Contact

Martin Luta (302) 744-1050

Joanne White (302) 739-3671

Finding Status

Not corrected or partially corrected.

Status

Immunization Grants
Partially corrected – Staff that has to work across programs is now proportionately split funded. However, certain program budgets have been so tight that they are unable to absorb additional costs, but we are addressing the appropriate coding of time to the appropriate funding sources.

WIC Program
Fully corrected – Quarterly time certifications are completed by WIC funded employees in which the staff members certify that 100% of their time is spent on the WIC program.

Anticipated Completion Date

Immunization Grants – January 2009

Fiscal Number: **07-DPH-02**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **66.468 Capitalization Grants for Drinking Water State Revolving Funds**

Condition

The Office of Drinking Water used set-aside funds (as defined in the criteria above) to purchase an electronic surge protection system for the Division of Public Health Laboratory. This activity is not allowable under the above 15% set aside criteria. The expenditure was erroneously coded to an incorrect appropriation code under the capitalization grant.

Recommendation

We recommend that the Office of Drinking Water follow its policies and procedures to ensure that all expenditure activity is allowable and properly coded to the correct appropriation code in its general ledger.

Agency Contact

Thom May (302) 744-4705

Finding Status

Fully corrected.

Status

The expenditures in question were recoded to the proper accounts, and the program is developing procedures to ensure that items are coded to the correct areas in the future.

Anticipated Completion Date

January 2009

Finding Number: **07-DPH-03**
Fiscal Year: **2006**
Related Prior Findings: **06-DPH-09**
Current Year Findings: **08-DHSS-07**
Program: **93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance**

Condition

During Fiscal Year 2007, $344,821 in federal funds were expended in Public Health Preparedness Section (PHPS) construction projects for which the contractor did not contemporaneously submit certified payroll records to the State. The projects were 100% federally funded.

Although the PHPS was aware that the federal prevailing wage rates applied and the contractor was so informed, the PHPS did not have policies and procedures in place to require submission of and monitor certified payrolls.

Recommendation

Because the State Department of Labor, Division of Labor Law Enforcement does not have responsibility for oversight of Federal construction projects, we recommend that the PHPS develop policies and procedures related to federally funded construction projects that include procedures and assignment of responsibility for monitoring Davis-Bacon Act submissions from contractors at the Department level.

Agency Contact

Michael Bundek (302) 255-9278

Finding Status

Not corrected or partially corrected.

Status

As part of all contract and bid documents, contractors are made aware of the Davis Bacon Act requirements. Payrolls are submitted to the Division of Management Services Facility Operations Unit for review.

Finding Number: **07-DPH-04**
Fiscal Year: **2006**
Related Prior Findings: **06-DPH-14**
Current Year Findings: **08-DPH-02**
Program: **93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance**

Condition

Public Health Preparedness Section (PHPS) has not maintained records of federally funded equipment or tracked it according to OMB Circular A-110, Subpart C. In addition there has not been a physical inventory of equipment performed in the last two years.

Recommendation

We recommend that the CDC Program maintain accounting records and track equipment in accordance with Circular A-110. We also recommend that CDC ensure periodic physical inventories are taken and reconciled at least once every two years.

Agency Contact

Joe Hughes (302) 223-1720

Finding Status

Not corrected or partially corrected.

Status

A list of equipment is being maintained manually until the automated inventory management system is implemented in August 2008. A physical inventory will be conducted by the end of August 2008, and completed at least annually.

Anticipated Completion Date

August 31, 2008

Finding Number: **07-DPH-05**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **08-DHSS-03**
Program: **10.557 Supplemental Nutrition Program for Women, Infants, and Children**

Condition

For 1 of the 4 vendors selected for testing, we noted that the vendor contract did not contain language requiring the vendor to certify that they were not suspended or debarred.

Recommendation

We recommend that DPH add procedures to ensure that the required suspension and debarment verification procedures are performed.

Agency Contact

Mary Perkins (302) 744-4706

Finding Status

Not corrected or partially corrected.

Status

Suspension and debarment contract clauses will be added to new and renewal vendor contracts. Due to the length of current contracts, these findings will not be fully corrected until July 2009.

Anticipated Completion Date

July 2009

Finding Number: **07-DPH-06**
Fiscal Year: **2006**
Related Prior Findings: **06-DPH-05**
Current Year Findings: **None**
Program: **93.268 Immunization Grants**

Condition

The interim FSR completed for award H23/CCH322567-03 for the year ending December 31, 2006, was not submitted within the required 90-day timeframe. This report was submitted on July 9, 2007.

Recommendation

We recommend that the Program's policies and procedures be amended to ensure that cut-off for federal financial reporting is proper, and that reports are completed in a timely manner going forward.

Agency Contact

Martin Luta (302) 744-1050

Finding Status

Fully corrected.

Status

Procedures have been put in place.

Finding Number: **07-DPH-07**
Fiscal Year: **2006**
Related Prior Findings: **06-DPH-02**
Current Year Findings: **None**
Program: **10.557 Supplemental Nutrition Program for Women, Infants, and Children**

Condition

Information concerning eligibility of individuals who live in the Southern Delaware region is managed in a database controlled by the Southern Tier. However, the Southern Tier does not maintain supporting documentation related to these individuals. Approximately 40% of all eligible participants live in the Southern Delaware region.

Recommendation

We recommend that the WIC Program maintain supporting documentation for all eligible participants at each site for at least a two-year period.

Agency Contact

Joanne White (302) 739-3671

Finding Status

Fully corrected.

Status

A data file of all participants for eligibility testing has been created and is stored at the BIGGS data center. The data is from January 1, 2007 to the present. WIC clinics statewide maintain all required documentation in hard copy or on line for review.

Finding Number: **07-DPH-08**
Fiscal Year: **2003**
Prior Year Findings: **03-DPH-02, 04-DPH-04, 05-DPH-05, 06-DPH-07**
Current Year Findings: **None**
Program: **93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance**

Condition

The CDC Grant program (CFDA number 93.283) is comprised of many different grants, each of which has unique compliance requirements.

Because CDC Grant employees are generally funded 100% with Federal funds, in the prior year we recommended that the CDC Grant program begin requiring employees to certify that they worked 100% on CDC Grant program activities, at least semi-annually. Total salaries and fringe benefit costs charged to the CDC Grant program for fiscal year 2007 were $ 3,563,995. Total expenditures for Fiscal Year 2007 were $ 11,125,073.

We selected the following federal grants within the CDC Grant program for test work:

- Bioterrorism
- Public health surveillance

The Screening for Life section, which is responsible for cancer screening and prevention grants, did not implement our prior year recommendations in the current year.

The Division of Public Health Preparedness Section (PHPS), which is responsible for the bioterrorism portion of the CDC Grant program, implemented a semi-annual certification process in the current year. The certification statement reads as follows:

"In accordance with the requirements described above and as set forth in OMB Circular A-87, Attachment B...I certify that during the period _____ to _____, I attest that each of the following employees that I directly supervise devoted all of their 37.5 hour work week to activities and duties directly relating to the State of Delaware's Public Health Preparedness Program. If the employee commenced and/or ended employment during the six-month certification period, a starting and/or ending date of employment is indicated."

However, the State of Delaware's Public Health Preparedness Program consists of multiple federal and state funding streams which require separate cost tracking and reporting and therefore is not specific enough to meet the requirements of OMB Circular A-87, Attachment B.8.h.3.

Recommendation

We recommend that the semi-annual certifications be revised to further classify employees as to single federal award or cost objective within the State of Delaware Public Health Preparedness Program.

We further recommend that, if it is determined that an employee cannot be classified within a single federal award or cost objective, that personnel activity reports be prepared consistent with OMB Circular A-87, Attachment B.8.h.4 and 8.h.5).

Agency Contact

Carmen Herrera (SFL Director)	(302) 744-1040
Joe Hughes (Public Health Preparedness)	(302) 223-1720

Finding Status

Fully corrected.

Status

PHPS – The semi-annual certifications have been revised to read, "The Public Health Emergency Preparedness Cooperative Agreement" and are now being conducted quarterly.

Screening for Life – For each quarter of the 2008 fiscal year, the following certification statement was added to Employee Annual Leave Report for each employee to initial: *I certify I worked 100% for the Screening for Life program for July 1, 200X – September 30, 200X time period.* All certification statements were accompanied by a line for the employee's initials. Employees received an updated leave report each quarter for their review and signature.

Finding Number: **07-DPH-09**
Fiscal Year: **2004**
Related Prior Findings: **04-DPH-06, 05-DPH-06, 06-DPH-08**
Current Year Findings: **08-DPH-03**
Program: **93.283 Centers for Disease Control and Prevention, Investigations, and Technical Assistance**

Condition

We noted that, in order to ensure provider claims are accurately paid, significant manual manipulation of the Screening for Life (SFL) database is required, including:

- Reviewing the data for duplicate claims and suppressing payment on duplicates as appropriate.
- Reviewing and changing as appropriate State appropriation codes and fiscal years.
- Reviewing suspended items for propriety and changing status as appropriate.
- Reviewing claims denied for propriety and changing status as appropriate.

We also noted that:

- There is no up-to-date system documentation including support of changes that have been made to the system since inception, which may result in difficulties in updating the SFL system for programmatic changes.
- The system is based on Access 97, which is an application that is no longer supported by Microsoft. This may result in difficulties in updating the SFL system for programmatic changes.
- Test and production databases are on the same server, which may result in data being erroneously changed.
- The system does not include all MDE's mandated by the grantor, which may result in difficulty providing adequate screening data to the grantor agency.
- Physical and logical security surrounding the SFL system contain weaknesses, such as the ability of users to potentially by-pass the data entry screens and manipulate underlying data, that may result in data being changed without the knowledge of program personnel.

Total breast/cervical screening claims paid with federal funds for the year ended June 30, 2007 were $582,149. This amount impacts other financially related compliance requirements, including matching, maintenance of effort, period of availability, and financial reporting. Total expenditures for CFDA number 93.283 were $11,125,073.

Recommendation

We recommend that the SFL Program continue to implement its corrective action plan, which includes a proposal to enhance the Screening for Life database to a server modular based application.

Agency Contact

Carmen Herrera (SFL Director) (302) 744-1040

Finding Status

Not corrected or partially corrected.

Status

Bids received to RFP to enhance SFL database were not economically feasible. SFL has worked with IMS and IRM to develop contract to migrate Access backend to SQL Server. Anticipated contract start date is September 2008.

Anticipated Completion Date

June 2009

Finding Number: **07-DSS-01**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **93.667 Social Services Block Grant**

Condition

For 9 of 40 expenditures selected for testing, we noted that the funds were expended subsequent to the period of availability for the respective grant awards (2002 and 2003 grant years). We also noted that the Division was unable to provide a waiver from the federal cognizant agency supporting an extension of the period of availability.

The total dollar value of the 9 transactions was $73,743. Total transactions processed by the program for the 2002 and 2003 grant awards were $643,648 for the Fiscal Year ended June 30, 2007, which were outside of the period of availability.

Recommendation

The program should enhance their policies and procedures to monitor all federal awards to determine the period of availability and expend funds within that set time frame, or obtain approvals for extension from the federal cognizant agency before the period of availability expires.

Agency Contact

Thomas Jones (302) 225-9601

Finding Status

Fully corrected.

Status

The Division has requested a waiver from the Office of Community Services and is awaiting a response.

Anticipated Completion Date

Contingent on Federal response.

Finding Number: **07-DSS-02**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **08-DHSS-06**
Program: **93.596 Child Care Cluster**
93.558 Temporary Assistance for Needy Families

Condition

Child Care
The Division was not able to provide supporting documentation from the Delaware Financial Management System (DFMS) to support the amounts reported in the ACF 696 for grant year 2006 and 2005 expenditures made during Fiscal Year 2007. The unsupported amount for the ACF 696 reports was $2,235,318. In addition, due to the lack of supporting documentation for the amounts presented on these reports, we were not able to test compliance with the level of effort requirements.

Temporary Assistance for Needy Families
The Division was not able to provide supporting documentation from the Delaware Financial Management System (DFMS) to support the amounts reported in the ACF 196 for grant year 2005 and 2003 expenditures made during Fiscal Year 2007. The unsupported amount for the ACF 196 reports was $5,601,361.

Recommendation

We recommend that management maintain copies of supporting documentation for all reports required by the grant.

Agency Contact

Thomas Jones (302) 225-9601

Finding Status

Not corrected or partially corrected.

Status

DHSS will maintain and provide supporting documentation for all required reports that accurately reflect expenditures in the Delaware Financial Management System which will allow for the testing of compliance with the level of effort requirements.

Finding Number: **07-DSS-03**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **93.767 State Children's Health Insurance Program**

Condition

For one of 15 participants selected for eligibility test work, a recipient had income above the eligibility requirements that are stipulated in the State's plan. This recipient was still included in the State's system as an eligible participant. There were no benefits received by this individual for the year ended June 30, 2007.

Recommendation

We recommend that the Division enhance their policies and procedures to ensure that applications are reviewed and income eligibility is verified before the applicant is entered into the system and awarded benefits.

Agency Contact

Barbara Hanson (302) 225-9580

Finding Status

Fully corrected.

Status

The error was a result of a technical issue with the eligibility system. The error has been corrected.

Finding Number: **07-DSS-04**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **93.558 Temporary Assistance for Needy Families**

Condition

One out of 7 recipients of TANF that were flagged in DCIS II as "child support non-cooperation" continued to receive TANF benefits. The States policy is to deny all TANF benefits when there are cases of Child Support Non-Cooperation.

Recommendation

The Division should reinforce its policies and procedures to ensure that benefits are discontinued for cases of Child Support Non-Cooperation.

Agency Contact

Barbara Hanson (302) 225-9580

Finding Status

Fully corrected.

Status

The error was a result of a technical issue with the eligibility system. The error has been corrected.

Finding Number: **07-SAM-01**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **93.959 Block Grants for the Prevention and Treatment of Substance Abuse**

Condition

The State has not provided for the provision of the independent peer review to ensure that at least 5 percent of the entities providing services in the State are reviewed.

Recommendation

We recommend that the Division establish a process to ensure that the independent peer reviews are conducted in accordance with federal requirements. We also recommend that the Division ensure that at least 5 percent of these treatment services are reviewed on an annual basis.

Agency Contact

Ben Klein (302) 255-9153

Finding Status

Fully corrected.

Status

DSAMH continues to maintain that the peer review requirement is being satisfactorily met. A summary of our peer review related activities for SFY 2007 is as follows:

Joint Providers meetings – this is a meeting with clinical supervisors from Substance Abuse and Mental Health outpatient programs. The group discusses referral process for cases and evaluates the effectiveness of the process. Feedback is provided from agency to agency as to the most effective and most client-friendly way to communicate and make a seamless transition from program to program when clinically necessary. Joint provider's meetings were held on the following dates:

July 5, 2006, October 1, 2006 and January 23, 2007

Providers Forum – this is a meeting to which all Substance Abuse providers are invited (contractors and non-contractors). Each agency provides an update on new initiatives as well as client capacity, and availability for more clients. Agencies provide feedback and state concerns they have had in accessing services for clients. Providers are encouraged to provide honest feedback but in a productive and helpful may to make improvements. This has proven to be very beneficial to address concerns with the overall continuum of care since most providers statewide are in the room at the same time. These meeting took place on the following dates in SFY 2007:

August 15, 2006, October 17, 2006 and April 10, 2007

Periodic meetings – Three to four times a year, contracted providers are asked to meet with DSAMH program and fiscal staff to review program progress. These meetings address staffing, client services and programming as well as expenditures/budget. The meetings are facilitated with only one agency at a time. Periodic meetings with our providers were hosted in November 2006 and February 2007.

An excerpt from our 2008 block grant application is included below. Our understanding is that SAMHSA has found this to be acceptable. In addition, we require all contractual provider agencies that receive $500,000 or more in funding through DSAMH to be accredited by JCAHO or CARF. This also helps us meet the federal requirement since these accrediting bodies require peer review.

GOAL # 15. An agreement to assess and improve, through independent peer review, the quality and appropriateness of treatment services delivered by providers that receive funds from the block grant (See 42 U.S.C. 300x-53(a) and 45 C.F.R. 96.136).

FFY 2007 (Progress):

Delaware Health and Social Services

Division of Substance Abuse and Mental Health

In FY 2004, DSAMH initiated a process to conduct periodic meetings with outpatient and residential treatment contractors. DSAMH achieved its goal in FFY 2005 to expand inclusion to day treatment providers. DSAMH achieved its goal in FFY 2006 to ensure on-going functioning of the meetings into the future. Elements of peer review covered in the meetings are program sharing, best practices, problem resolution, and reporting of successes.

Department of Services for Children, Youth and Their Families

Division of Child Mental Health Services

DCMHS was re-accredited by JCAHO for a period of three years, based on a site survey conducted in December 2004. JCAHO re-accreditation as a Managed Care Organization is based in part on the accreditation status of network providers or the results of monitoring by the organization. All scheduled substance abuse providers were monitored and completed corrective actions requested. JCAHO has decided to discontinue accreditation to Managed Care Organizations however after careful consideration to accreditation bodies DCMHS has decided to pursue accreditation with the Commission on Accreditation of Rehabilitation Facilities (CARF) March 2007. DCMHS is preparing for this accreditation and preparing all substance abuse providers which will have to be reviewed during DCMHS accreditation process.

DCMHS conducts quarterly meetings with all treatment providers to share information on current activities and initiatives, emphasizing implementation of Integrated Service Planning and "best practices" in treatment and in client safety.

FY 2008 (Intended Use)

Delaware Health and Social Services

Division of Substance Abuse and Mental Health

In FY 2004, DSAMH initiated a process to conduct periodic meetings with outpatient and residential treatment contractors. DSAMH achieved its goal in FFY 2005 to expand inclusion to day treatment providers. DSAMH achieved its goal in FFY 2006 to ensure on-going functioning of the meetings into the future. Elements of peer review covered in the meetings are program sharing, best practices, problem resolution, and reporting of successes.

Department of Services for Children, Youth and Their Families

Division of Child Mental Health Services

DCMHS will continue to monitor programs and train on CARF standards.

Finding Number: **07-SAM-02**
Fiscal Year: **2004**
Related Prior Findings: **04-SAM-02, 06-SAM-01**
Current Year Findings: **None**
Program: **93.959 Block Grant for the Prevention and Treatment of Substance Abuse**

Condition

Administrative costs are allocated to the Block Grant for the Prevention and Treatment of Substance Abuse on the basis of total funding available from various funding streams rather than actual usage of these services (i.e., Attorney General charges) by the program. The allocation process was not corrected in fiscal year 2007 by the program.

Total non-payroll costs other than contractual services charged to the cluster for Fiscal Year 2007 were $20,245.

Recommendation

We recommend that the Division develop procedures to allocate administrative costs on the basis of actual usage of goods or services by the program.

Agency Contact

Ben Klein (302) 255-9153

Finding Status

Fully corrected.

Status

Procedures were developed and implemented starting in SFY 07 and completed in SFY 08.

Finding Number: **07-SSC-01**
Fiscal Year: **2003**
Related Prior Findings: **03-SSC-04**
Current Year Findings: **08-SSC-01**
Program: **93.568 Low Income Home Energy Assistance Program**

Condition

Although the Low-Income Home Energy Assistance Program (LIHEAP) identifies the Federal law and regulations that govern the Early Start Program for its subrecipient it does not provide the CFDA title and number, the award number, and the name of the Federal agency as part of the grant agreement. The State Contract Policies and Procedures is a resource that provides the policies, procedures, and guidelines to promote sound business decisions and practices in securing necessary services for the State and should assist in the writing of grant documents to properly comply with Federal regulations for subrecipient grants.

LIHEAP's policy is to perform an annual review of both the fiscal and program activities at the subrecipient in order to meet the requirements noted in the criteria section above. For the subrecipient selected for testwork, there was evidence of program review and testing, however the Division could not provide evidence of any monitoring of the fiscal activities. We were also not able to assess the level of testing that should have been performed by management as management had not performed a risk assessment on the subrecipient.

In addition, we noted that the cooling segment of the LIHEAP program is not included in the monitoring procedures and has not been included in the automated eligibility database used by Catholic Charities, the subrecipient that receives the majority of LIHEAP funds, for the full Fiscal Year ended June 30, 2007.

Total expenditures made to subrecipients for the Fiscal Year ended June 30, 2007 were $7,170,475.

Recommendation

We recommend that LIHEAP enhance its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., performance reports, site visits, etc.), to ensure that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved. We also recommend that LIHEAP ensure that all required award information is properly communicated to the subrecipient as required.

Management should also perform a risk assessment of the subrecipient to determine the level and extent of testing over the direct and material compliance requirements as required by Circular A-133. In addition, we continue to recommend that the LIHEAP Program implement its corrective action plan, which includes adding the cooling component to the automated database (CAPTAINS).

Agency Contact

Gloria Upshur (302) 225-9672

Finding Status

Not corrected or partially corrected.

Status

LIHEAP policies and procedures enhanced as recommended inclusive of all reward information relayed to the sub-recipient as required = fully corrected.

Risk assessment conducted of the sub-recipient = partially corrected.

Complete self-correcting action plan of adding the LIHEAP summer cooling component to the Captains automated database = no longer warranting further action.

Anticipated Completion Date

Sub-recipient risk assessment to be conducted during the third or fourth quarter of the federal fiscal year, beginning with FFY09.

Finding Number: **07-DOL-01**
Fiscal Year: **2006**
Related Prior Findings: **06-DOL-01**
Current Year Findings: **None**
Program: **17.258, WIA Cluster**
17.259
17.260

Condition

In the prior year, we recommended that DOL implement an ongoing annual time study approved by the U.S. Department of Labor to allocate payroll to the various grants accordingly. We noted that the DOL continued to allocate time to the federal Workforce Investment Act (WIA) Program grants automatically based on budgeted amounts rather than according to actual effort during the Fiscal Year ended June 30, 2007.

Starting October 1, 2007, we understand that the DOL implemented a new salary allocation system, Autotime, to track actual time and effort of employees working on federal grants. The reports generated from this system are being reconciled to budgeted amounts, and the reconciliation is used to produce adjustments to the accounting system in a timely manner. The new salary allocation system was approved by the US DOL, Employment and Training Administration Grant Officer in the Final Determination Letter issued January 2008 for Audit Report No.: 21-07-529-03-390.

We also noted that in November 2007, the DOL, as part of its corrective action plan, developed a methodology to determine the correct amounts that should have been charged to the various grants for fiscal years 2006 and 2007 and prepared documentation of their analysis of actual time worked versus budgeted amounts. The final payroll analysis of actual effort versus budget resulted in a net overcharge to the grants of $76,868 for the Fiscal Year ended June 30, 2007, and a net undercharge of $157,030 for the prior Fiscal Year ended June 30, 2006. The methodology implemented by the DOL appears reasonable; however, the amounts were not audited. The US DOL, Employment and Training Administration Grant Officer also approved the methodology in the Final Determination Letter issued January 2008 for Audit Report No.: 21-07-529-03-390.

Total payroll costs charged to the grant for the year ended June 30, 2007 totaled $1,815,680.

Recommendation

We acknowledge that DOL has started using the approved salary allocation system on October 1, 2007, as part of its corrective action plan to allocate payroll to the various grants based on actual time worked by the employees. We recommend that DOL use the approved methodology of analyzing actual effort against budgeted amounts for the first quarter of Fiscal Year 2008 (July 1, 2007 through September 30, 2007) and make any necessary adjustments to the WIA grants.

Agency Contact

Kris Brooks (302) 761-8024

Finding Status

Fully corrected.

Status

The Division of Employment and Training has analyzed actual effort against budgeted amounts for the first quarter of FY08 (July 1, 2007 through September 30, 2007) and made the necessary adjustments to the WIA grants.

Finding Number: **07-DNR-01**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **97.029 Flood Mitigation Assistance**

Condition

DNREC expends the majority of its Flood Mitigation Assistance funds to subrecipients. During our test work procedures, we noted that DNREC was not complying with subrecipient monitoring requirements. DNREC does not have a formal written policy outlining the procedures necessary for compliance with subrecipient monitoring. As a result, the agency was not able to provide evidence of any on-site reviews, follow up visits, or any other off-site monitoring performed during the year. In addition, DNREC did not receive or review the applicable A-133 Single Audit reports from its subrecipients in order to determine if management responses or corrective actions were necessary. Finally, the match requirement is met with funds provided by the subrecipient; however, DNREC did not ensure that the match is in conformity with the grant agreement as part of subrecipient monitoring.

Recommendation

We recommend that DNREC reinforce its policies and procedures to ensure that subrecipient activities are monitored on a timely basis, and that monitoring visits are documented and reviewed by a supervising official. We further recommend that DNREC ensure that the required financial reporting and outcome-based data are collected from the subrecipients and reviewed on an annual basis.

Agency Contact

Brian M. Leahy, Deputy Principal Assistant (302) 739-9921

Finding Status

Fully corrected.

Status

The Division's Policy #SW-1004 Federally Funded Procurement Policy and Procedures was originally signed and included in the Division's Policy Manual on 7/1/2007. An updated version of this policy to fill in gaps noted as a result of the FY2007 audit was signed and included in the Division's Policy Manual on 3/31/2008 to further reinforce our policies and procedures to ensure that subrecipient activities are monitored on a timely basis, and that monitoring visits are documented and reviewed by a supervising official and to ensure that the required financial reporting and outcome-based data are collected from the subrecipients and reviewed on an annual basis.

Finding Number: **07-DNR-02**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **97.029 Flood Mitigation Assistance**

Condition

DNREC is not properly preparing the quarterly performance reports. DNREC's reports include basic information regarding the project start date and a brief description of the progress of the project. The reports, however, do not include the detailed information required by the grant agreement. In addition, there is no evidence of proper management review and approval of the performance reports.

Recommendation

We recommend that DNREC prepare the quarterly performance reports in accordance with FEMA guidelines to include all of the required information. We also recommend that management review and sign the quarterly performance reports as evidence of supervisory approval.

Agency Contact

Brian M. Leahy, Deputy Principal Assistant (302) 739-9921

Finding Status

Fully corrected.

Status

As of the first quarter reports of FFY2008 (dated 1/30/2008) the quarterly performance reports have included all of the required information in accordance with FEMA guidelines and have included a management review. Signature lines have been added for the preparer of the report (grant program manager) and for management.

Finding Number: **07-OMB-01**
Fiscal Year: **2006**
Related Prior Findings: **06-OMB-03**
Current Year Findings: **None**
Program: **64.005 Grants to States for Construction of State Home Facilities**

Condition

During fiscal year 2007, $8,610,278 in federal funds were expended in a construction project for which the contractor did not contemporaneously submit certified payroll records to the State. The project was 65% federally funded.

Although the Office of Management and Budget was aware that the federal prevailing wage rates applied and the contractors were so informed, the Office of Management and Budget did not have policies and procedures in place to require submission of and monitor certified payrolls.

Recommendation

Because the State Department of Labor, Division of Labor Law Enforcement does not have responsibility for oversight of federal construction projects, we recommend that the Office of Management and Budget develop policies and procedures related to federally funded construction projects that include procedures and assignment of responsibility for monitoring Davis-Bacon Act submissions from contractors at the Department level.

Agency Contact

Michael S. Jackson, Director of Budget Development, Planning and Administration (302) 672-5118

Finding Status

Fully corrected.

Status

Policy put in place defining requirements and responsibilities of contractor and OMB personnel.

Finding Number: **07-DEM-01**
Fiscal Year: **2006**
Related Prior Findings: **06-DEM-03, 06-DEM-05**
Current Year Findings: **None**
Program: **97.036 Disaster Grants - Public Assistance Grants (Presidentially Declared Disasters)**
16.007 Homeland Security Grant Program
97.004
97.067

Condition

Delaware Emergency Management Agency (DEMA) does not provide all appropriate award information to the subrecipients to ensure that the subrecipient is informed of all compliance requirements within each grant. In addition, DEMA did not monitor all of its subrecipients through reporting, site visits, or regular contact. DEMA had no procedures in place during the 2007 fiscal year to ensure that its subrecipients met the audit requirements of OMB Circular A-133, nor did DEMA notify the subrecipients of the audit requirements at the initial award of the subgrant. DEMA also did not have procedures in place to evaluate the impact of subrecipient activities on the pass-through entities' ability to comply with applicable federal regulations. The total grant awards passed through to subrecipients was $4,501,472 for Public Assistance Grants and $5,682,980 for the Homeland Security Grant Program.

Recommendation

We recommend that monitoring of subrecipients, whether state agencies or external agencies, include the following: (1) proper notification by DEMA at the time of the initial grant award to the subrecipient of the requirement to maintain documentation supporting all transactions related to federal funds for a period of three years after the grant has been closed; (2) periodic monitoring of fiscal requirements and performance of regular site visits and desktop audits to ensure that subrecipients are expending the federal funds awarded properly (including, but not limited to, allowability of costs, cash management, period of availability, reporting and procurement, and suspension and debarment); and (3) providing documentation of all subrecipient monitoring policies and procedures to all staff responsible for the grant.

Agency Contact

Bob Harrison (302) 659-2244

Finding Status

Disaster Grants – Public Assistance Grants (Presidentially Declared Disasters)
Not corrected or partially corrected.

Homeland Security Grant Program
Fully corrected.

Status

The division is currently doing site visits for all sub-grantees receiving funds from the Homeland Security Grant Cluster. We hope to have all visits completed prior to the initial distribution of the FY 07 Grant funds. As we award sub-grants, the division will perform site visits as soon as it's possible to do so. Subsequent visits and/or desktop audits will be performed as necessary depending on the size and scope of the sub-grant.

A version of the monitoring checklist used for Homeland Security Grants has been developed for Public Assistance Grants. Additionally, they developed a desktop monitoring form as well for both programs. OMB

Circular A-133 requirements are included in the Certification and Assurances Document used for the Homeland Security Program, and developed for the Public Assistance Program. This document is a requirement before any sub-recipients receive federal funds through either program.

Our monitoring program will soon be managed by a part-time employee whose sole responsibility will be to do site visits and desk audits. Training is to begin in August 2008. We sent out a letter to all sub-recipients on audit requirements in May 2008. We continue to periodically remind sub-recipients of the audit requirements through the grant cycles. Audit reports that are received are reviewed and documented.

Anticipated Completion Date

October 15, 2008

Finding Number: **07-DEM-02**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **97.036 Disaster Grants - Public Assistance Grants (Presidentially Declared Disasters)**

Condition

DEMA passes Public Assistance Grant funds through to other local governmental units and nonprofit organizations which are defined as subrecipients. We selected four subrecipients receiving Public Assistance Grant funds for test work. For four of the subrecipients selected for test work, DEMA did not verify that the entity was not suspended or debarred.

Recommendation

We recommend that DEMA add procedures to ensure that the required suspension and debarment verification is obtained from subrecipients at the time of the sub-award.

Agency Contact

Bob Harrison (302) 659-2244

Finding Status

Fully corrected.

Status

DEMA Certification and Assurances documents have all been updated to include the suspension and debarment language. The sub-recipients are required to sign these certifications prior to DEMA reimbursing them for any expenditures. Our Sole Source letters all include the same language. Each Planning Section is responsible for ensuring that all future sub-recipients have not been suspended or debarred from doing business with the federal government.

Finding Number:	**07-DEM-03**
Fiscal Year:	**2004**
Related Prior Findings:	**04-DEM-03, 05-DEM-01, 06-DEM-01**
Current Year Findings:	**08-DSHS-01**
Program:	**16.007 Homeland Security Grant Program** **97.004** **97.067**

Condition

Specific allocations are made from each employee's salary to the grant. Some employees' salaries are charged 100% to the grant, while only a portion of other employees' salaries is charged to the grant. There are no personnel activity reports that reflect after-the-fact distributions of the actual activity on the grants charged. DEMA implemented procedures in the fourth quarter of the current fiscal year to have employees complete an "effort certification" which is used as the basis to adjust budgeted amounts charged to the programs to actual in accordance with the requirements of OMB Circular A-87, Attachment B.11.h.4(e). We selected 40 payroll transactions and noted that DEMA did not update allocation percentages in the PHRST payroll system for any of the items selected for test work.

For four of 40 employees selected for testwork, the related effort reports for the October 14, 2006 pay cycle were not reviewed and approved by the employee's supervisor.

Recommendation

We recommend that DEMA's personnel implement procedures and controls to ensure that the charges to each grant are adjusted on a quarterly basis in the PHRST payroll system to reflect actual effort report. Additionally, DEMA should ensure that the payroll amounts reported in DFMS are adjusted to reflect the correct allocation percentages prior to posting adjustments between budgeted and actual costs to DMFS (adjustments may be made annually per OMB Circular A-87, Attachment B.8.h.5 (e) (ii), as long as the quarterly comparisons conducted by DEMA continue to show the differences between budgeted and actual costs being less than 10%).

Agency Contact

Bob Harrison (302) 659-2244

Finding Status

Fully corrected (as of January 1, 2008).

Status

New timesheets for all employees have been created so actual hours worked on particular grant programs are accurately accounted for when they happen. Adjustments are made every bi-weekly pay cycle to charge the correct grant programs regardless of what grants are already identified within the payroll system.

Finding Number: **07-DEM-04**
Fiscal Year: **2006**
Related Prior Findings: **06-DOA-01**
Current Year Findings: **None**
Program: **16.007 Homeland Security Grant Program**
97.004
97.067

Condition

DEMA passes funds through to other State agencies either by procuring equipment and transferring such equipment to the agencies or by providing formal sub-grants to the agencies to procure specialized equipment. For one of two fixed asset selected for testwork, the following items were not properly recorded on the State's Fixed Asset Accounting System (FAAS) as of June 30, 2007 in accordance with the State of Delaware Fixed Asset Accounting Policy:

- State Fire Marshall: Motorola Printtrak Livescan Fingerprint Station - $42,285

Recommendation

We recommend that the equipment noted above be appropriately recorded in the FAAS. Additionally, we recommend that DEMA implement procedures to provide notification to other State agencies' fiscal personnel when equipment is transferred to those agencies.

Agency Contact

Bob Harrison (302) 659-2244

Finding Status

Fully corrected.

Status

All equipment purchases made through DEMA and passed to other state agencies are followed up to ensure the receiving agency is aware that the equipment is in the accounting system and it needs to be put in the FAAS. Furthermore a letter was sent to these agencies in June 2008 to remind them of their requirement under both the grant program and the state programs. This letter will be sent each year in June when state agencies are required to do inventory review for the annual GAAP Package.

Finding Number: **07-DSP-01**
Fiscal Year: **2007**
Related Prior Findings: **None**
Current Year Findings: **None**
Program: **16.710 Public Safety Partnership and Community Policing Grants**

Condition

The Delaware State Police (DSP) procures and transfers equipment to local municipalities for their use. Of the ten pieces of equipment selected for test work, two items were recorded incorrectly on the State's Fixed Asset Accounting System (FAAS) as of June 30, 2007 in accordance with the State of Delaware Fixed Asset Accounting Policy. The cost of the machine per DSP records is $42,285; however, the cost recorded on the State's FAAS is $38,346.

Recommendation

We recommend that the cost of the equipment noted above be appropriately adjusted in the FAAS to agree to DSP's records.

Agency Contact

Sandra L. Frazier (302) 739-5953

Finding Status

Fully corrected.

Status

The corrections have been made in FAAS.

Finding Number: **07-CYF-01**
Fiscal Year: **2004**
Related Prior Findings: **04-CYF-01, 05-CYF-01, 06-CYF-01**
Current Year Findings: **08-CYF-01**
Program: **93.658 Foster Care – Title IV-E**

Condition

The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 8, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part:

"Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting Federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999.

After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2."

The report further states that:

"The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised [95-2] methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003."

And that:

"Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan."

The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates."

DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS.

For the period under audit for purposes of the Single Audit (July 1, 2006 through June 30, 2007), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and HHS Grants Administration Manual Chapter 6-200.

Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2007 were $1,730,760, representing 38% of the total program costs of $4554837.

In Fiscal Year 2006, the federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.

Recommendation

We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred with in a letter dated May 25, 2005 included as an appendix to that report.

Agency Contact

Harry Roberts (302) 892-4534

Finding Status

Not corrected or partially corrected.

Status

DSCYF continues to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 with which it concurred in a letter dated May 25, 2005 included as an appendix to that report.

As a result, programming of the DSCYF client information system (FACTS) to document foster care candidacy has been completed using the DSCYF methodology the RO concurred with. Division of Family Services workers began using FACTS for documenting candidacy on 4/1/08. DSCYF has addressed all of the RO concerns regarding the DSCYF random moment time study (RMTS), activity descriptions and related issues. In late May 2008 the RO provided to DSCYF a time study quality assurance document which DSCYF is in the process of incorporating into its RMTS process. Once that is completed, the RMTS will be submitted to the RO for final concurrence. Once these issues are resolved, all of the other changes and updates requested by the RO will be incorporated into a revised DSCYF Cost Allocation Plan (CAP). The revised CAP will be finalized and submitted by the Fall of 2008 with successful negotiations targeted to be concluded early 2009.

Anticipated Completion Date

Early 2009

Finding Number: **07-CYF-02**
Fiscal Year: **2006**
Related Prior Findings: **06-CYF-02**
Current Year Findings: **08-CYF-02**
Program: **93.658 Foster Care – Title IV-E**

Condition

During the week of August 14, 2006, ACF staff from the Central and Regional Offices and State of Delaware staff conducted an eligibility review of Delaware's Title IV-E Foster Care program. A review of a sample of 80 cases was drawn for the review period October 1, 2005 to March 31, 2006. The review team determined 6 cases were ineligible for federal funding and concluded that Delaware's Title IV-E program was not in substantial compliance with federal child and provider eligibility requirements for the review period.

During Fiscal Year 2007, we tested 60 case files for provider eligibility requirements. Those files included supporting documentation showing compliance with federal child and provider requirements for the year ended June 30, 2007. However, we noted the internal controls surrounding periodic review of the case files were not being performed timely in accordance with State and agency policies.

Per the Summary Status of Prior Year Findings, the Department of Services for Children, Youth and Families (DSCYF) has started to implement action steps and system changes, however, the corrective action is still in process and has not yet been completed.

Recommendation

We recommend that DSCYF continue to implement its corrective action plan, which includes enhancement of the controls surrounding foster care provider approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.

Agency Contact

Harry Roberts (302) 892-4534

Finding Status

Not corrected or partially corrected.

Status

Region III ACF has received and accepted quarterly reports submitted related to DSCYF's Program Improvement Plan (corrective action plan) which included this component. The action steps and the staff training have been completed. This includes contract and policy changes implemented on 7/1/08. Biannual reviews will follow after 7/1/08. It should be noted that Region III is scheduled to conduct an eligibility review in the Spring of 2009 which will include the issues cited in this finding.

Finding Number: **07-DOT-01**
Fiscal Year: **2005**
Related Prior Findings: **05-OMB-01, 06-OMB-01**
Current Year Findings: **08-DOT-01**
Program: **20.205 Highway Planning and Construction Cluster**

Condition

Similar to the prior year, we noted that the State was not properly complying with the composite clearance method for the Highway Planning and Construction Cluster.

We noted that out of ten draws selected, seven were made five days subsequent the midpoint of the group of composite disbursements, and two were made six days subsequent to the midpoint of the group of composite disbursements. The weighted average clearance for all disbursements per the Treasury-State agreement is seven days. Total drawdowns included in the sample were $37,733,961, of which $28,064,126 were drawn on the fifth day and $7,493,091 were drawn on the sixth day.

The State reported no interest liability on its annual report for the year ended June 30, 2007.

Recommendation

We recommend that the State's OMB continue with its corrective action plan by implementing the following initiatives:

- Develop Statewide policies and procedures related to federal cash management activities,
- Provide copies of the Treasury-State agreement to each impacted agency, and
- Provide periodic training sessions for individuals responsible for federal cash management activities.

Agency Contact

Kathy Baker (302) 760-2687

Finding Status

Not corrected or partially corrected.

Status

The Department of Transportation is working with the Office of Management and Budget (OMB) to review the current clearance patterns. Adjustments will be made as necessary.

Anticipated Completion Date

To be determined.

STATE OF DELAWARE
Basic Financial Statements
June 30, 2008
(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State), as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

As discussed in note 1(b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2009, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 124 through 129, the information about infrastructure assets reported using the modified approach on pages 130 and 131, and the schedules of required supplementary pension and other post-employment trust data on pages 132 through 136 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 18, 2009

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the state's financial statements, which follow this section.

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

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5,710.3 million (net assets). Component units reported net assets of $751.7 million, an increase of $32.2 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by $126.8 million (2.2%) in fiscal year 2008. Net assets of governmental activities decreased by $149.6 million (5.4%) from the previous year, while net assets of the business-type activities increased $22.8 million (0.7%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,488.5 million, a decrease of $78.0 million (5.0%) in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $856.5 million, which was 21.2% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can only be amended by legislation.

- The State's total general obligation debt increased $65.1 million (5.0%) during fiscal year 2008 to $1,376.0 million. Of the State's outstanding debt, $516.2 million (37.5%) has been issued on behalf of local school districts, which are supported by the property tax revenues of those districts.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 18 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds

statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for these funds.

The basic governmental funds financial statements can be found on pages 22-25 of this report.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 126 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

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

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 138-144.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 -121 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the

State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 124-136 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded liabilities for the primary government by $5,710.3 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (74.4%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 8.7% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (16.9%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

Condensed Financial Information - Primary Government
As of June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other non-current assets	$ 2,405,647	$ 2,463,944	$ 560,350	$ 646,290	$ 2,965,997	$ 3,110,234
Capital assets	2,908,209	2,639,400	3,738,986	3,631,094	6,647,195	6,270,494
Total assets	5,313,856	5,103,344	4,299,336	4,277,384	9,613,192	9,380,728
Long-term liabilities outstanding	1,909,847	1,556,234	986,287	994,903	2,896,134	2,551,137
Other liabilities	801,745	795,276	204,968	197,191	1,006,713	992,467
Total liabilities	2,711,592	2,351,510	1,191,255	1,192,094	3,902,847	3,543,604
Net assets:						
Invested in capital assets, net of related debt	1,515,272	1,385,413	2,731,901	2,653,221	4,247,173	4,038,634
Restricted	186,430	182,750	308,738	342,263	495,168	525,013
Unrestricted	900,562	1,183,671	67,442	89,806	968,004	1,273,477
Total net assets	$ 2,602,264	$ 2,751,834	$ 3,108,081	$ 3,085,290	$ 5,710,345	$ 5,837,124

The capital assets of the governmental activities increased $268.8 million (10.2%) since June 30, 2007. Primary increases are a result of significant renovations to, and expansions of, existing

school buildings across all counties to accommodate the rise in student population. Construction costs continue to increase consistent with national trends for higher costs for construction supplies due to an increase in fuel charges.

The increase in long-term obligations is primarily due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In fiscal year 2008, the State recognized a long-term obligation of $291.5 million. The information for the other post employment benefits (OPEB) can be found in Note 14 of the financial statements. In addition to the increase for OPEB, general obligation debt increased by $58.8 million in long-term obligations.

In addition to the increases noted above, the securities lending activities of the State decreased both assets and liabilities $36.8 million from fiscal year 2007 to fiscal year 2008. Collateral is required for borrowed securities equal to 102% of the borrowed securities. The State invests collateral to earn interest. Investments held for securities lending transactions and the corresponding collateral held for securities lending transactions were $116.0 million at June 30, 2008. The leading factor to this decrease was the downturn in the financial markets during fiscal year 2008.

The decrease of business-type current assets is due to a reduction in unrestricted investment balances at year-end with DelDOT. Liabilities were also reduced as a result of decreased revenue bonds payable and associated interest payable. This information can be found on page 5 of the DelDOT's financial statements as of and for the year ended June 30, 2008.

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

Changes in Net Assets - Primary Government
For Year End June 30, 2008
(Expressed in Thousands)

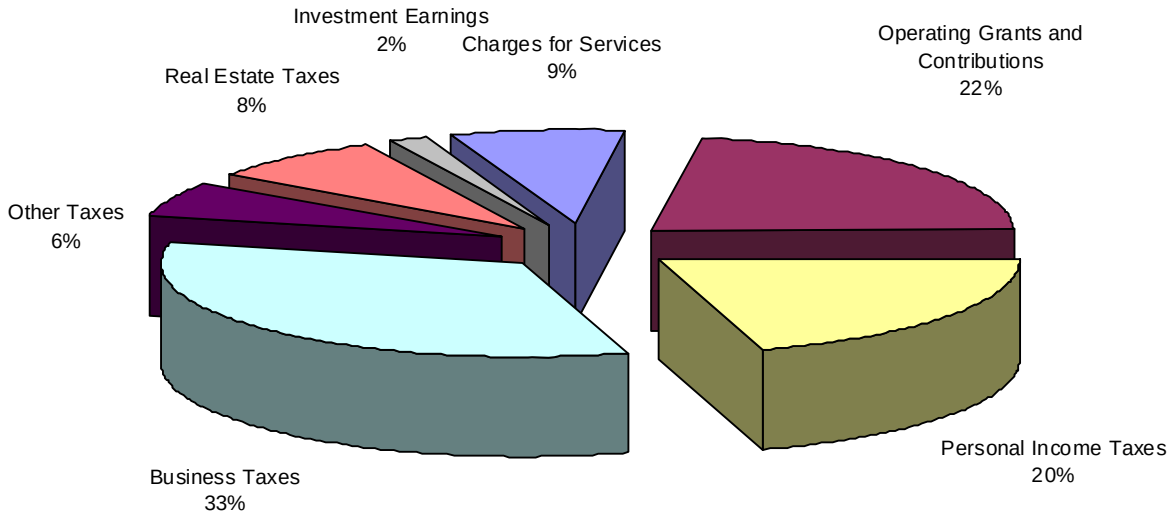
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 400,943	$ 491,097	$ 1,245,890	$ 1,206,768	$ 1,646,833	$ 1,697,865
Operating grants and contributions	1,094,610	1,001,981			1,094,610	1,001,981
Capital grants and contributions	16,142	1,740	156,740	103,331	172,882	105,071
General revenues:						
Taxes:						
Personal income taxes	1,010,325	1,016,911			1,010,325	1,016,911
Business taxes	1,659,565	1,672,112			1,659,565	1,672,112
Real estate taxes	398,881	388,135			398,881	388,135
Other taxes	297,971	254,960			297,971	254,960
Investment earnings	84,449	82,701	21,322	23,486	105,771	106,187
Gain (loss) on sale of assets		(72)	299	(2,680)	299	(2,752)
Miscellaneous	30,629	24,287	(1,000)	(1,000)	29,629	23,287
Total revenues	4,993,515	4,933,852	1,423,251	1,329,905	6,416,766	6,263,757
Expenses:						
General Government	549,263	513,326			549,263	513,326
Health and Children's Services	1,869,754	1,699,475			1,869,754	1,699,475
Judicial and Public Safety	640,380	574,809			640,380	574,809
Natural Resources and Environmental Control	164,446	173,331			164,446	173,331
Labor	68,172	74,194			68,172	74,194
Education	2,031,009	1,774,528			2,031,009	1,774,528
Payment to Component Unit - Education	99,969	89,945			99,969	89,945
Interest Expense	52,224	50,560			52,224	50,560
Lottery			419,223	424,111	419,223	424,111
Transportation			535,150	504,466	535,150	504,466
Unemployment			113,955	108,851	113,955	108,851
Total expenses	5,475,217	4,950,168	1,068,328	1,037,428	6,543,545	5,987,596
Increase (decrease) in net assets before transfers	(481,702)	(16,316)	354,923	292,477	(126,779)	276,161
Transfers	332,132	259,612	(332,132)	(259,612)	-	-
Increase (decrease) in net assets	(149,570)	243,296	22,791	32,865	(126,779)	276,161
Net assets - beginning of year	2,751,834	2,508,538	3,085,290	3,052,425	5,837,124	5,560,963
Net assets - end of year	$ 2,602,264	$ 2,751,834	$ 3,108,081	$ 3,085,290	$ 5,710,345	$ 5,837,124

Governmental activities Governmental activities decreased the State's net assets by $149.6 million while business-type activities increased the State's net assets by $22.8 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

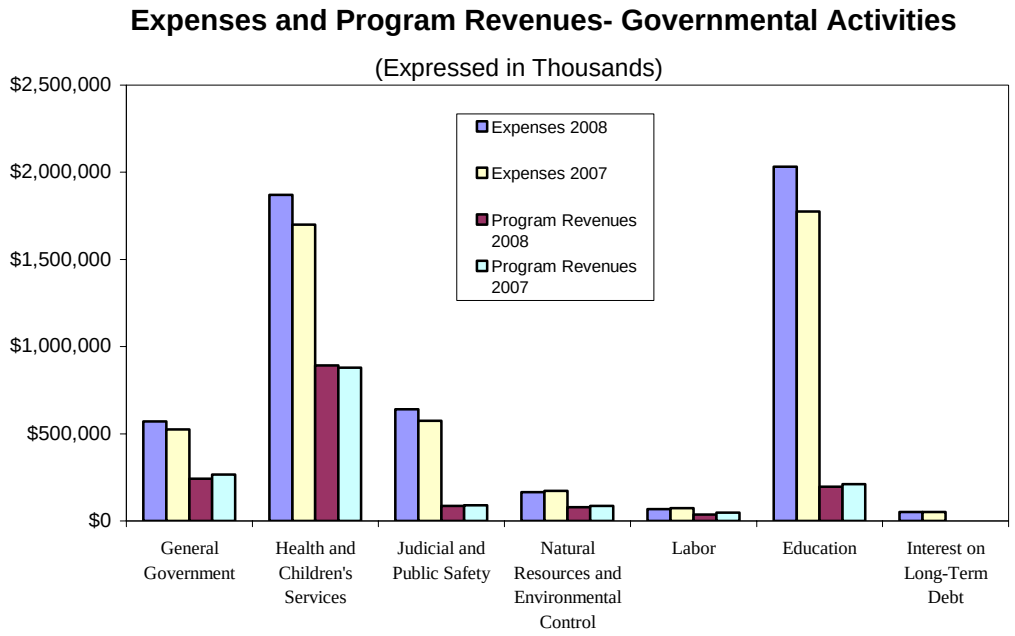
Total general revenues increased overall by $42.8 million (1.2%) with increases in tax revenues such as real estate taxes and cigarette taxes. These increases helped offset decreasing personal income tax growth.

Program revenues increased by $16.9 million (1.1%) from the prior year. Charges for services were lower by $90.2 million. Although fees and fines increased, revenue decreased due to the downturn in the economy. Operating grants increased by $92.6 million with $86.2 million relating to increases in federal payments for Medicaid at Health and Children's Services. The State also received capital property with a value of $16.1 million, which is properly reflected as income from capital grants and contributions.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2008 by $525.0 million (10.6%). Increases occurred in Health and Children's Services due to an increase in spending of $170.3 million over the prior fiscal year. This increase is attributable to escalating Medicaid costs to cover increasing healthcare costs for a continued increase of approximately 1,000 eligible people, and increased stop loss payments. Educational expenses increased by $256.5 million due to the continued increase in student population causing an increase in education personnel costs and operation costs. Judicial and Public Safety expenses increased by $65.6 million due to additional caseloads within the court system and increased spending on homeland security. Natural Resources and Environmental Control expenditures decreased by $8.9 million due to decreased spending on environmental programs such as beach erosion at Rehoboth and Dewey Beaches.



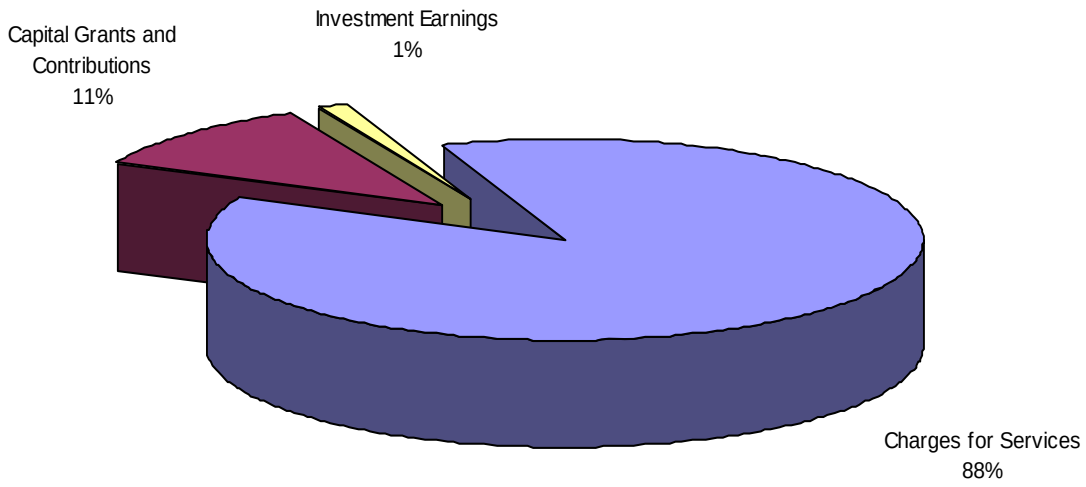
Business-type activities Business-type activities increased the State's net assets by $22.8 million. This increase is comprised of a $54.1 million increase in net assets by DelDOT, a $30.5 million decrease at the Unemployment Insurance Trust Fund, and a $0.8 million decrease of Lottery's net assets.

Although there was a decrease in net assets of the Delaware Unemployment Insurance Trust Fund, there was a 3.8% increase in unemployment insurance taxes revenue. The benefit expenses increased 4.7%. However, even though benefits exceeded insurance taxes by $39.0 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

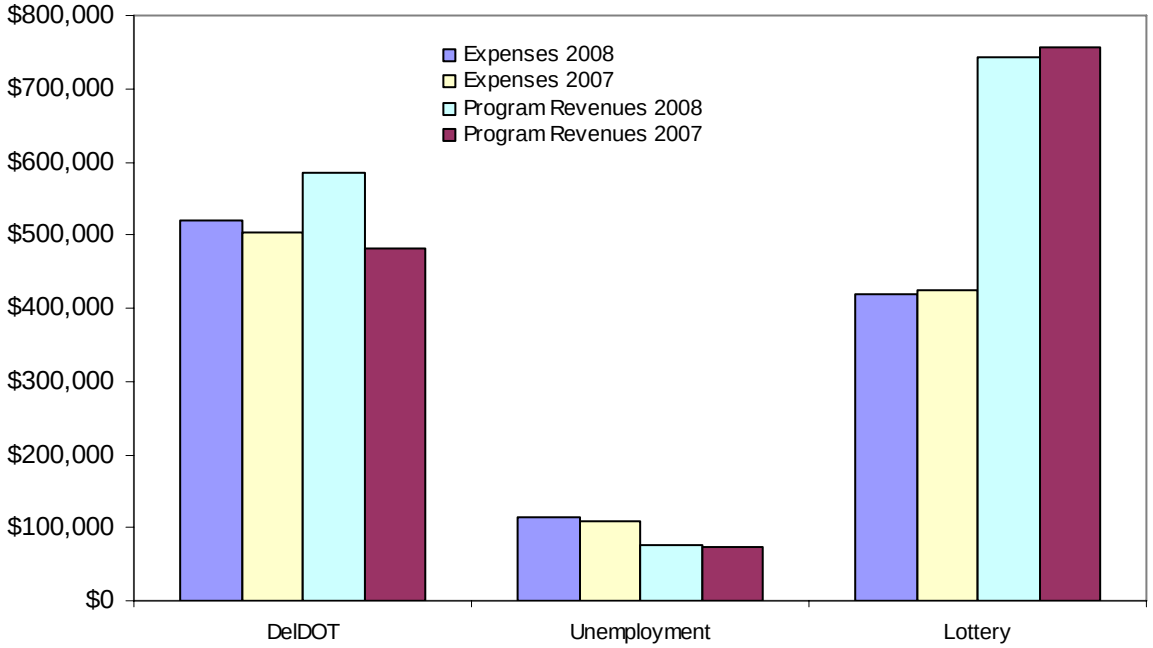
The DelDOT's net assets at June 30, 2008 were $54.1 million higher than June 30, 2007. DelDOT's total operating revenues increased by $49.3 million (13.0%) while operating expenses increased by $35.6 million (7.7%). The October 1, 2007 toll and fee increases were the main contributors of the operating revenue increase. The largest contributing factor for the increase in operating expenses was the increase in vehicle operations expenses, primarily from higher fuel costs.

The Lottery's net assets changed by less than $0.1 million. By law, the Lottery's fund balance cannot exceed $1.0 million. Revenue for the Lottery decreased by $12.9 million (1.7%) over last year due to a $6.6 million increase in traditional games revenue and a $19.5 million decrease in video lottery revenues. As a result, the Lottery transferred $322.8 million to the State, a decrease from fiscal year 2007 of $7.1 million. The total costs of games and prizes decreased by $6.7 million (1.6%) over the previous year.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

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

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

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,488.5 million, a decrease of $78.0 million. Approximately 62.5% of the aggregate fund balances, $929.6 million, constitute unreserved fund balances.

Approximately $558.8 million of the fund balance is reserved to indicate that it's not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period ($329.3 million), 2) set aside for the budgetary reserve account ($186.4 million), 3) for inventories and other assets ($4.8 million), and 4) for prepaid items ($38.3 million).

General fund The general fund accounts for the operation and administration of the State. Total general fund balance decreased by $114.3 million for the fiscal year. Total general fund revenue decreased by $166.9 million (4.5%) while expenditures increased by $50.0 million (1.3%).

Expenditures increased by $71.2 million (6.7%) for Health and Children's Services. Health and Children's Service expenditures increased primarily due to Medicaid cost increases consistent with an increase in the population needing public assistance and an increase in healthcare costs.

At the end of the current fiscal year, unreserved fund balance of the general fund was $856.5 million, while total fund balance reached $1,225.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21.2% of total general fund expenditures, while total fund balance represents 30.4% of total fund expenditures or 111 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. Revenue increased by $93.5 million for the year while spending increased by $33.0 million, due to increased spending in social service programs such as Medicaid and public assistance to children, youth and their families.

Local School funds These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance increased by $60.9 million to $178.3 million. Spending decreased because of spending cuts in school districts.

Capital Project funds Capital Project funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $277.8 million in fiscal year 2008, an increase of $57.1 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

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

The State's net assets increased in fiscal year 2008 by $22.8 million as a result of operations in the proprietary funds. Page 11 discusses the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The budgetary general fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance decreased by $64.9 million (11.0%). Revenues were $66.5 million (2.0%) higher than the previous fiscal year this was primarily due to increases in cigarette taxes of $37.0 million and corporate incomes taxes of $36.0 million. However, there were decreases in bank franchise tax of $45.5 million (26.0%) and realty transfer taxes of $15.0 million (16.5%), which is due to the poor performance in the housing and credit markets and the increase in energy prices.

Expenditures were $31.7 million (0.9%) higher than the previous fiscal year. Salaries and other employment costs increased by $64.9 million (4.4%). Grants-in-Aid decreased by $105.9 million (29.0%) while Medicaid grew by $52.6 million (11.9%). In addition, contractual services increased by $7.2 million (2.5%), personal services and travel decreased by $6.2 million (2.9%) and capital outlays decreased by $20.8 million (23.8%). Debt service payments increased by $19.8 million (15.1%) as the debt payments were made from the special fund.

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants for example until the funds are spent. During fiscal year 2008, the original budget was modified to provide decreased spending in services in education, health and children's services, self-insurance for health care, expenditures for beach and farmland preservation, land and water conservation, and minor capital renovations in facilities management.

The final budget exceeded actual expenditures in all departments, with significant favorable budget variances in the following departments:

- $131.4 million in the Executive Department for funds budgeted, but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and software system upgrades for Enterprise Resource Planning Software and other minor capital projects;

- $74.8 million in the Department of Education for funds budgeted, but not spent on educational programs (such as the "No Child Left Behind" act);

- $26.7 million in Natural Resources and Environmental Control for expenditures authorized in the final budget, but not spent on energy incentives and incentives for improving the environment such as beach preservation, storm water retention ponds, improvements to State Parks, environmental clean up and water conservation;

- $43.6 million in the Department of Health and Social Services, as well as $4.6 million in the Department of Children, Youth and Their Families for programs that have been rendered, but not yet billed such as Delaware Healthy Children Program costs.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2009. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2008, amounted to $6,647.2 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $268.8 million (10.2%) and the increase for business-type activities was $107.9 million (3.0%).

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

- Completion of new schools and renovations of existing schools of $209.5 million, as well as completion of major renovations such as the Old State House. In addition, construction-in-progress as of June 30, 2008 was $336.1 million for governmental activities. Approximately 61.2% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.

- The increase in business-type activities is due to the DelDOT fund increase resulting from several major purchases of rolling stock, as well as the I-95 expansion project and the US 301 toll road project.

As allowed by GASB Statement No. 34, *Basic Financial Statements and-Management's Discussion and Analysis for-State and Local Governments*, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,454 center line miles of roads and 1,457 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year using the Overall Pavement Condition (OPC) rating system. Bridge condition assessments are conducted, for the most part, every two years using the Bridge Condition Rating (BCR) system.

Of the State's 1,457 bridges that were rated in 2007, 77.6% received a good or better BCR rating, 17.9% were rated fair, and 4.5% received a substandard rating. Of the 7,289,913 square feet of bridge deck that was rated, 93.4% or 6,809,939 square feet received an OPC condition rating of good or better, 6.2% received a fair rating, and 0.4% received a substandard deck rating. In 2007, 4,454 center line miles were rated; 89.9% received a fair or better OPC rating and 10.1% received a poor rating.

The 2008 estimate to maintain and preserve DelDOT's infrastructure was $197.3 million, but the actual expenditures were $271.3 million, which is $74.0 million over the estimate. The estimated expenditures represent annual Bond Bill authorizations; and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 34-45, Note 12 on pages 95-99 and on pages 130-131 in the Required Supplementary Information.

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

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 437,874	$ 413,080	$ 222,986	$ 206,411	$ 660,860	$ 619,491
Land improvements	62,241	61,030			62,241	61,030
Buildings	1,879,679	1,682,438	56,017	35,459	1,935,696	1,717,897
Easements	145,893	117,997			145,893	117,997
Equipment and vehicles	46,411	48,066	114,584	84,201	160,995	132,267
Infrastructure			3,345,399	3,283,783	3,345,399	3,283,783
Construction-in-progress	336,111	316,789		21,240	336,111	338,029
Total	$ 2,908,209	$ 2,639,400	$ 3,738,986	$ 3,631,094	$ 6,647,195	$ 6,270,494

Long-term debt The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,376.0 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2008, $516.2 million, or 37.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $52.0 million of property tax revenue to the State to cover related debt service during fiscal year 2008**.**

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

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected on June 30th for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2008, debt issuance was limited to $168.3 million.

- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent between 7% and 8% of estimated general fund and Transportation Trust Fund revenues.

- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2009, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2008. On March 1, 2008, the State issued $217.4 million of tax-exempt, fixed rate general obligation bonds including $16.4 million issued to refund higher cost debt.

Debt issued by the Delaware Transportation Authority (the Authority) does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Authority has revenue bonds outstanding of $992.6 million as of June 30, 2008. In June 2008, the Authority issued $84.7 million in Transportation System Senior Revenue Bonds. The sale resulted in $43.4 million to support its ongoing capital transportation program and $41.3 million refunding bonds.

Additional information on the State's long-term debt can be found in Notes 5, 6 and 7 on pages 71-92 of this report.

Other Post-Employment Benefits

Pursuant to GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2008 has determined the State's unfunded actuarial liability to be approximately $5,410.0 million. Based on a discount rate of 5%, the State's annual required contribution was established at $464.6 million and the net OPEB obligation as of June 30, 2008 was $281.4 million. The State formed an irrevocable OPEB trust and, as of June 30, 2008, has accumulated $79.4 million through a combination of one-time contributions and funding as a percentage of payroll. In addition to pre-funding, the State will manage its obligation through a variety of measures using a multi-pronged, incremental approach. The fiscal year 2009 operating budget authorizes the exploration of employee health benefit design and program eligibility for the purpose of reducing the State's future retiree health care obligations.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 16, 2008, to prepare the final revenue and expenditure estimates upon which the fiscal year 2009 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in the State had increased by 0.2% during fiscal year 2008, continuing the positive trend that began during fiscal year 2004. Fiscal year 2009 employment; however, is expected to reflect the lift national economy and register job growth.

The fiscal year 2009 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2009 operating budget is $3,347.9 million, 2.4% greater than fiscal year 2008, but also includes $144.1 million in revenue packages. Supplemental appropriations, typically in the form of cash allocated to the capital budget increased to $83.4 million from $77.9 million in fiscal year 2009 and also included a $75 million one-time special fund contribution for school construction.

The downturn in the investment market has not had a negative impact on the State's investments. The primary objective of the State's Investment Policy is the safety of principal by minimizing credit risk and interest rate risk. The principal amount of the investment portfolio has not been compromised in the recent downturn.

Financial Management

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

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

These ratings were reaffirmed in January 2009.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904. This CAFR can also be found on the Internet at **http://accounting.delaware.gov/cafrdefault.shtml**.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, Townsend Building, Suite #1, 401 Federal Street, Dover, Delaware 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 560,614	$ 213,334	$ 773,948	$ 49,999
Cash and cash equivalents - restricted	-	1,699	1,699	31,202
Investments	247,007	74,918	321,925	43,783
Investments - securities lending transactions	115,984	-	115,984	-
Investments - restricted	-	108,961	108,961	7,241
Accounts and other receivables, net	243,335	71,845	315,180	38,047
Loans and notes receivable, net	14,289	1,246	15,535	16,462
Internal balances	6,325	(6,325)	-	-
Other post-employment benefits asset	-	-	-	67
Inventories	4,826	15,094	19,920	469
Prepaid items	38,296	348	38,644	4,138
Other current assets	-	961	961	440
Total current assets	1,230,676	482,081	1,712,757	191,848
Noncurrent assets:				
Investments	926,499	7,851	934,350	109,731
Investments - restricted	-	44,585	44,585	71,383
Accrued interest receivable	-	80	80	-
Accounts and other receivables, net	67,431	-	67,431	4,613
Loans and notes receivable, net	176,267	22,182	198,449	994,451
Capital assets				
Non-depreciable	919,878	3,568,385	4,488,263	172,324
Depreciable capital assets, net	1,988,331	170,601	2,158,932	360,266
Deferred bond issuance costs	4,774	-	4,774	10,673
Other restricted assets	-	-	-	10,686
Other noncurrent assets	-	3,571	3,571	2,809
Total noncurrent assets	4,083,180	3,817,255	7,900,435	1,736,936
Total assets	5,313,856	4,299,336	9,613,192	1,928,784
LIABILITIES				
Current liabilities:				
Accounts payable	419,339	47,201	466,540	15,614
Accrued liabilities	33,602	35,466	69,068	17,523
Interest payable	24,193	21,822	46,015	-
Notes payable	8,377	-	8,377	3,364
Unearned revenues	3,800	3,013	6,813	2,946
Capital leases	-	-	-	26
Escheat liabilities	8,000	-	8,000	-
Compensated absences	11,257	4,148	15,405	43
Claims and judgments	29,948	1,889	31,837	-
Escrow deposits	-	1,641	1,641	2
Collateral held for securities lending transactions	115,984	-	115,984	-
Current portion of liabilities payable from restricted assets	-	1,699	1,699	-
Current portion of general obligation long-term debt	142,069	676	142,745	-
Current portion of revenue bonds	-	73,213	73,213	16,561
Current portion of bond issue premium, net	4,576	6,779	11,355	-
Other current liabilities	600	7,421	8,021	6,511
Total current liabilities	801,745	204,968	1,006,713	62,590
Noncurrent liabilities:				
Compensated absences	135,529	9,597	145,126	7,560
Pension obligation	108,823	-	108,823	-
Other post-employment benefits payable	265,600	25,943	291,543	-
Claims and judgments	77,184	2,542	79,726	-
Escheat liabilities	32,000	-	32,000	-
Escrow deposits	-	-	-	30,974
Liabilities payable from restricted assets	-	5,089	5,089	-
Notes payable	186	-	186	58,874
General obligation long-term debt	1,231,143	2,107	1,233,250	-
Revenue bonds	-	919,423	919,423	995,706
Bond issue premium, net	56,025	21,586	77,611	-
Other long-term obligations	3,357	-	3,357	21,381
Total noncurrent liabilities	1,909,847	986,287	2,896,134	1,114,495
Total liabilities	2,711,592	1,191,255	3,902,847	1,177,085
NET ASSETS				
Invested in capital assets, net of related debt	1,515,272	2,731,901	4,247,173	411,928
Restricted:				
Budgetary reserve	186,430	-	186,430	-
Unemployment benefits	-	157,948	157,948	-
Federal and state regulations	-	-	-	219,607
Bond covenants	-	-	-	34,026
Capital projects	-	-	-	27,448
Other restrictions	-	150,790	150,790	15,885
Unrestricted	900,562	67,442	968,004	42,805
Total net assets	$ 2,602,264	$ 3,108,081	$ 5,710,345	$ 751,699

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
					Primary Government			
Function	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 549,263	$ 172,093	$ 34,168	$ 13,732	$ (329,270)		$ (329,270)	
Health and children's services	1,869,754	99,438	791,794	-	(978,522)		(978,522)	
Judicial and public safety	640,380	53,803	31,980	-	(554,597)		(554,597)	
Natural resources and environmental control	164,446	47,374	33,792	2,410	(80,870)		(80,870)	
Labor	68,172	-	36,310		(31,862)		(31,862)	
Education	2,031,009	28,235	166,566	-	(1,836,208)		(1,836,208)	
Unrestricted payments to component units - Education	99,969	-	-	-	(99,969)		(99,969)	
Interest	52,224	-	-	-	(52,224)		(52,224)	
Total governmental activities	5,475,217	400,943	1,094,610	16,142	(3,963,522)		(3,963,522)	
Business-type activities:								
Lottery	419,223	742,260	-	-		$ 323,037	323,037	
Transportation	535,150	428,646	-	156,740		50,236	50,236	
Unemployment	113,955	74,984	-	-		(38,971)	(38,971)	
Total business-type activities	1,068,328	1,245,890	-	156,740		334,302	334,302	
Total primary government	6,543,545	1,646,833	1,094,610	172,882				
Component units:								
Delaware State Housing Authority	106,893	52,299	61,224	612				$ 7,242
Diamond State Port Corporation	31,657	26,816	-	3,000				(1,841)
Riverfront Development Corporation	13,230	2,028	1,800	21,099				11,697
Delaware State University	103,728	44,821	27,443	4,811				(26,653)
Delaware Technical & Community College Educational Foundation	1,939	624	7,101	-				5,786
Delaware Charter Schools	83,810	9,778	5,546	72				(68,414)
Total component units	341,257	136,366	103,114	29,594				(72,183)
General revenues:								
Taxes:								
Personal income					1,010,325		1,010,325	
Business					1,659,565		1,659,565	
Real estate					398,881		398,881	
Other					297,971		297,971	
Unrestricted payments from primary government					-	-	-	99,969
Investment earnings					84,449	21,322	105,771	11,220
Gain (loss) on sale of assets					-	299	299	(490)
Miscellaneous					30,629	(1,000)	29,629	(6,351)
Transfers					332,132	(332,132)	-	-
Total general revenues and transfers					3,813,952	(311,511)	3,502,441	104,348
Change in net assets					(149,570)	22,791	(126,779)	32,165
Net assets - beginning of year (as restated)					2,751,834	3,085,290	5,837,124	719,534
Net assets - end of year					$ 2,602,264	$ 3,108,081	$ 5,710,345	$ 751,699

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 552,339	$ 543	$ 7,732	$ -	$ 560,614
Investments	904,939	-	223,902	44,665	1,173,506
Investments - securities lending transactions	115,984	-	-	-	115,984
Accounts receivable, net	64,665	12,504	340	-	77,509
Taxes receivable, net	85,914	-	21,998	-	107,912
Intergovernmental receivables, net	219	125,126	-	-	125,345
Due from other funds	46,526	-	-	-	46,526
Inventories	4,826	-	-	-	4,826
Prepaid items	19,148	19,148	-	-	38,296
Loans and notes receivable	142,549	48,007	-	-	190,556
Total assets	1,937,109	205,328	253,972	44,665	2,441,074
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	301,422	40,036	46,423	31,458	419,339
Accrued liabilities	33,602	-	-	-	33,602
Claims and judgments	600	-	-	-	600
Escheat liability	8,000	-	-	-	8,000
Due to other funds	-	31,871	8,330	-	40,201
Deferred revenues	251,964	61,982	20,934	-	334,880
Obligations under securities lending transactions	115,984	-	-	-	115,984
Total liabilities	711,572	133,889	75,687	31,458	952,606
Fund balances (deficit)					
Reserved for:					
Encumbrances	158,654	38,291	10,208	122,147	329,300
Inventories	4,826	-	-	-	4,826
Prepaid items	19,148	19,148	-	-	38,296
Budgetary reserve	186,430	-	-	-	186,430
Unreserved (deficit)	856,479	14,000	168,077	(108,940)	929,616
Total fund balances	1,225,537	71,439	178,285	13,207	1,488,468
Total liabilities and fund balances	$ 1,937,109	$ 205,328	$ 253,972	$ 44,665	$ 2,441,074

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,488,468
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 437,874	
Land improvements	62,241	
Buildings	1,879,679	
Easements	145,893	
Equipment and vehicles	46,411	
Construction in progress	336,111	
		2,908,209
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		331,080
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Interest payable	$ (24,193)	
Claims and judgments (current and long-term)	(107,132)	
Compensated absences (current and long-term)	(146,786)	
Other post employment benefits	(265,600)	
Pension obligation	(108,823)	
General obligation long-term debt and related accounts	(1,429,039)	
Notes payable (current and long-term)	(8,563)	
Other long-term obligations	(3,357)	
Escheat liability	(32,000)	
		(2,125,493)
Net assets of governmental activities		$ 2,602,264

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Revenues					
Personal taxes	$ 1,008,734	$ -	$ -	$ -	$ 1,008,734
Business taxes	1,663,611	-	-	-	1,663,611
Other tax revenue	277,151	-	416,812	-	693,963
Licenses, fees, permits and fines	353,523	-	2,081	-	355,604
Rentals and sales	25,510	-	8,784	-	34,294
Federal government	34,293	1,074,516	2,438	-	1,111,247
Interest and other investment income	68,239	422	15,652	-	84,313
Other	82,618	1,374	25,349	44	109,385
Total revenues	3,513,679	1,076,312	471,116	44	5,061,151
Expenditures					
Current:					
General government	552,620	15,788	-	-	568,408
Health and children's services	1,136,021	744,807	-	-	1,880,828
Judicial and public safety	554,920	30,728	-	-	585,648
Natural resources and environmental control	148,641	26,182	-	-	174,823
Labor	31,826	33,830	-	-	65,656
Education	1,315,113	153,265	367,714	-	1,836,092
Unrestricted payments to component unit - Education	87,052	-	12,917	-	99,969
Capital outlay	-	-	-	277,754	277,754
Debt service:					
Principal	151,650	-	-	-	151,650
Interest and other charges	57,673	-	-	-	57,673
Costs of issuance of debt	-	-	-	415	415
Total expenditures	4,035,516	1,004,600	380,631	278,169	5,698,916
Excess (deficiency) of of revenues over expenditures	(521,837)	71,712	90,485	(278,125)	(637,765)
Other Sources (Uses) of Financial Resources					
Transfers in	434,605	-	56,165	268	491,038
Transfers out	(27,049)	(25,457)	(85,729)	(20,671)	(158,906)
Other financing sources	26	-	-	-	26
Issuance of general obligation bonds	-	-	-	201,750	201,750
Issuance of advanced refundings	-	-	-	15,625	15,625
Premiums on bond sales	-	-	-	10,220	10,220
Total other sources (uses) of financial resources	407,582	(25,457)	(29,564)	207,192	559,753
Net change in fund balances	(114,255)	46,255	60,921	(70,933)	(78,012)
Fund balances - beginning	1,339,792	25,184	117,364	84,140	1,566,480
Fund balances - ending	$ 1,225,537	$ 71,439	$ 178,285	$ 13,207	$ 1,488,468

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Net Changes in Fund Balances		$ (78,012)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	351,462	
Depreciation expense	(82,653)	
		268,809
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		18,973
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:		
Debt service principal repayments	$ 151,650	
New debt issued (face value)	(217,375)	
Premium received	(10,220)	
Issuance costs	389	
Amortization of premium/issuance costs	5,854	
		(69,702)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		(389)
Claims and judgments		(8,962)
Notes payable		(3,681)
Compensated absences		(6,186)
Pension obligation		(4,068)
Other post employment benefits		(265,600)
Other liabilities		(752)
Change in Net Assets of Governmental Activities		$ (149,570)

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 164,360	$ 5,834	$ 43,140	$ 213,334
Cash and cash equivalents - restricted	-	-	1,699	1,699
Investments	-	-	74,918	74,918
Investments - restricted	-	1,699	107,262	108,961
Accounts receivable, net	5,546	14,940	12,996	33,482
Taxes receivable, net	16,491	-	-	16,491
Intergovernmental receivables, net	550	-	20,586	21,136
Current portion of interest receivable	-	-	736	736
Inventories	-	-	15,094	15,094
Current portion of loans and notes receivable	-	-	1,246	1,246
Escrow insurance deposits	-	-	961	961
Prepaid items	-	-	348	348
Total current assets	186,947	22,473	278,986	488,406
Noncurrent assets:				
Investments	-	-	7,851	7,851
Investments - restricted	-	2,966	41,619	44,585
Interest receivable	-	-	80	80
Loans and notes receivable	-	-	22,182	22,182
Other assets	-	2,123	-	2,123
Prepaid pension	-	-	1,448	1,448
Capital assets, non-depreciable	-	-	3,568,385	3,568,385
Capital assets, depreciable, net	-	5	170,596	170,601
Total noncurrent assets	-	5,094	3,812,161	3,817,255
Total assets	186,947	27,567	4,091,147	4,305,661
LIABILITIES				
Current liabilities:				
Accounts payable	-	9,730	37,471	47,201
Accrued liabilities	25,861	-	9,605	35,466
Interest payable	-	-	21,822	21,822
Deferred revenue	-	-	3,013	3,013
Compensated absences	-	-	4,148	4,148
Claims and judgments	-	-	1,889	1,889
Prizes liability	-	4,283	-	4,283
Escrow deposits	-	-	1,641	1,641
Current portion of liabilities payable from restricted assets	-	1,699	-	1,699
Current portion of general obligation long-term debt	-	-	676	676
Current portion of revenue bonds	-	-	73,213	73,213
Current portion of bond issue premium	-	-	6,779	6,779
Tax refunds payable	3,138	-	-	3,138
Due to other funds	-	6,325	-	6,325
Total current liabilities	28,999	22,037	160,257	211,293
Noncurrent liabilities:				
Compensated absences	-	-	9,597	9,597
Claims and judgments	-	-	2,542	2,542
Other post-employment benefits payable	-	246	25,697	25,943
Liabilities payable from restricted assets	-	5,089	-	5,089
General obligation long-term debt	-	-	2,107	2,107
Revenue bonds	-	-	919,423	919,423
Bond issue premium, net	-	-	21,586	21,586
Total noncurrent liabilities	-	5,335	980,952	986,287
Total liabilities	28,999	27,372	1,141,209	1,197,580
Net assets:				
Invested in capital assets, net of related debt	-	5	2,731,896	2,731,901
Restricted for:				
Unemployment benefits	157,948	-	-	157,948
Other	-	-	150,790	150,790
Unrestricted	-	190	67,252	67,442
Total net assets	$ 157,948	$ 195	$ 2,949,938	$ 3,108,081

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating revenues:				
Unemployment taxes	$ 74,984	$ -	$ -	$ 74,984
Gaming revenue	-	742,260	-	742,260
Pledged revenues:				
Turnpike revenue	-	-	117,869	117,869
Motor vehicle and related revenue	-	-	252,945	252,945
Turnpike revenue	-	-	40,509	40,509
Passenger fares	-	-	11,922	11,922
Miscellaneous	-	-	5,401	5,401
Total operating revenues	74,984	742,260	428,646	1,245,890
Operating expenses:				
Unemployment benefits	113,955	-	-	113,955
Cost of sales	-	341,865	-	341,865
Prizes	-	65,896	-	65,896
Transportation	-	-	471,876	471,876
Depreciation	-	2	17,062	17,064
General and administrative	-	11,460	7,907	19,367
Total operating expenses	113,955	419,223	496,845	1,030,023
Operating income (loss)	(38,971)	323,037	(68,199)	215,867
Nonoperating revenues (expenses):				
Interest and investment revenue	8,490	-	12,832	21,322
Interest expense	-	-	(38,305)	(38,305)
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Gain on disposal of assets	-	-	299	299
Total nonoperating revenues (expenses)	8,490	(1,000)	(25,174)	(17,684)
Income (loss) before transfers and capital contributions	(30,481)	322,037	(93,373)	198,183
Capital contributions	-	-	156,740	156,740
Transfers in	-	-	5,690	5,690
Transfers out	-	(322,842)	(14,980)	(337,822)
Increase (decrease) in net assets	(30,481)	(805)	54,077	22,791
Total net assets - beginning	188,429	1,000	2,895,861	3,085,290
Total net assets - ending	$ 157,948	$ 195	$ 2,949,938	$ 3,108,081

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash flows from operating activities:				
Receipts from employers	$ 75,011	$ -	$ -	$ 75,011
Payments for insurance claims	(111,049)	-	(2,732)	(113,781)
Receipts from customers and users	-	739,812	424,756	1,164,568
Other operating receipts	-	-	1,392	1,392
Payments to suppliers for goods and services	-	(52,788)	(333,405)	(386,193)
Payments to employees for services	-	(1,823)	(119,312)	(121,135)
Payments for prizes	-	(67,643)	-	(67,643)
Payment for commissions	-	(297,230)	-	(297,230)
Net cash provided (used) by operating activities	(36,038)	320,328	(29,301)	254,989
Cash flows from noncapital financing activities:				
Transfers in	-	-	5,690	5,690
Transfers out	-	(325,080)	(14,981)	(340,061)
Net cash used by noncapital financing activities	-	(325,080)	(9,291)	(334,371)
Cash flows from capital and related financing activities:				
Capital grants	-	-	146,177	146,177
Purchases of capital assets	-	-	(125,798)	(125,798)
Principal paid on capital debt	-	-	(68,240)	(68,240)
Interest paid on capital debt	-	-	(46,784)	(46,784)
Proceeds from sale of land and equipment	-	-	1,141	1,141
Proceeds from issuance of debt	-	-	84,720	84,720
Premium from bond sale	-	-	5,111	5,111
Payment to escrow agent for refunding of debt	-	-	(42,696)	(42,696)
Net cash used by capital and related financing activities	-	-	(46,369)	(46,369)
Cash flows from investing activities:				
Interest and investment revenues	8,490	-	13,008	21,498
Repayment on loan receivable	-	-	1,233	1,233
Escrow deposits received	-	-	323	323
Purchase of investments	-	-	(2,743,274)	(2,743,274)
Proceeds from sales and maturities of investments	-	1,933	2,823,707	2,825,640
Net cash provided by investing activities	8,490	1,933	94,997	105,420
Net increase (decrease) in cash and cash equivalents	(27,548)	(2,819)	10,036	(20,331)
Cash and cash equivalents - beginning of year	191,908	8,653	34,803	235,364
Cash and cash equivalents - end of year	164,360	5,834	44,839	215,033
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(38,971)	323,037	(68,199)	215,867
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2	17,062	17,064
Decrease (increase) in assets:				
Receivables, net	(26)	(2,448)	(1,198)	(3,672)
Inventories	-	-	(2,167)	(2,167)
Prepaid items	-	-	(461)	(461)
Increase (decrease) in liabilities:				
Accounts and other payables	4,146	1,924	(491)	5,579
Accrued liabilities	(1,240)	(439)	(1,300)	(2,979)
Accrued expenses	-	(1,748)	555	(1,193)
Accrued payroll and related expenses	-	-	1,201	1,201
Post-employment benefits	-	-	25,697	25,697
Due to/from other governments	53	-	-	53
Net cash provided (used) by operating activities	(36,038)	320,328	(29,301)	254,989

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and cash equivalents	$ 380,273	$ 11,629	$ 2,393	$ 30,807
Receivables:				
Accrued interest	17,140	8	90	-
Investment sales pending	10,485	-	55	-
Employer contributions	9,782	7,578	-	-
Member contributions	3,731	38	-	-
Other receivables	-	-	-	34,571
Investments, at fair value:				
Domestic fixed income	649,100	30,444	12,855	-
Domestic equities	1,201,215	24,771	15,266	-
Pooled equity and fixed income	2,258,337	-	11,797	-
Alternative investments	1,274,596	-	6,658	-
Short term investments	-	-	-	17,243
Foreign fixed income	126,807	-	662	-
Foreign equities	1,213,354	13,603	11,070	-
Total assets	7,144,820	88,071	60,846	82,621
Liabilities:				
Accounts payable	-	-	-	82,621
Investment purchase payable	78,881	-	412	-
Benefits/claims payable	584	8,671	-	-
Accrued investment expense	5,327	5	29	-
Accrued administrative expenses	656	-	3	-
Total liabilities	85,448	8,676	444	82,621
Net assets:				
Assets held in trust for pension benefits and pool participants	$ 7,059,372	$ 79,395	$ 60,402	$ -

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer contributions	$ 185,204	$ 183,216	$ -
Transfer from post-retirement increase fund	47,416	-	-
Transfer from state employee health insurance premium fund	-	34,171	-
Transfer of assets from outside the system	2,905	-	30,953
Member contributions	53,468	3,511	-
Other	38	-	-
Total contributions	289,031	220,898	30,953
Investments:			
Investment earnings	108,682	2,506	828
Net decrease in fair value of investments	(201,016)	(4,512)	(1,006)
Total investment earnings	(92,334)	(2,006)	(178)
Less investment manager/advisor/custody fees	(21,954)	(73)	(167)
Less investment administrative expenses	(502)	-	(4)
Net investment earnings	(114,790)	(2,079)	(349)
Securities lending income	19,454	-	147
Less borrower rebates	(17,488)	-	(132)
Less bank fees	(393)	-	(3)
Total securities lending expense	(17,881)	-	(135)
Total net securities lending income	1,573	-	12
Total additions	175,814	218,819	30,616
Deductions:			
Transfer of assets from post-retirement increase fund	47,416	-	-
Transfer of assets outside the system	37,249	-	24,090
Pension/claim payments	377,118	139,331	-
Refunds of contributions to members	3,336	-	-
Group life payments	4,839	-	-
Administrative expenses	5,978	93	-
Total deductions	475,936	139,424	24,090
Change in net assets	(300,122)	79,395	6,526
Net assets - beginning of year	7,359,494	-	53,876
Net assets - end of year	$ 7,059,372	$ 79,395	$ 60,402

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2008
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 14	$ 2,543	$ 10,845	$ 14,033	$ 131	$ 22,433	$ 49,999
Cash and cash equivalents - restricted	-	16,233	384	13,206	-	1,379	31,202
Investments	41,268	-	-	-	2,486	29	43,783
Investments - restricted	-	-	-	1,237	6,004	-	7,241
Accounts and other receivables, net	27,360	2,020	699	7,925	-	43	38,047
Loans and notes receivable, net	16,462	-	-	-	-	-	16,462
Other post-employment benefits (OPEB) asset	67	-	-	-	-	-	67
Inventories	-	469	-	-	-	-	469
Prepaid items	3,003	531	32	-	-	-	3,566
Deferred bond issuance costs	549	-	-	-	-	23	572
Other restricted assets	-	-	-	361	32	-	393
Other current assets	-	-	-	-	-	47	47
Total current assets	88,723	21,796	11,960	36,762	8,653	23,954	191,848
Noncurrent assets:							
Long-term investments	108,349	-	1,382	-	-	-	109,731
Long-term investments - restricted	-	-	10,344	60,983	56	-	71,383
Accounts and other receivables, net	4,613	-	-	-	-	-	4,613
Loans and notes receivable, net	989,385	-	4,739	327	-	-	994,451
Capital assets - non-depreciable	4,723	32,630	100,739	29,366	-	4,866	172,324
Capital assets - depreciable, net	16,544	134,176	18,732	147,121	-	43,693	360,266
Deferred bond issuance costs	8,527	-	-	1,833	-	313	10,673
Other restricted assets	-	-	-	2,306	8,380	-	10,686
Other noncurrent assets	-	-	2,029	168	-	612	2,809
Total noncurrent assets	1,132,141	166,806	137,965	242,104	8,436	49,484	1,736,936
Total assets	1,220,864	188,602	149,925	278,866	17,089	73,438	1,928,784
LIABILITIES							
Current liabilities:							
Accounts payable	3,955	104	3,678	6,984	-	893	15,614
Accrued liabilities	137	2,266	19	7,475	12	7,614	17,523
Deferred revenue	88	121	73	2,633	-	31	2,946
Current portion - capital leases	-	-	-	-	-	26	26
Compensated absences	19	-	-	-	-	24	43
Escrow deposits	-	-	2	-	-	-	2
Notes payable	72	3,054	-	53	-	185	3,364
Current portion of revenue bonds	14,676	-	300	1,585	-	-	16,561
Current portion of other long-term debt	-	-	822	562	-	5,127	6,511
Total current liabilities	18,947	5,545	4,894	19,292	12	13,900	62,590
Noncurrent liabilities:							
Compensated absences	948	-	-	5,454	-	1,158	7,560
Escrow deposits	30,974	-	-	-	-	-	30,974
Notes payable	322	34,428	-	825	-	23,299	58,874
Revenue bonds	884,051	-	3,945	107,710	-	-	995,706
Long-term debt	-	-	10,900	-	-	9,586	20,486
Other noncurrent liabilities	566	-	-	325	-	4	895
Total noncurrent liabilities	916,861	34,428	14,845	114,314	-	34,047	1,114,495
Total liabilities	935,808	39,973	19,739	133,606	12	47,947	1,177,085
NET ASSETS							
Invested in capital assets, net of related debt	21,267	129,323	103,504	121,245	-	36,589	411,928
Restricted:							
Federal and state regulations	200,620	-	-	4,559	14,428	-	219,607
Bond covenants	34,026	-	-	-	-	-	34,026
Capital projects	-	16,233	10,344	871	-	-	27,448
Other	4,012	-	-	10,357	-	1,516	15,885
Unrestricted	25,131	3,073	16,338	8,228	2,649	(12,614)	42,805
Total net assets	$ 285,056	$ 148,629	$ 130,186	$ 145,260	$ 17,077	$ 25,491	$ 751,699

* Fiscal year-end December 31, 2007

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component units:				
Delaware State Housing Authority	$ 106,893	$ 52,299	$ 61,224	$ 612
Diamond State Port Corporation	31,657	26,816	-	3,000
Riverfront Development Corporation	13,230	2,028	1,800	21,099
Delaware State University	103,728	44,821	27,443	4,811
Delaware Technical and Community College (DTCC) Educational Foundation	1,939	624	7,101	-
Delaware Charter Schools	83,810	9,778	5,546	72
Total component units	$ 341,257	$ 136,366	$ 103,114	$ 29,594
General revenues:				
Unrestricted payments from primary governments				
Investment earnings (loss)				
Gain (Loss) on sale of assets				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets - beginning of year (as restated)				
Net assets - end of year				

* Fiscal year ended December 31, 2007

See Accompanying Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Totals
$ 7,242						$ 7,242
	$ (1,841)					(1,841)
		$ 11,697				11,697
			$ (26,653)			(26,653)
				$ 5,786		5,786
					$ (68,414)	(68,414)
						(72,183)
-	-	-	29,599	-	70,370	99,969
11,551	(815)	969	(1,955)	420	1,050	11,220
-	4	(494)	-	-	-	(490)
-	(60)	-	(6,394)	-	103	(6,351)
11,551	(871)	475	21,250	420	71,523	104,348
18,793	(2,712)	12,172	(5,403)	6,206	3,109	32,165
266,263	151,341	118,014	150,663	10,871	22,382	719,534
$ 285,056	$ 148,629	$ 130,186	$ 145,260	$ 17,077	$ 25,491	$ 751,699

See Accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2008 may be obtained in writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware OPEB Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police pension plans. The OPEB Trust is a legally separate entity; however, it provides services and benefits almost exclusively to the primary government, the OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as a OPEB trust fund.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2007, each discretely presented component unit has a June 30, 2008 fiscal year-end.

Delaware State Housing Authority

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

Diamond State Port Corporation

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

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints seven of the 18 board members; however, seven of the remaining 11 directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, eight appointed by the Governor of Delaware and seven elected by the Trustees.

The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2007.

Delaware Charter Schools

Delaware's 18 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

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

Related Organizations

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

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

Jointly Governed Organization

The Delaware River and Bay Authority (DRBA), a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey which border the Delaware River and Delaware Bay.

DRBA is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

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

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. There are no net assets that are restricted by enabling legislation at June 30, 2008. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded among program revenues are reported as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash

flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

Governmental Funds

The State reports the following major governmental funds:

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

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

Local School District Fund – The local school district fund accounts for activities relating to the State's local school districts funded by locally raised real estate taxes and other revenue.

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

Proprietary Funds

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

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

The Lottery fund recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The State reports the following major proprietary funds:

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

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

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

Fiduciary Funds

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

The State reports the following fiduciary funds:

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

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The financial report of DPERS for the year ended June 30, 2008 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

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

OPEB Trust – The Delaware Other Post Employment Benefit Fund Trust (OPEB Trust) is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee. The State recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid. During the year, approximately $30.5 million was paid on behalf of 16,644 retirees and recorded as an expenditure in the general fund.

New Accounting Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other than Pension Plans.* This Statement establishes a uniform financial reporting standard that supersedes the interim guidelines included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension* Plans. This Statement addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets, or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. The State adopted this standard for the fiscal year ended June 30, 2008.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The State adopted this standard for the fiscal year ended June 30, 2008.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* The Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or as a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent property tax liens, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. This statement was required to be implemented in fiscal year June 30, 2008. The State has determined that there is no affect of this statement.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This Statement amends previous guidance on disclosures for defined benefit pension plans and is intended to improve the transparency and usefulness of reported information about public pension plans. DPERS has complied with GASB Statement 50 by including additional disclosures on the current funding status of the pension plans within the notes to the financial statements. The State adopted this standard for the fiscal year ended June 30, 2008.

Impact of Future Accounting Pronouncements

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations. The Statement identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

The requirements of this Statement were effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However,

governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such periods presented. The future impact of this statement is currently being evaluated by the State.

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

Deposits and Investments

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

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

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted Assets

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

The State has the following restricted assets:

- The Delaware State Lottery has a mandatory deposit with the Multi-State Lottery and annuities for future installment prize payments.
- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.
- Riverfront Development Corporation has restricted assets to cover revenue bond payments and capital projects.
- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools restricted assets to cover debt service payments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

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

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and

equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

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

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

Compensated Absences

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

Long-Term Obligations

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

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other

financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the "Budgetary Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2008. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary reserve account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

(d) Grants

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

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $12.8 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $29.7 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board).

The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

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

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

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

  - Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.

  - Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term (12 to 18 month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

- Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State manages its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

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

  - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.

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

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

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

Additional permissible investments for special purpose accounts only:

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

The primary government's accounts are categorized as "authority accounts". At June 30, 2008, investments of the primary government are primarily in commercial paper, corporate

obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy.

The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS which are described on pages 56-62.

Custodial Credit Risk

Deposits

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

All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2008, the carrying amount of the primary government's deposits was $806.5 million and the bank balance was $925.8 million. Of the $925.8 million bank balance, $71.1 million was fully insured; $164.4 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining

$690.3 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government's deposits are agency funds. The carrying amount of the agency fund's deposits was $30.8 million and the bank balance was $37.8 million. Of the $37.8 million bank balance, $28.2 million was fully insured and the remaining $9.6 million was subject to custodial credit risk because they were uninsured and uncollateralized, but were held at financial institutions that satisfied the State's collateralization requirement. The State does not require collateralization of amounts in excess of Federal Deposit Insurance Corporation (FDIC) limits.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

At June 30, 2008, the primary government's investments were $1,427.1 million. Of the primary government's investments, $245.0 million was fully insured and collateralized. Included in the primary government's investments of $1,427.1 million are agency funds. The amount of the agency funds' investments was $17.2 million.

The following table provides information on $1,182.1 million of the primary government's investments that are exposed to custodial credit risk; $321,000 of this amount represents the agency funds' investments:

Investment Type	Fair Value (Expressed in Thousands)
Corporate obligations	$ 299,372
Municipal obligations	139,114
U.S. government obligations	602,328
Other obligations	62,941
Commercial paper	45,132
Certificates of deposit	33,242
Total	$ 1,182,129

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration

of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

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

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2008:

Investment Type	Fair Value (Expressed in Thousands)	Effective Duration (in years)
Corporate obligations	$ 299,372	0.94
Municipal obligations	139,114	3.01
U.S. government obligations	748,071	0.73
Other obligations	95,091	5.24
Commercial paper	111,546	0.13
Certificate of deposit	33,870	0.45
	$ 1,427,064	

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

- **Cash Account Investment**. The maximum maturity for any investment at the time of purchase for the cash account is one year.

- **Liquidity Accounts**. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.

- **Reserve Cash (Intermediate) Account**. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.

- **Endowment Accounts**. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.

- **Authority Operating, Bond and Debt Service Reserve Fund Accounts**. Maturity Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

As of June 30, 2008, the primary government and agency funds had the following debt investments and maturities:

Investment Maturity
(Expressed in Thousands)

		Investment Maturities			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Long Term Investments					
Corporate obligations					
Corporate bonds	$ 238,644	$ 106,984	$ 125,327	$ -	$ 6,333
Asset-backed securities	60,728	1,673	30,008	-	29,047
Municipal obligations	139,114	7,247	76,054	25,230	30,583
U.S. government obligations					
U.S. Treasury bonds, notes	61,730	16,131	45,599	-	-
U.S. Agency bonds, notes	410,023	115,954	273,207	15,940	4,922
Other obligations					
Canadian	6,625	6,625	-	-	-
Foreign	25,838	5,042	20,796	-	-
Private placements	46,613	28,069	7,091	-	11,453
Pooled investments	16,015	16,015	-	-	-
Short Term Investments					
U.S. government obligations					
U.S. Treasury bonds, notes	16,309	10,067	6,242	-	-
U.S. Agency bonds, notes	260,009	216,780	37,770	5,459	-
Commercial paper	111,546	111,546	-	-	-
Certificate of deposit	33,870	24,229	9,641	-	-
Total Investments	**$ 1,427,064**	**$ 666,362**	**$ 631,735**	**$ 46,629**	**$ 82,338**

Credit Risk

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

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

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

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

The following table presents the State's investments which were rated by S & P as of June 30, 2008. The ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TSY	AGY	AAA	AA	A	A-1	NR
Long Term Investments							
Corporate obligations							
Corporate bonds	$ -	$ -	$ 45,290	$ 153,669	$ 3,572	$ 28,768	$ 7,345
Asset-backed securities	-	-	56,703	4,025	-	-	-
Municipal obligations	-	-	93,292	26,587	1,374	1,763	16,098
U.S. government obligations							
U.S. Treasury bonds, notes	30,422	-	31,308	-	-	-	-
U.S. Agency bonds, notes	-	132,857	277,166	-	-	-	-
Other obligations							
Canadian	-	-	-	6,625	-	-	-
Foreign	-	-	5,042	-	-	-	20,796
Private placements	-	-	7,333	39,280	-	-	-
Pooled investments	-	-	-	-	-	-	16,015
Short Term Investments							
U.S. government obligations							
U.S. Treasury bonds, notes	16,309	-	-	-	-	-	-
U.S. Agency bonds, notes	-	260,009	-	-	-	-	-
Commercial paper	-	-	-	-	-	96,248	15,298
Certificate of deposit	-	-	11,507	5,992	-	15,004	1,367
Total Investments	**$ 46,731**	**$ 392,866**	**$ 527,641**	**$ 236,178**	**$ 4,946**	**$ 141,783**	**$ 76,919**

TSY = Treasury

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

NR = Non-Rated Pooled accounts

Concentration of Credit Risk

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

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

A. U.S. Government-no restrictions.

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

C. Certificates of deposits, time deposits and bankers acceptances-50% total; 10% in any one issuer.

1. Domestic-No additional restrictions.
2. Non-domestic-25%.
3. Delaware domiciled-Securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

D. Corporate debt-50% total; 25% in any one industry; 10% in any one issuer, 10% of any issuer's total outstanding securities.

1. Domestic-No additional restrictions.
2. Non-Domestic-25%; 10% in any one issuer.

E. Repurchase agreements-50% total.

F. Reverse repurchase agreements-25% total.

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

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

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

J. Municipal obligations-10% in any one issuer.

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

L. Mortgage-backed securities-20% total.

At June 30, 2008, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.

The Policy only permit investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

Commitments

At June 30, 2008, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

Securities Lending

In accordance with a contract between the State and its custodian and trustee, Bank of New York/Mellon (BNY/Mellon), the State participates in a securities lending program. State statues neither specifically authorize nor prohibit the lending of the State's securities.

BNY/Mellon, acting as lending agent, lends the State's securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned. Collateral is marked to market daily. If the collateral received by the borrowers falls below the collateral requirement of the securities loaned, additional collateral is obtained from the borrowers. To the extent any loss arising out of approved investments results in a deficiency in the amount of collateral available for return to a borrower, the lender agrees to pay bank on demand cash in an amount equal to such deficiency. Cash collateral is invested by the lending agent in accordance with investment guidelines per the contract. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

At June 30, 2008, the State's credit exposure to individual borrowers was limited because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. The State's contract with the lending agent requires the agent to indemnify the State if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All securities loans at June 30, 2008 could be terminated immediately by either the lending agent or the borrower.

As of June 30, 2008, the fair value of loaned securities was $114.9 million; the value of the cash collateral received was $117.1 million; and the fair value of the cash collateral invested was $116.0 million. Securities lending transactions at June 30, 2008 are as follows:

Securities Lent for Cash Collateral	Fair Value (Expressed in Thousands)
Corporate obligations	$ 7,460
U.S. government obligations	107,418
Total	**$ 114,878**

Cash Collateral Received	(Expressed in Thousands)
Corporate obligations	$ 7,626
U.S. government obligations	109,452
Total	**$ 117,078**

Cash Collateral Investment Value	Fair Value (Expressed in Thousands)
Corporate obligations	$ 102,234
Money market	3,751
Certificate of deposit - floaters	9,999
Total	**$ 115,984**

The following table presents the fair value and effective duration of the cash collateral invested at June 30, 2008:

Investment Type	Fair Value (Expressed in Thousands)	Weighted Average Days to Reprice	Effective Duration (in years)
Corporate obligations	$ 102,234	34	0.092
Money market	3,751	1	0.003
Certificate of deposit - floaters	9,999	38	0.104
Total	**$ 115,984**		

The following table presents the maturity of the investments underlying the securities lending transactions should those investments be held to full term:

Investment Type	Fair Value (Expressed in Thousands)	Investment Maturities (in years)	
		Less than 1	1 to 5
Corporate obligations			
Bank note	$ 34,025	$ 19,037	$ 14,988
Corporate floating rate	42,557	9,938	32,619
Asset-backed securities	25,652	9,830	15,822
Money market	3,751	3,751	-
Certificate of deposit - floaters	9,999	4,994	5,005
Total	**$ 115,984**	**$ 47,550**	**$ 68,434**

The following table represents the credit risk characteristics of the investments held for securities lending as of June 30, 2008 (expressed in thousands):

Investment Type	AAA	AA	A	A-1
Corporate obligations				
Bank note	$ -	$ 9,992	$ 4,997	$ 19,037
Corporate floating rate	4,965	22,822	4,832	9,937
Asset-backed securities	25,652	-	-	-
Money market	3,751	-	-	-
Certificate of deposit - floaters	-	5,005	-	4,994
Total	**$ 34,368**	**$ 37,819**	**$ 9,829**	**$ 33,968**

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

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

a. Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments;

b. Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style;

c. Monitor the performance of all investment managers using specific benchmarks;

d. Control exposure in illiquid asset classes;

e. Review, re-examine, and reconfirm the operation of results of the investment process regularly;

f. Identify new long-term opportunities for risk reduction and improved investment returns; and

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

For the fiscal year ended June 30, 2008, management of the System has operated in accordance with these policies, in all material respects.

Securities Lending

The System entered into a contract with its custodian during fiscal year 2007 to participate in its securities lending program. The objective of securities lending is to earn income through a conservatively operated and well-controlled program. Income expected is commensurate with the market demand for the stocks, bonds, and other securities made available by the System and the return earned on the investment of cash collateral. In December 2007, the Investment Committee and Board voted to withdraw from the securities lending program, primarily because of concern for current market conditions and counterparty risk. As of June 30, 2008, all loaned securities were returned to the custodied accounts, and no program

collateral was held. The System intends to return to the program at some time in the future when market conditions are deemed to be more favorable.

Cash collateral received was invested in a high-quality investment program provided by the custodian that emphasized the return of principal, maintained required daily liquidity, and ensured diversification across approved investment types. The Investment Committee regularly reviewed the status of the program, including the approved list of borrowers.

The program allowed the System securities to be loaned for cash, US government securities, and irrevocable letters of credit. Domestic securities were loaned for collateral valued at 102% of the market value of the securities plus any accrued interest. Non-US securities were loaned for collateral valued at 105% of the market value of the securities plus any accrued interest. For the first half of fiscal year 2008, the System earned $1.6 million from the securities lending program.

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2008. It is the System's policy to classify corporate convertible bonds as equity securities on the Statement of Net Assets because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $732.3 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

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

Investment Type/Sector	Fair Value	Less than 1	1 - 6	6 - 10	10 +	Not Determined
Asset backed securities	$ 28,146	$ -	$ 6,609	$ 3,039	$ 18,498	$ -
Cash equivalents	293,974	293,974	-	-	-	-
Commercial mortgage-backed	45,820	-	597	-	45,223	-
Corporate bonds	364,094	11,289	81,499	90,640	180,666	-
Corporate convertible bonds	732,254	31,045	445,467	45,700	210,042	-
Government agencies	51,602	8,848	22,249	18,388	2,117	-
Government bonds	82,506	-	37,434	17,340	27,732	-
Government mortgage backed securities	142,424	-	106	2,007	113,056	27,255
Government issued commercial mortgage-backed	497	-	-	-	497	-
Municipal/provincial bonds	30,487	4,722	18,473	1,799	5,493	-
Non-government backed C.M.O.s	34,384	-	515	1,486	32,383	-
Pooled investments	830,859	-	254,764	312,491	178	263,426
Total	$ 2,637,047	$ 349,878	$ 867,713	$ 492,890	$ 635,885	$ 290,681

Interest Rate Risk

The State has delegated an investment policy for the System to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates. Interest rate

risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which are published on the System's website.

Credit Risk

The System's general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2008, the System's fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	18.1%	$ 1,284,354
BBB to B	6.3%	445,186
CCC to C	0.7%	47,494
Less than C	0.0%	1,244
U.S. Government Guaranteed	2.0%	144,622
Not Rated	10.1%	714,147
Total:	37.2%	$ 2,637,047

Custodial Credit Risk

Of the System's $382.2 million bank balance, there are two accounts which are uninsured and uncollateralized. Pooled deposits of $671,000 are held by the State Treasurer's Office. The balance of $381.5 million represents deposits in short-term investments held by The Northern Trust Co., the custodial bank as of June 30, 2008.

Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

As of June 30, 2008, the System held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets. The System did hold in excess of 5% of its fair value in the Mellon Capital Global Tactical Asset Allocation Fund, $1,137.8 million, and the Mellon Capital Tactical Asset Allocation Fund, $378.2 million.

Management Fees

The System paid $20.1 million in management fees to the venture capital limited partnerships and transition managers for the fiscal year ended June 30, 2008. These fees are netted against investment income.

Investment Commitments

The System has commitments to invest up to an additional $754.0 million in venture capital limited partnerships in varying amounts as of June 30, 2008, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

In addition, at the close of fiscal year 2008, the System established the First State Independence Fund I, LLC, a hedge fund-of-funds of which the System currently is the only member. On June 30, 2008, the System transferred $123.5 million of cash to the fund managers for investment in fiscal year 2009.

Foreign Investments

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the System's foreign assets as of June 30, 2008. The listing includes $23.8 million of domestic issuers which have been classified as domestic on the statement of plan net assets, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Equities	Fixed Income	Cash and Equivalents
Australian Dollar	$ 27,663	$ 16,983	$ 10,625	$ 55
Brazilian Real	8,764	-	8,764	-
British Pound Sterling	86,963	84,074	1,568	1,321
Canadian Dollar	52,867	20,812	31,813	242
Danish Krone	12,387	12,387	-	-
Euro	346,661	328,606	14,966	3,089
Hong Kong Dollar	23,450	23,450	-	-
Iceland Krona	5,124	-	5,124	-
Indonesian Rupiah	3,747	-	3,747	-
Japanese Yen	122,452	122,335	-	117
Mexian Peso	9,976	-	9,546	430
New Zealand Dollar	13,360	-	13,360	-
Norwegian Krone	36,072	36,058	-	14
Singapore Dollar	24,117	11,442	12,674	1
South Korean Won	9,645	9,645	-	-
Swedish Krona	26,679	26,628	-	51
Swiss Franc	62,403	62,331	-	72
Thai Baht	6,146	-	6,146	-
United Arab Emirates Dirham	1,080	1,080	-	-
Total foreign currencies	$ 879,556	$ 755,831	$ 118,333	$ 5,392
Foreign issued investments Denominated in US dollars	496,818	463,861	32,957	-
Pooled international investments Denominated in US dollars	865,369	641,228	224,141	-
Total	$ 2,241,743	$ 1,860,920	$ 375,431	$ 5,392

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are

not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

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

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

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

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the System's derivative holdings on a regular basis to ensure that the derivatives used by managers of the System will not have a material adverse impact on its financial condition.

Risk and Uncertainty

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk inherent in investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the Statement of Plan Net Assets.

The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the covered participants, it is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2008, the carrying value and the bank balances of the DSPC's deposits were $18.8 million and $19.0 million, respectively. Of the bank balances, $100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and $18.9 million is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the State's collateralization requirements and does not require collateralization.

Riverfront Development Corporation (RDC)

At June 30, 2008, the carrying value and bank balances of the RDC's deposits were $11.2 million and $11.6 million, respectively and of which $1.5 million were held in the State Investment Pool. Deposits include $383,737 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $407,600 is insured by the FDIC and $10.8 million is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State University (DSU)

At June 30, 2008, the carrying value and bank balance of DSU's deposits were $27.2 million and $21.5 million, respectively. Of the bank balances, $374,890 is insured by the FDIC and $21.1 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional $3.4 million of cash and cash equivalents related to unexpended State appropriations are held at the State Treasurer's office. The credit risk for these deposits depends on the investment decisions made by the State Treasurer's office.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2007, the DTCC Foundation's carrying value and bank balance was $130,997 and $109,210 respectively. Of the bank balance, $9,210 was uninsured and uncollateralized. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to $100,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware Charter Schools

At June 30, 2008, the Delaware Charter Schools deposits carrying value was $23.8 million. Deposits include $21.6 million held in the State Investment Pool. Carrying value of the remainder of deposits was $2.2 million. Bank balances totaled $2.1 million, consisting of $689,298 insured by FDIC and $1.4 million uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State Housing Authority (DSHA)

Investment Policies

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

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

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.

b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.

c. Obligations of depositories and other financial institutions.

d. Bankers' acceptances

e. Commercial paper

f. Money market mutual funds

g. Corporate debt obligations

h. The State of Delaware investment pool with the State Treasurer's Office.

i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of the DSHA.

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

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

Investments

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

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30	More than 30
U.S. treasury notes	$ 869	$ 191	$ 399	$ 53	$ 467	$ -	$ -
U.S. treasury bonds	2,314	1,775	500	-	19	-	-
U.S. treasury bills	1,061	1,072	-	-	-	-	-
U.S. treasury strips	1,793	503	1,332	57	-	-	-
U.S. agencies	8,127	1,735	5,905	500	-	-	-
Commercial paper	2,289	2,310	-	-	-	-	-
Corporate note	5,713	1,769	3,961	-	-	-	-
Municipal bonds	2,254	410	1,935	-	-	-	-
Investment agreements	61,765	4,486	28,729	14,085	1,509	8,492	4,464
Money market savings acct.	330	330	-	-	-	-	-
Bank money market account	3,275	3,275	-	-	-	-	-
State of Delaware investment pool	59,827	59,827	-	-	-	-	-
Total Investments:	$ 149,617	$ 77,684	$ 42,761	$ 14,695	$ 1,995	$ 8,492	$ 4,464

Interest Rate Risk

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

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

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

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

d. Other DSHA funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

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

Credit Risk

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For the DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. The DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2008, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA	AA+	AA-	A1+	A1
U.S. Agencies	$ 8,366	$ -	$ -	$ -	$ -	$ -
Corporate Notes	1,147	1,594	253	2,720	-	-
Municipal Bonds	278	-	-	1,975	-	-
Commercial Paper	-	-	-	-	1,045	1,244
Total	$ 9,792	$ 1,594	$ 253	$ 4,695	$ 1,045	$ 1,244

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the DSHA's $149.6 million investment balance, $61.8 million represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by

securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

Riverfront Development Corporation (RDC)

RDC's restricted investments totaling $10.3 million consist of $4.8 million of short-term investments (rated A1 or better) and $5.5 million of government bonds (rated AAA). These investments are investments that are uninsured, unregistered and held by the counterparty's trust department or agent in RDC's name. The following issuers have investments at fair value in excess of 5% of RDC's investment portfolio:

Investments	Fair Value	% Of Assets
General Electric Capital Corp. note	$ 600,000	5.8%
Federal Home Loan Bank bonds	4,500,840	43.5%
Federal Home Loan Mortgage Corp. note	998,825	9.7%

Delaware State University (DSU)

Investments of DSU totaled $62.2 million stated at quoted market value, which consist of pooled investments where the University does own specific securities.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled $8.5 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $56,091 is invested in life insurance, recorded at the cash surrender value.

NOTE 3 RECEIVABLES

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

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available at June 30, 2008. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are

payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

	General Funds	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 204,212	$ -	$ 22,077	$ 226,289
Interest	21	-	4	25
Accounts	868,708	109,030	506	978,244
Loans and notes	143,445	48,007	-	191,452
Intergovernmental	219	125,126	-	125,345
Total receivables	1,216,605	282,163	22,587	1,521,355
Allowance for doubtful accounts	(923,258)	(96,526)	(249)	(1,020,033)
Total receivables, net	$ 293,347	$ 185,637	$ 22,338	$ 501,322
Amounts not scheduled for collection during the subsequent year	$ 183,499	$ 44,416	$ 15,783	$ 243,698

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

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 32,715	$ -	$ -	$ 32,715
Interest	-	-	816	816
Accounts	10,984	15,665	12,996	39,645
Loans and notes	-	-	23,428	23,428
Intergovernmental	550	-	20,586	21,136
Total receivables	44,249	15,665	57,826	117,740
Allowance for doubtful accounts	(21,662)	(725)	-	(22,387)
Total receivables, net	$ 22,587	$ 14,940	$ 57,826	$ 95,353
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ 22,262	$ 22,262

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

Receivables
Component Unit Activities
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Total Receivables
Receivables:						
Interest	$ 30,492	$ -	$ -	$ 38	$ -	$ 30,530
Accounts	1,279	2,069	699	11,715	43	15,805
Loans and Notes	1,006,412	-	6,507	327	-	1,013,246
Intergovernmental	203	-	-	-	-	203
Total receivables	1,038,386	2,069	7,206	12,080	43	1,059,784
Less: Allowance for doubtful accounts	(566)	(49)	(1,768)	(3,828)	-	(6,211)
Total receivables, net	$ 1,037,820	$ 2,020	$ 5,438	$ 8,252	$ 43	$ 1,053,573
Amounts not scheduled for collection during the subsequent year	$ 993,998	$ -	$ 4,739	$ 327	$ -	$ 999,064

Deferred Revenues

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

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

Deferred Revenues
(Expressed in Thousands)

Unavailable		
Taxes receivable	$	79,366
Non-tax receivables:		
Loans and notes receivables		189,508
Accounts receivables		62,206
Subtotal unavailable		331,080
Unearned		
Advance park reservation fees		928
Federal grant advance drawdowns		2,872
Subtotal unearned		3,800
Total deferred revenue	$	334,880

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due to Other Funds

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2008, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General	Federal	$ 31,871
	Local school district	8,330
	Subtotal	40,201
General	Lottery	6,325
	Total	$ 46,526

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

negative balance in the State Investment Pool. Amounts due from local school districts represent balances due from the Christina School District which were borrowed for general operating expenses and capital projects.

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

(b) Transfers In From/Out To Other Funds

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

A schedule of transfers in and transfers out for the year ended June 30, 2008 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental funds		
General	$ 434,605	$ 27,049
Federal		25,457
Local school district	56,165	85,729
Capital projects	268	20,671
Proprietary funds		
Lottery		322,842
DelDOT	5,690	14,980
Total all funds	$ 496,728	$ 496,728

NOTE 5 GENERAL OBLIGATION BONDS

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

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation

bonds are redeemed over a period not to exceed 20 years, generally from available resources in the general fund. Accordingly, the State has generally issued 10- and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On March 1, 2008, the State issued $217.4 million in general obligation bonds. These serial bonds mature between March 1, 2009 and March 1, 2028. The Series A Bonds totaling $45.0 million were sold to retail investors and bear coupons of 3% to 5%. The Series B Bonds totaling $172.4 million were sold competitively to institutional investors and bear coupons of 4.75% to 5%. The proceeds of these bonds were used to provide financing for capital projects and to advance refund $16.4 million of general obligation bonds. Investments and fixed earnings on the investments are sufficient to fully provide for all further debt service on the refunded bonds. The refunding resulted in an economic gain of $687,193 and a debt service cash savings over the next seven years of $715,382.

Bonds issued and outstanding totaled $1,376.0 million at June 30, 2008. Of this amount, $516.2 million is supported by property taxes collected by the local school districts. During fiscal year 2008, the local school district funds transferred $52.0 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $270.4 million of general obligation bonds at June 30, 2008. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2008 (Expressed in Thousands)
202	GO 2008B	4.75% - 5.00%	2025	$ 172,375
201	GO 2008A	3.00% - 5.00%	2028	45,000
200	GO 2007A	4.00% - 5.00%	2027	178,575
199	GO 2006C	0%	2023	1,433
198	GO 2006B	4.00% - 5.50%	2027	147,015
197	GO 2006A	3.75% - 4.50%	2027	28,565
196	GO 2005D	3.50% - 5.00%	2024	114,800
195	GO Refunding 2005C	5.00%	2023	45,335
194	GO 2005B	2.625% - 5.00%	2024	72,620
193	GO 2005A	2.25% - 4.25%	2025	24,255
192	QZAB 2004B	0%	2021	224
191	GO + Refunding 2004A	3.00% - 6.00%	2024	163,890
190	QZAB 2003D	0%	2019	908
189	GO Refunding 2003C	4.00% - 6.00%	2024	76,000
188	GO Refunding 2003B	4.00% - 5.00%	2012	18,230
187	GO 2003A	2.625% - 5.00%	2022	60,800
186	QZAB 2002B	0%	2017	760
185	GO + Refunding 2002A	4.00% - 5.25%	2022	166,580
184	QZAB 2001B	0%	2012	649
183	GO + Refunding 2001A	4.00% - 4.75%	2016	30,210
182	GO 2000 A	5.00% - 5.50%	2010	15,000
181	GO 1999 A	4.00% - 4.625%	2016	11,000
170	GO 1992 B	4.70% - 6.10%	2012	1,771
			Total	$ 1,375,995

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2008.

Total General Obligation Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 142,745	$ 60,947	$ 203,692
2010	137,795	54,330	192,125
2011	130,492	48,037	178,529
2012	126,163	43,990	170,153
2013	116,663	37,922	154,585
2014-2018	414,991	114,411	529,402
2019-2023	206,721	48,010	254,731
2024-2028	100,425	10,484	110,909
Totals	$ 1,375,995	$ 418,131	$ 1,794,126

Changes in general obligation bonded debt during the year ended June 30, 2008 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2008, a total of $122.0 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

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

(a) Primary Government

DelDOT Fund

Delaware Transportation Authority

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

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

On June 11, 2008, the Trust Fund issued $84.7 million of transportation system senior revenue bonds, 2008A Series to provide $43.4 million in new proceeds for transportation projects and $41.3 million for an advance refunding of the transportation system senior revenue bonds, 1998 Series.

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $2.3 million and a reduction of $2.4 million in future debt service payments.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2008, the amount of defeased debt outstanding amounted to $195.0 million.

The Delaware Transportation Authority had a total of $65.4 million in authorized but unissued bonds at June 30, 2008. Bonds outstanding at June 30, 2008 amounted to $992.6 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2008
Transportation System Revenue Bonds - Series			
1997	5.00%	2017	$ 3,885
1998	5.50%	2016	7,450
2000	5.50%	2020	11,160
2001	4.5% - 5.0%	2021	31,580
2002	5.00%	2008	5,790
2002 B	4.0% - 5.25%	2022	105,710
2003	4.5% - 5.0%	2023	202,295
2004	3.0% - 5.0%	2024	157,070
2005	4.0% - 5.0%	2025	148,000
2006	3.5% - 5.0%	2026	124,990
2007	4.0% - 5.0%	2027	87,685
2008	4.0% - 5.0%	2028	84,720
Transportation System Revenue Bonds - Series			
2002	4.375% - 5.0%	2009	24,240
	Total, gross		994,575
	Less: deferred amount on refunding		1,939
	Total, net		992,636
	Less: current portion of debt outstanding		73,213
	Long term portion of debt outstanding		$ 919,423

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

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 73,213	$ 43,619	$ 116,832
2010	74,090	41,795	115,885
2011	65,414	38,380	103,794
2012	66,074	35,101	101,175
2013	65,506	31,809	97,315
2014-2018	301,514	113,138	414,652
2019-2023	237,720	49,198	286,918
2024-2028	105,730	8,595	114,325
2029-2033	3,375	74	3,449
Totals	$ 992,636	$ 361,709	$ 1,354,345

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information at June 30, 2008 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented on the next page.

Condensed Balance Sheets
(Expressed in Thousands)

Assets:	
Current assets	$ 198,915
Capital assets	1,063,882
Other assets	71,733
Total assets	1,334,530
Liabilities:	
Current liabilities	122,626
Noncurrent liabilities	943,457
Total liabilities	1,066,083
Net Assets:	
Invested in capital assets, Net of related debt	56,797
Unrestricted	62,344
Restricted	149,306
Total net assets	268,447
Total liabilities and net assets	$ 1,334,530

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

Operating revenues (pledged against bonds)	$ 370,814
Other operating revenues	47,563
Depreciation expense	(190)
Other operating expenses	(394,010)
Operating loss	24,177
Nonoperating revenues (expenses):	
Investment income (pledging against bonds)	10,776
Other investment income (loss)	1,322
Interest expense	(38,305)
Transfer from DelDOT	5,093
Transfer from State General Fund	5,690
Change in net assets	8,754
Beginning net assets	259,694
Ending net assets	$ 268,447

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net cash provided by (used in):	
Operating activities	$ 14,112
Noncapital financing activities	10,783
Capital and related financing activities	(116,492)
Investing activities	93,941
Net increase (decrease)	2,344
Beginning cash and cash equivalents	7,472
Ending cash and cash equivalents	$ 9,816

(b) Component Units

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

Delaware State Housing Authority (DSHA)

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

The DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for- profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.38% to 7.375% with maturities of such bonds up through July 1, 2048.

On August 29, 2007, the DSHA issued $100.0 million of Single Family Mortgage Bonds, 2007 Series C. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

On November 14, 2007, the DSHA issued $142.3 million of Single Family Mortgage Revenue Bonds, 2007 Series D. The proceeds, $124.7 million, of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers. The remaining $17.6 million was used to fully refund the Single Family Mortgage Revenue Bonds 1994 Series A and 1995 Series A. The outstanding mortgage loans in the 1994 Series A and 1995 Series A were transferred to the 2007 D issue.

Revenue bonds payable increased $6.0 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2008 amounted to $898.7 million. Future debt service requirements for the DSHA's bonds are shown on the following table.

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 14,676	$ 45,462	$ 60,138
2010	15,465	44,759	60,224
2011	18,080	43,898	61,978
2012	18,575	42,896	61,471
2013	18,705	41,896	60,601
2014-2018	96,095	194,525	290,620
2019-2023	117,916	167,579	285,495
2024-2028	143,182	135,295	278,477
2029-2033	170,476	95,763	266,239
2034-2038	217,601	42,046	259,647
2039-2043	25,135	10,461	35,596
2044-2048	32,778	3,828	36,606
2049	10,043	23	10,066
Total	$ 898,727	$ 868,431	$ 1,767,158

Riverfront Development Corporation (RDC)

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2008 was 5.125%. The bonds mature December 1, 2017. Debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 300	$ 224	$ 524
2010	320	206	526
2011	360	188	548
2012	385	167	552
2013	420	145	565
2014-2017	2,460	322	2,782
Total	$ $4,245	$ $1,252	$ $5,497

Delaware State University (DSU)

Revenue bonds payable at June 30, 2008 are as follows:

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$	56,855
Student Housing Foundation Bonds		52,440
Total	$	109,295

In May 1999, the DSU issued revenue refunding bonds of $15.9 million (par value) to advance refund the 1992 and 1996 series bonds with a total par value of $14.6 million. These bonds are due on October 1, 2017. The Bond Trust Indenture requires the DSU to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund, replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. The bond ratings were not changed as a result of this substitution. In addition, the DSU has pledged for payment of debt all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 4.00% to 5.25% on the outstanding revenue refunding bonds. Debt service requirements for the DSU Bonds are shown in the following schedule:

Delaware State University Revenue Refunding Bonds
(Expressed In Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 745	$ 387	$ 1,132
2010	775	356	1,131
2011	805	324	1,129
2012	835	290	1,125
2013	875	254	1,129
2014-2018	4,980	601	5,581
Total	9,015	$ 2,212	$ 11,227
Less: Unamortized Bond Discount	(46)	-	(46)
	$ 8,969	$ 2,212	$ 11,181

On December 20, 2007 the DSU issued revenue bonds of $47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2040 and are secured by un-appropriated gross revenues of the University. The 2007 bonds are being issued as “Additional Bonds” under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. Pursuant to the Indenture, the Delaware EDA issued for the benefit of the DSU, its $15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting room, and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will service student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs.

Delaware Economic Development Authority Revenue Bonds

(Expressed In Thousands)

Year Ending June 30	Interest Rate	Principal Amount	Interest Amount	Total
2009	4.00	$ -	$ 2,208	$ 2,208
2010	4.00	-	2,208	2,208
2011	4.00	-	2,208	2,208
2012	4.00	-	2,208	2,208
2013	4.00	-	2,208	2,208
2014 - 2018	4.00	-	11,039	11,039
2019 - 2023	4.00 - 5.00	6,960	10,335	17,295
2024 - 2028	4.00 - 5.00	8,765	8,533	17,298
2029 - 2033	4.00 - 5.00	11,290	6,095	17,385
2034 - 2038	4.00 - 5.00	13,915	3,142	17,057
2039 - 2040	4.00 - 5.00	6,650	302	6,952
		$ 47,580	$ 50,486	$ 98,066
Plus unamortized bond premium		306		
Total bonds payable at June 30, 2008		47,886		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of May 31, 2008. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation obtained a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund, and to pay a portion of the costs of issuance of the Series 2004A Bonds.

The Foundation financed Phase III of the project with a loan payable in an aggregate amount of $35.9 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their

maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. Total accrued interest on all bonds as of May 31, 2008 is $405,744.

Management determined that it wanted to hedge the variable interest rate risk on the tax-exempt Series 2004B bonds. To accomplish this, management acquired an interest rate swap agreement in the notional amount of $18.3 million (the "Swap").

The Swap matures on February 1, 2009 and provides for payments by Phase III at a fixed rate of 2.594% in exchange for receipts at a variable rate of 67% of the one-month Libor rate. The fair market value of the Swap at May 31, 2008 is a liability of $212,679.

For the fiscal year ended May 31, 2008, the net change in the fair value for the swap agreement is $(741,387) and has been included in the statement of activities. The fair market value of both swap agreements has been recorded in the statement of net assets.

Maturities of long-term debt at May 31, 2008 are presented in the following table.

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

Year Ending May 31	Tax-exempt
2009	$ 840
2010	935
2011	1040
2012	1,090
2013	1,140
2014 - 2018	6,485
2019- 2023	8,105
2024 - 2028	10,220
2029 - 2033	12,880
2034 - 2036	10,285
Subtotal	$ 53,020
Less: bond discount (net of accumulated amortization)	(580)
Total	$ 52,440

NOTE 7 LOANS AND NOTES PAYABLE

(a) Component Units

Delaware State Housing Authority (DSHA)

The State issued general obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the financing adjustment factor issues in advance. Interest rates on these notes payable range from 4.60% to 6.10% with maturities through February 1, 2015. Debt service requirements for these notes are shown in the following table.

Delaware State Housing Authority
Financing Adjustment Factor Notes
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 72	$ 14	$ 86
2010	71	10	81
2011	123	117	240
2012	69	116	185
2013	20	3	23
2014-2015	39	3	42
Total	$ 394	$ 263	$ 657

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2008 are shown below:

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

Transportation Trust Fund Loan	$ 20,887
City of Wilmington Port Debt Service Notes	12,129
Delaware River and Bay Authority	3,797
Wilmington Trust Company	364
Bank of America	305
Total	$ 37,482

Transportation Trust Fund Loan

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

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest in fiscal year 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are March 1 and May 1 each year. The loan matures May 2028.

Interest expense charged to operations in 2008 was $964,623.

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

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 657	$ 961	$ 1,618
2010	687	931	1,618
2011	719	899	1,618
2012	753	865	1,618
2013	787	831	1,618
2014-2018	4,517	3,571	8,088
2019-2023	5,664	2,424	8,088
2024-2028	7,103	985	8,088
Total	$ 20,887	$ 11,467	$ 32,354

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.0 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued $22.2 million of general obligation bonds with an average interest rate of 3.7% to advance refund $21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The DSPC related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by $281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt. The deferred loss balance as of June 30, 2008 was $24,553.

On October 5, 2004, the City issued $12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund $11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to the DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $397,862, it reduces the DSPC's debt service payments by $251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2008 was $385,567.

On June 30, 2006, the State of Delaware paid the City on behalf of the DSPC, $5.0 million in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling $5.6 million, reducing the total amount owed to the City by $5.6 million. The effect on the advance payment was a reduction of principal in the amount of $308,844, and a resulting gain of $396,233.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which the DSPC has correlating notes with the City. Overall, the DSPC will pay an additional $60,000 in principal over the next nine years; however, the DSPC will save $334,673 in interest during the same period. In summary, the Port will pay $274,673 less on the City notes due to the refunding/financing.

Total deferred loss balance as of June 30, 2008 was $410,120. The amortization of the deferred loss of $19,734 is charged to interest expense.

Principal and interest payments made on the notes during 2008 were $678,797 and $426,431, respectively. Interest expense in 2008 was $586,685.

The principal and interest payments on Port Debt Service Notes are reflected below:

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 2,116	$ 463	$ 2,579
2010	2,460	365	2,825
2011	1,401	278	1,679
2012	1,449	224	1,673
2013	579	190	769
2014-2018	2,997	577	3,574
2019-2023	1,536	162	1,698
Subtotal	12,538	2,259	14,797
Deferred Loss on Refunding	(410)	-	(410)
Total	$ 12,128	$ 2,259	$ 14,387

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, the DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4.0 million, to be paid in advance. Simultaneously, the DSPC and the DRBA entered into an operating agreement in which the DSPC agreed to make guaranteed payments to the DRBA in the amount of $21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4.0 million plus interest, which ranges from 1.5% to 5.32%.

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

Interest expense incurred on the obligation was $58,356 in 2008.

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

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 206	$ 56	$ 262
2010	209	52	261
2011	212	49	261
2012	215	46	261
2013	175	86	261
2014-2018	913	394	1,307
2019-2023	927	381	1,308
2024-2025	940	106	1,046
Total	$ 3,797	$ 1,170	$ 4,967

Wilmington Trust Company (WTC) Loan

The DSPC entered into a loan agreement with WTC on August 17, 2007 for $401,973 to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.4%.

Interest expense incurred on this obligation was $24,751 during 2008.

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

Wilmington Trust Company Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 48	$ 26	$ 74
2010	52	22	74
2011	56	18	74
2012	61	13	74
2013	65	9	74
2014-2018	82	3	85
Total	$ 364	$ 91	$ 455

Bank of America Master (BOA) Lease

On May 2, 2008, the DSPC purchased nine 6,000 lbs. forklifts for $188,881. On June 27, 2008, the DSPC purchased three 10,000 lbs. forklifts for $118,788. The DSPC utilized the

State of Delaware's Master Lease program (as administered by BOA) to purchase the twelve forklifts for $307,669. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was $903 during 2008.

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

Bank of America Master Lease
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 27	$ 9	$ 36
2010	28	8	36
2011	29	7	36
2012	29	6	35
2013	30	5	35
2014-2018	162	13	175
Total	$ 305	$ 48	$ 353

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $11.7 million at June 30, 2008. Interest rates for the mortgages vary between 5.455% and 8.0% and mature between June 2009 and July 2012. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 822	$ 874	$ 1,696
2010	6,865	575	7,440
2011	3,945	169	4,114
2012	45	5	50
2013	45	4	49
Total	$ 11,722	$ 1,627	$ 13,349

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount $500,000. When used, this line bears interest at 1.0% over prime (6.0% at June 30, 2008) and is due on demand. There was no outstanding balance on this line at June 30, 2008.

NOTE 8 LEASE COMMITMENTS

Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $197.5 million, of which $161.2 million relates to property leases and $36.3 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately $32.8 million were made by the General Assembly to meet the rental payments in fiscal year 2008, of which $23.8 million was for office space and $9.0 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $5.0 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.2 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $5.7 million for leases for Health and Social Services facilities, $3.0 million for the Department of Labor, $2.1 million for the Department of Services for Children, Youth and Their Families, and $1.9 million for office space for the Department of Correction.

Future minimum lease commitments for operating leases as of June 30, 2008 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2009	$ 31,296
2010	27,328
2011	23,424
2012	20,727
2013	17,358
2014-2018	46,020
2019-2023	19,729
2024-2028	9,592
2029-2033	2,060
Total	$ 197,534

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2008. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $146.8 million has been accrued for the Governmental Activities and $13.8 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $11.3 million in the Governmental Activities and $4.2 million in the Business-type Activities. Approximately $123.5 million (84.1%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $9.5 million (6.5%) and $13.8 million (9.4%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $40.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $8.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $4.0 million, of which $0.6 million was recorded as the current portion.

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2008:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	$ 1,307.5	$ 217.4	$ (151.7)	$ 1,373.2	$ 142.0
Bond issue premium, net of accumulated amortization	56.8	10.1	(6.3)	60.6	4.6
Notes payable	2.6	9.2	(3.2)	8.6	8.4
Physician and scholarship programs	3.5	1.1	(0.6)	4.0	0.6
Claims and judgments (notes 13 and 17)	98.2	43.2	(34.3)	107.1	29.9
Compensated absences	140.6	26.2	(20.0)	146.8	11.3
Net pension obligation (note 15)	104.8	13.1	(9.1)	108.8	-
Other postemployment benefits	-	265.6	-	265.6	-
Escheat payable	40.0	-	-	40.0	8.0
Governmental Activities long-term liabilities	$ 1,754.0	$ 585.9	$ (225.2)	$ 2,114.7	$ 204.8
Business-type Activities:					
Revenue bonds	$ 1,018.8	$ 82.8	$ (109.0)	$ 992.6	$ 73.2
Bond issue premium, net of accumulated amortization	29.4	5.1	(6.1)	28.4	6.8
Liabilities payable from restricted assets	6.2	0.6	-	6.8	1.7
General obligation bonds	3.4	-	(0.6)	2.8	0.7
Compensated absences	13.6	0.2	-	13.8	4.1
Other postemployment benefits	-	25.9	-	25.9	-
Claims and judgments (notes 13 and 17)	4.8	3.2	(3.6)	4.4	1.9
Business-type Activities long-term liabilities	$ 1,076.2	$ 117.8	$ (119.3)	$ 1,074.7	$ 88.4

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes payable	$ 4.5	$ -	$ (4.1)	$ 0.4	$ 0.1
Revenue bonds	735.0	248.3	(84.6)	898.7	14.7
Compensated absences	1.0	0.5	(0.5)	1.0	-
Escrow deposits	28.5	2.4	-	30.9	-
Other long-term obligations	0.3	0.3	-	0.6	-
Total long-term obligations	$ 769.3	$ 251.5	$ (89.2)	$ 931.6	$ 14.8
Diamond State Port Corporation					
Notes and loans payable	$ 37.7	$ 0.8	$ (1.0)	$ 37.5	$ 3.1
Total long-term obligations	$ 37.7	$ 0.8	$ (1.0)	$ 37.5	$ 3.1
Riverfront Development Corporation					
Revenue bonds	$ 4.5	$ -	$ (0.3)	$ 4.2	$ 0.3
Long-term debt	9.7	4.1	(2.1)	11.7	0.8
Total long-term obligations	$ 14.2	$ 4.1	$ (2.4)	$ 15.9	$ 1.1
Delaware State University					
Other long-term obligations	$ 1.4	$ -	$ (0.5)	$ 0.9	$ 0.6
Compensated absences	4.9	0.5	-	5.4	-
Notes payable	0.9	-	-	0.9	-
Revenue bonds	62.9	47.9	(1.5)	109.3	1.6
Total long-term obligations	$ 70.1	$ 48.4	$ (2.0)	$ 116.5	$ 2.2
Delaware Charter Schools					
Compensated absences	$ 0.9	$ 0.3	$ -	$ 1.2	$ 0.1
Long-term debt	38.5	3.7	(4.0)	38.2	5.3
Total long-term obligations	$ 39.4	$ 4.0	$ (4.0)	$ 39.4	$ 5.4

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

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities

represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2008 for these entities amounted to $1,587.8 million and $373.5 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2008 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 413,080	$ 24,999	$ (205)	$ 437,874
Easements	117,997	27,896	-	145,893
Construction-in-progress	316,789	267,389	(248,067)	336,111
Total capital assets, not being depreciated	847,866	320,284	(248,272)	919,878
Capital assets, being depreciated				
Vehicles	82,203	11,933	(9,112)	85,024
Buildings	2,453,413	258,835	(1,323)	2,710,925
Equipment	85,410	3,492	(3,211)	85,691
Land Improvements	93,969	6,314	-	100,283
Total capital assets being depreciated	2,714,995	280,574	(13,646)	2,981,923
Less accumulated depreciation for:				
Vehicles	(58,839)	(10,399)	8,090	(61,148)
Buildings	(770,975)	(61,926)	1,655	(831,246)
Equipment	(60,708)	(5,072)	2,624	(63,156)
Land Improvements	(32,939)	(5,256)	153	(38,042)
Total accumulated depreciation	(923,461)	(82,653)	12,522	(993,592)
Total capital assets, being depreciated, net	1,791,534	197,921	(1,124)	1,988,331
Governmental activities capital assets, net	$ 2,639,400	$ 518,205	$ (249,396)	$ 2,908,209

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital assets, being depreciated				
Computer equipment & software	$ 1,395	$ -	$ -	$ 1,395
Total capital assets being depreciated	1,395	-	-	1,395
Less accumulated depreciation	(1,388)	(2)	-	(1,390)
Total capital assets, being depreciated, net	$ 7	$ (2)	$ -	$ 5

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital assets, not being depreciated				
Land	$ 206,411	$ 16,575	$ -	$ 222,986
Infrastructure	3,283,783	61,616	-	3,345,399
Construction-in-progress	21,240	-	(21,240)	-
Total capital assets, not being depreciated	3,511,434	78,191	(21,240)	3,568,385
Capital assets, being depreciated				
Buildings & improvements	55,051	22,502	(82)	77,471
Furniture & equipment	179,466	46,345	(7,205)	218,606
Total capital assets being depreciated	234,517	68,847	(7,287)	296,077
Less accumulated depreciation for:				
Buildings & improvements	(19,592)	(1,918)	56	(21,454)
Furniture & equipment	(95,272)	(15,144)	6,389	(104,027)
Total accumulated depreciation	(114,864)	(17,062)	6,445	(125,481)
Total capital assets, being depreciated, net	119,653	51,785	(842)	170,596
Total capital assets, being depreciated, net	$ 3,631,087	$ 129,976	$ (22,082)	$ 3,738,981
Business-type activities capital assets, net	$ 3,631,094	$ 129,974	$ (22,082)	$ 3,738,986

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

Depreciation Expense
(Expressed in Thousands)

Governmental activities:		
General government	$	16,817
Health and children's services		5,198
Judicial and public safety		11,777
Natural resources and environmental control		4,272
Labor		93
Education		44,496
Total depreciation expense - governmental activities	$	82,653
Business-type activities:		
DelDOT	$	17,062
Lottery		2
Total depreciation expense - business-type activities	$	17,064

(b) Component Units

Capital asset activities for the fiscal year ended June 30, 2008 were as follows:

Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Delaware State Housing Authority				
Capital assets, not being depreciated	$ 4,707	$ 358	$ 342	$ 4,723
Capital assets, being depreciated	39,340	369	-	39,709
Accumulated depreciation	(21,610)	(1,555)	-	(23,165)
Total capital assets, net	$ 22,437	$ (828)	$ 342	$ 21,267
Diamond State Port Corporation				
Capital assets, not being depreciated	$ 26,967	$ 7,295	$ 1,632	$ 32,630
Capital assets, being depreciated	178,080	1,632	60	179,652
Accumulated depreciation	(40,214)	(5,311)	49	(45,476)
Total capital assets, net	$ 164,833	$ 3,616	$ 1,741	$ 166,806
Riverfront Development Corporation				
Capital assets, not being depreciated	$ 79,158	$ 45,964	$ 24,383	$ 100,739
Capital assets, being depreciated	43,470	338	-	43,808
Accumulated depreciation	(21,115)	(3,961)	-	(25,076)
Total capital assets, net	$ 101,513	$ 42,341	$ 24,383	$ 119,471
Delaware State University				
Capital assets, not being depreciated	$ 21,905	$ 7,461	$ -	$ 29,366
Capital assets, being depreciated	227,066	3,199	1,888	228,377
Accumulated depreciation	(74,634)	(7,668)	1,046	(81,256)
Total capital assets, net	$ 174,337	$ 2,992	$ 2,934	$ 176,487
Delaware Charter Schools				
Capital assets, not being depreciated	$ 338	$ 4,528	$ -	$ 4,866
Capital assets, being depreciated	52,407	458	-	52,865
Accumulated depreciation	(6,722)	(2,450)	-	(9,172)
Total capital assets, net	$ 46,023	$ 2,536	$ -	$ 48,559

NOTE 13 RISK MANAGEMENT

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

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

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2008, for workers' compensation, automobile accident and health-care claim liabilities is $139.5 million. The claim liabilities relating to health-care totaling $33.6 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $105.9 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $29.9 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2008 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2008 and 2007 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2007	$ 132,851	$ 469,857	$ (467,227)	$ 135,481
2008	135,481	482,689	(478,657)	139,513

DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $4.4 million of claim liabilities as claims and judgments. Of this amount, $1.9 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

Membership of the plan consisted of the following at June 30, 2008:

Retirees and beneficiaries receiving benefits	16,644
Terminated plan members entitled to but not yet receiving the benefits	1,131
Active eligible plan members	35,019
Total	52,794

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

Eligibility:

State Employees:

Early Retirement

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

Normal Retirement:

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

Benefits:

During the fiscal year ended June 30, 2008, the State provided health insurance options though several providers.

Spouse and Survivor Coverage:

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

Employee Contributions:

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

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

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

Funding Policy

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

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. The State department and agencies were required to contribute .54% of the annual covered salary of $2,574.3 million in fiscal year 2008. For fiscal year 2008, the State contribution in relation to the annual required contribution (ARC) totaled $183.2 million, which included an ad hoc payment of $30.5 million from health care program savings.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled $3.5 million. Additionally, during the fiscal year, the net amount of $34.2 million was transferred to the OPEB Trust from the former State Employees' Health Insurance Premium Fund.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding

that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB cost for the year, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2007	$ -	$ -	$ -
Annual required contribution	475.4	439.2	36.2
Adjustment to annual required contribution	-	-	-
Annual OPEB Cost	475.4	439.2	36.2
Employer contributions	(183.9)	(173.6)	(10.3)
Net OPEB obligation at June 30, 2008	$ 291.5	$ 265.6	$ 25.9

* This column includes DTC's OPEB activity found on pages 104-106.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2008 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 464.6	38%	$ 281.4

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 1.4% funded. The actuarial accrued liability for benefits was $5,489.0 million, and the actuarial value of assets was $79.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,410.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,770.0 million, and the ratio of the UAAL to the covered payroll was 306%.

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

progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

Actuarial Methods and Assumptions

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

In the June 30, 2008 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9.0 percent with an ultimate rate of 5.0 percent. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75 percent rate of salary increase.

Delaware Transit Corporation (DTC)

In adopting the requirement of GASB Statement No. 45 during the year ended June 30, 2008, DTC recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on DTC's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description

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

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. Each participant must contribute $0.43 per month per $1,000 of coverage to receive the benefit.

The number of participants are 718 active employees and 105 retirees as of May 1, 2008, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC currently pays for post-employment health care benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were $723,447 and $612,415 for the fiscal years ended June 30, 2008 and 2007 respectively.

Annual OPEB Cost and Net Obligation

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

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

Annual required contribution	$	10,767
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		10,767
Contributions made		(724)
Increase in net OPEB obligation		10,043
Net OPEB obligation - beginning of year		-
Net OPEB obligation - end of year	$	10,043

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

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 10,767	6.7%	$ 10,043

Funded Status and Funding Progress

As of June 30, 2008, the plan was zero percent funded. The actuarial accrued liability was $76.1 million which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was $29.5 million and the ratio of the UAAL to the covered payroll was 258%.

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

Actuarial Methods and Assumptions

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

In the May 1, 2008 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 9% initially, reduced be decrements to 7.1% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

NOTE 15 PENSIONS

(a) Primary Government

Pension Plans

The State Board of Pension Trustees (Board) administers the defined benefit plans (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below.

- State Employees' Pension Plan;

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

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

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

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

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

The DELRIP is presented separately as Investment Trust Funds in the Fiduciary Funds Statement of Net Assets and Statement of Changes in Net Assets. The remaining non-DPERS funds are included in the Pension Trust Fund.

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

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

Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with 18 Del. C. §708(c), when a participating employer grants a post-retirement increase for a plan outside of the State's County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2008, $47.4 million was transferred to the appropriate plans in DPERS.

No post-retirement increase was granted by the General Assembly in fiscal year 2007 or 2008. As of June 30, 2008, previously granted post-retirement increases have outstanding liabilities totaling $79.6 million, which will be funded by the State and transferred to the appropriate plans over the next three fiscal years as follows:

Fiscal Year	(Expressed in Thousands)
2009	$ 39,334
2010	26,457
2011	13,825
Total	$ 79,616

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2008 was 2.52% of covered payroll. Funding for fiscal year 2009 will be 2.20%.

Local Government Retirement Investment Pool

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were four participating entities in DELRIP as of June 30, 2008, which comprise the pool in its entirety.

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

State Employees' Post-Retirement Health Insurance Premium Fund

On July 1, 2007, a separate trust fund for OPEB, the Delaware OPEB Fund Trust, was created by the State to accumulate and invest assets to pay the State share of future retiree health insurance premiums. The assets of the State Employees' Post-Retirement Health Insurance Premium Fund (aggregating $34.2 million) were transferred out of the System and into the Delaware OPEB Fund Trust during fiscal year 2008. Fiscal year 2008 funding was 0.54% of covered payroll. Funding for fiscal year 2009 will range between 0.54% and 0.81% of covered payroll. These funding rates are not actuarially determined, but determined in the budget process.

Plan Membership, Benefit and Contribution Provisions

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

State Employees' Pension Plan

Plan Description and Eligibility:

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

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: 5 years of credited service.

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

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

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

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

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

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

Service Benefits: Defined by special legislation

Vesting: Defined by special legislation

Retirement: Defined by special legislation

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

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

Burial Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service at age 62.

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

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

Non-Duty – same as Service Benefits

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

Contributions:

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

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

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

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

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

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

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

Vesting: 12 years of credited service.

Retirement:

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

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

Disability Benefits: Same as Service Benefits

Survivor Benefits:

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

Revised - If employee is receiving a pension, then eligible survivor receives 50% of pension (75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

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

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

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

Burial Benefit: Not applicable.

County & Municipal Police and Firefighters' Plans (FICA & Non-FICA)

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service.

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

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents;

Partial Disability - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits

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

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

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

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

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

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

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

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

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

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

Service Benefits: 50% of monthly salary.

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

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

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

Contributions:

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

Burial Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

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

(b) Net Pension Obligation (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2008, 2007, and 2006 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Annual Required Contribution	$ 26,017	$ 25,479	$ 24,623
Interest on Net Pension Obligation	8,380	7,921	7,641
Adjustment to Annual Required Contribution	(9,060)	(8,487)	(8,122)
Annual Pension Cost	25,337	24,912	24,142
Less Contributions Made	(21,269)	(19,159)	(20,655)
Increase in Net Pension Obligation	4,068	5,753	3,487
Net Pension Obligation, Beginning of Year	104,755	99,002	95,515
Net Pension Obligation, End of Year	$ 108,823	$ 104,755	$ 99,002

Three-Year Trend Information
(Expressed in Thousands)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
State Employees	6/30/2008	$ 101,660	$ 101,660	100.00%	$ -
	6/30/2007	97,000	97,000	100.00%	-
	6/30/2006	91,013	91,013	100.00%	-
County & Municpal Police & Firefighters	6/30/2008	$ 6,246	$ 6,246	100.00%	$ -
	6/30/2007	5,780	5,780	100.00%	-
	6/30/2006	5,488	5,488	100.00%	-
County & Municpal Other Employees'	6/30/2008	$ 1,492	$ 1,492	100.00%	$ -
	6/30/2007	820	820	100.00%	-
	6/30/2006	734	734	100.00%	-
Delaware Volunteer Firemen's Fund	6/30/2008	$ 1,045	$ 1,553	67.30%	$ 2,161
	6/30/2007	978	1,528	64.01%	1,682
	6/30/2006	899	1,464	61.41%	1,150
Judiciary	6/30/2008	$ 2,644	$ 2,644	100.00%	$ -
	6/30/2007	2,495	2,495	100.00%	-
	6/30/2006	2,002	2,002	100.00%	-
New State Police	6/30/2008	$ 6,643	$ 6,643	100.00%	$ -
	6/30/2007	6,334	6,334	100.00%	-
	6/30/2006	5,276	5,276	100.00%	-
Closed State Police	6/30/2008	$ 21,267	$ 25,337	83.94%	$ 108,823
	6/30/2007	19,159	24,912	76.91%	104,755
	6/30/2006	20,655	24,623	83.88%	99,002
Diamond State Port Corporation	6/30/2008	$ 715	$ 715	100.00%	$ -
	6/30/2007	626	626	100.00%	-
	6/30/2006	703	703	100.00%	-

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial

statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 124-136.

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

Three-Year Trend Information
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2008	$ 800,040	$ 768,204	104.14%	$ 31,836
	6/30/2007	707,897	707,897	100.00%	-
	6/30/2006	626,894	626,894	100.00%	-
Contributory Pension	12/31/2007	$ 879,154	$ 440,338	199.65%	$ 1,415,091
	12/31/2006	835,280	547,899	152.45%	976,275
	12/31/2005	748,661	542,133	138.10%	688,884

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The Match Plan was suspended by the State Legislature for fiscal year 2009. The State contribution totaled $3.0 million to the Match Plan for the year ended June 30, 2008.

NOTE 16 AFFILIATED ORGANIZATIONS

State Lottery

Multi-State Lottery Association

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates on-line games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. Participating lotteries are required to

maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2008, was $2.1 million. This amount is reported by the Lottery as a liability on its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

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

NOTE 17 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway, capital, and lottery projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the governmental funds totaling $329.3 million are shown on the balance sheet as encumbrances. Commitments of the proprietary fund include $268.4 million for DelDOT and $180.4 million for Lottery.

Component Units

Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 20, 2008, DSPC had commitments totaling $16.2 million.

Riverfront Development Corporation (RDC)

The RDC has an outstanding letter of credit in the amount of approximately $4.26 million which expires on November 2012. RDC is required to maintain a letter of credit sufficient to redeem the aggregate outstanding principal amount of the bonds payable plus 39 days of interest. The letter of credit is secured by certain real property owned by RDC and assignment of the lease between RDC and National Railroad Passenger Corporation.

The RDC has entered into construction contracts for various projects. As of June 30, 2008, the RDC had construction commitments totaling $10.7 million.

NOTE 18 CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $13.5 million. The State recognized $1.2 million in governmental activities as claims and judgments liabilities for pending litigation

settlements estimated to be probable as of June 30, 2008. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2008 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $4.7 million at June 30, 2008) in the event that the annuity issuers default on their obligations.

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

NOTE 19 SUBSEQUENT EVENTS

(a) Primary Government

On January 28, 2009, the State issued $236.0 million of general obligation bonds maturing between January 1, 2010 and January 1, 2029. Series 2009A Bonds totaling $115.0 million were sold to retail investors and bear coupons between 3.375% and 5.0%. Series 2006B bonds totaling $121.0 were sold competitively and bear coupons between 3.0% and 5.0%. The proceeds of the bonds were used to provide funds for capital improvements to various State and local school facilities.

(b) Component Units

Delaware State Housing Authority (DSHA)

On July 1, 2008, the DSHA issued $69.4 million in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

On October 15, 2008, the DSHA issued $104.7 million in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

Riverfront Development Corporation (RDC)

On July 2008, the RDC purchased land in the amount of $2.85 million and in conjunction with this purchase issued a mortgage payable to PNC Bank in the amount of $2.85 million.

Also in July 2008, RDC sold its interest in Shipyard Dining, LLC to another member of the LLC for a price of $600,000.

NOTE 20 PRIOR PERIOD ADJUSTMENTS

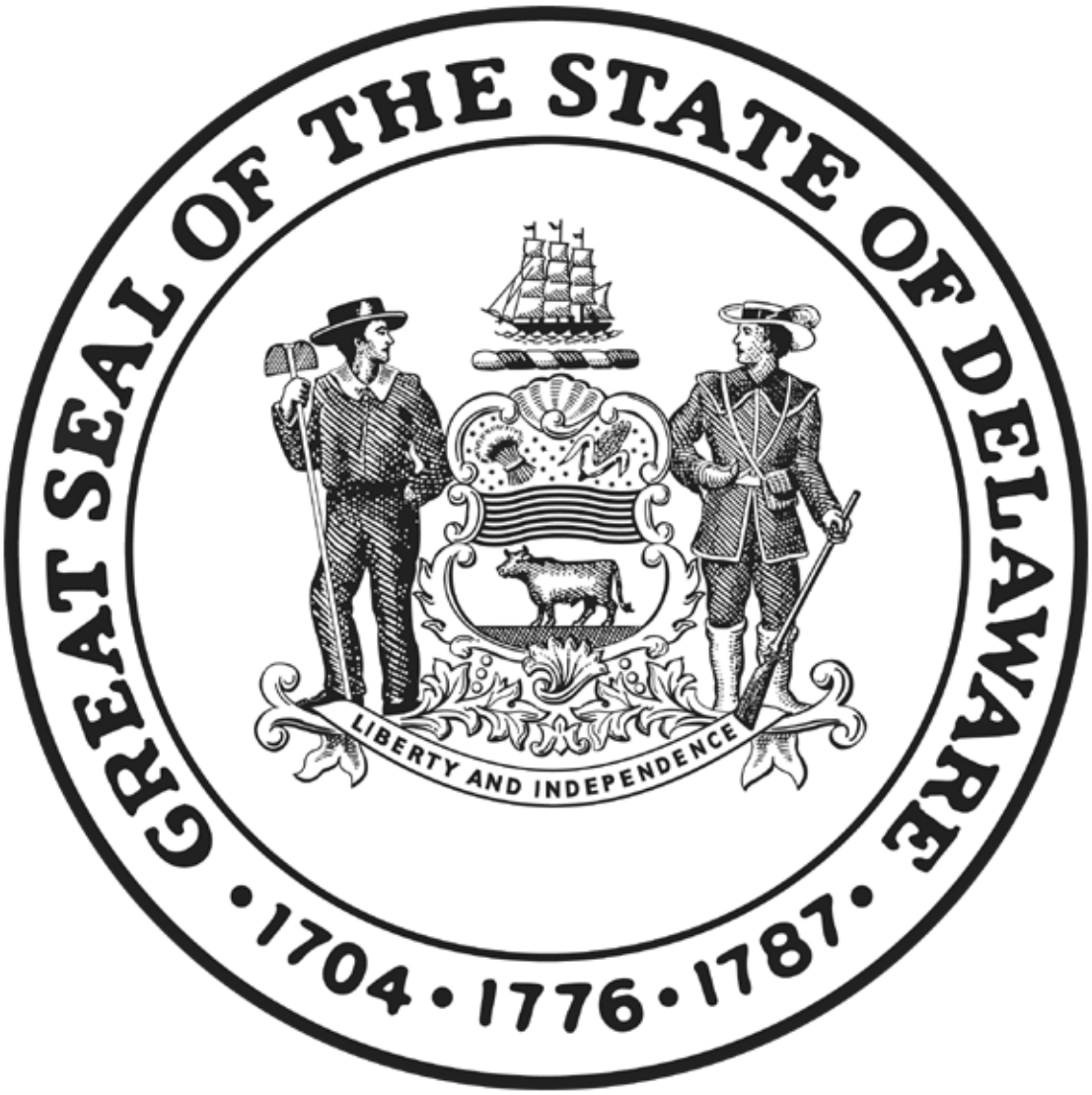
(a) Component Units

Delaware State University

The net assets of the Delaware State University Foundation, Inc. as of July 1, 2007 have been restated to correct an error in the accounting for depreciation. The effect of the restatement was to increase the change in net assets for the fiscal year ended June 30, 2007 and increase net assets as of July 1, 2007 in the amount of $52,707.

Delaware Technical and Community College Education Foundation

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation. The reclassifications did affect the previously reported results of operations.


GREAT SEAL OF THE STATE OF DELAWARE
LIBERTY AND INDEPENDENCE
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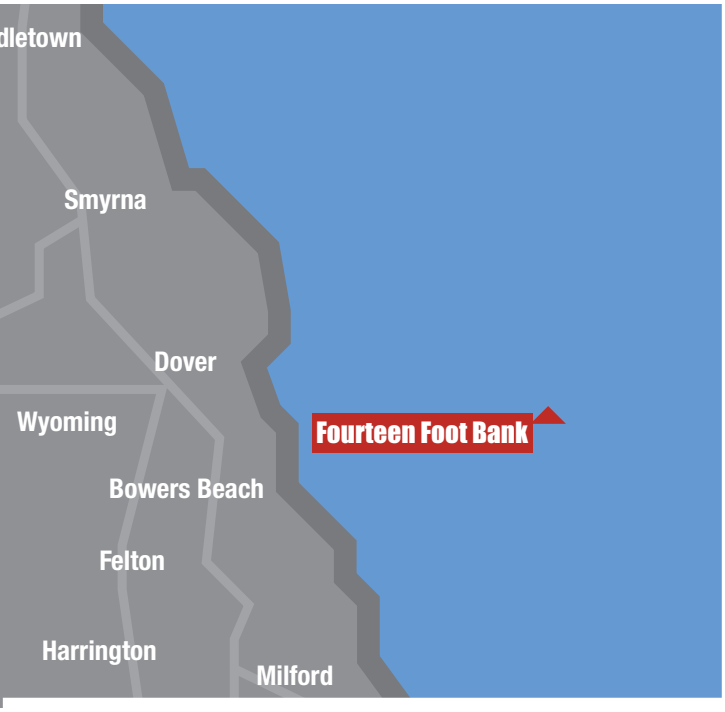

Required Supplementary Information

FOURTEEN FOOT BANK The Fourteen Foot Bank Light looks like a storybook light sitting off Bowers Beach in the Delaware Bay. The cast-iron and concrete caisson light is named for the 14-foot shoal where ships ran aground before the lighthouse and its foghorn warned them of the sudden shallow water. The classic revival tower was first lighted in 1888. The lighthouse's original Fresnel lens is on display in Lewes and the lighthouse now features a solar-powered optic.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

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

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

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

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

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Statutory/Budgetary Presentation

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

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2008, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2008, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations. Of the $526.0 million budgetary general fund balance at June 30, 2008, $186.4 million is reserved for the budgetary reserve account and $234.8 million is designated as continuing and encumbered appropriations. The $104.8 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes which are subject to review and change by the Legislature.

Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes	$ 1,055.2	$ 1,010.5	$ 1,005.3	$ (5.2)
Business taxes	1,517.1	1,534.7	1,492.7	(42.0)
Other taxes	177.9	202.3	201.3	(1.0)
License, permits, fines and fees	258.0	256.3	255.9	(0.4)
Interest earnings	26.7	32.9	32.9	-
Lottery sales	262.8	254.0	252.5	(1.5)
Other non-tax revenue	67.7	75.4	116.1	40.7
Total Revenue	3,365.4	3,366.1	3,356.7	(9.4)
Expenditures				
Legislature	15.2	18.0	14.0	4.0
Judicial	89.1	95.1	92.3	2.8
Executive	144.5	292.5	161.1	131.4
Department of Technology & Information	39.0	38.7	36.9	1.8
Other Elective Offices	57.8	81.2	79.4	1.8
Legal	43.8	45.1	44.8	0.3
Department of State	35.2	41.0	31.9	9.1
Department of Finance	20.8	35.3	33.4	1.9
Department of Health & Social Services	907.1	962.3	918.7	43.6
Department of Services for Children, Youth and Their Families	130.7	139.9	135.3	4.6
Department of Corrections	253.2	275.3	263.2	12.1
Department of Natural Resources and Environmental Control	43.2	93.4	66.7	26.7
Department of Safety & Homeland Security	121.3	129.3	126.5	2.8
Department of Transportation	-	-	-	-
Department of Labor	7.4	8.9	8.1	0.8
Department of Agriculture	8.7	9.5	8.9	0.6
Department of Elections	4.1	5.7	5.1	0.6
Fire Prevention Commission	4.8	5.4	5.3	0.1
Delaware National Guard	4.8	4.9	4.2	0.7
Advisory Council for Exceptional Citizens	0.2	0.2	0.2	-
Higher Education	241.7	257.9	253.0	4.9
Department of Education	1,113.0	1,207.4	1,132.6	74.8
Total expenditures	3,285.6	3,747.0	3,421.6	325.4
Excess (deficiency) of revenue over expenditures	79.8	(380.9)	(64.9)	316.0
Budgetary fund balance, beginning of year	590.9	590.9	590.9	-
Budgetary fund balance, end of year	$ 670.7	$ 210.0	$ 526.0	$ 316.0
Budgetary fund balance				
Designated:				
Budgetary reserve account			$ 186.4	
Continuing and encumbered appropriations			234.8	
Undesignated			104.8	
Total			$ 526.0	

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Budgetary Comparison Schedule-Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes	$ -	$ -	$ 2.1	$ 2.1
Business taxes	32.8	32.8	15.8	(17.0)
Other taxes	4.1	4.1	15.6	11.5
License, permits, fines and fees	81.1	81.1	109.6	28.5
Rentals and sales	7.3	7.3	27.2	19.9
Interest earnings	37.8	37.8	12.3	(25.5)
Grants	30.2	30.2	35.0	4.8
Other non-tax revenue	632.8	632.8	474.7	(158.1)
Total revenue	826.1	826.1	692.3	(133.8)
Expenditures				
Legislature	0.1	0.1	-	0.1
Judicial	9.6	10.6	7.7	2.9
Executive	125.6	126.0	82.9	43.1
Department of Technology & Information	28.9	37.2	25.2	12.0
Other Elective Offices	71.2	73.0	69.8	3.2
Legal	5.5	6.4	5.0	1.4
Department of State	32.2	44.1	28.0	16.1
Department of Finance	60.4	66.0	59.5	6.5
Department of Health & Social Services	87.3	102.2	69.6	32.6
Department of Services for Children, Youth and Their Families	19.6	24.2	18.6	5.6
Department of Corrections	4.1	5.6	3.4	2.2
Department of Natural Resources and Environmental Control	84.3	92.8	47.7	45.1
Department of Safety & Homeland Security	10.0	13.4	10.1	3.3
Department of Transportation	351.0	365.2	225.1	140.1
Department of Labor	17.6	19.1	16.1	3.0
Department of Agriculture	6.1	6.7	4.6	2.1
Department of Elections	-	-	-	-
Fire Prevention Commission	2.8	2.8	2.4	0.4
Delaware National Guard	0.0	0.0	0.0	0.0
Department of Education	4.3	8.1	6.1	2.0
Total expenditures	920.6	1003.5	681.8	321.7
Excess (deficiency) of revenue over expenditures	(94.5)	(177.4)	10.5	187.9
Budgetary fund balance, beginning of year	350.7	350.7	350.7	-
Budgetary fund balance, end of year	$ 256.2	$ 173.3	$ 361.2	$ 187.9

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Statutory/Budgetary Reconciliations

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

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

Budget vs. GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2008
(Expressed in Millions)

Budget basis general and special fund revenue for fiscal year 2008		$4,049.0
Non-appropriated revenue by category:		
Other revenue	163.0	
License, fees, permits, and fines	48.1	
Personal, business, and other taxes	69.1	
Federal government	13.2	
Rentals and sales	8.4	
Interest and other investment income	20.3	
Adjustments and accruals:		
DelDOT fund revenue	(245.4)	
Lottery sales	(323.1)	
Local school districts	(52.8)	
Interfund revenue	(112.2)	
Other accruals and adjustments	(123.9)	
Total general fund revenues for fiscal year 2008		$3,513.7
Federal fund revenue	1,076.3	
Local school district fund revenue	471.1	
Capital projects fund revenue	0.1	
		1,547.5
Total GAAP basis governmental funds revenue for fiscal year 2008		$5,061.2

Budget vs. GAAP Expenditures Reconciliation
For the Year Ended June 30, 2008
(Expressed in Millions)

Total budget basis general and special fund expenditures for fiscal year 2008		$4,103.4
Non-appropriated expenditures by function:		
General government	$474.4	
Health & children's services	22.7	
Judicial & public safety	13.3	
Natural resources & environmental control	44.4	
Labor	8.9	
Education	64.4	
Transportation	11.3	
Adjustments and accruals:		
Tax refunds	(291.8)	
Component units	(2.0)	
Interfund expenses	(86.3)	
Other accruals and adjustments	(327.2)	
Total general fund expenditures for fiscal year 2008		$4,035.5
Federal fund expenditures	1,004.6	
Local school district fund expenditures	380.6	
Capital projects fund expenditures	278.2	
		1,663.4
Total GAAP basis governmental funds expenditures for fiscal year 2008		$5,698.9

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,454 centerline miles and approximately 1,457 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

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

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2008 is not available. The last assessment was as of December 31, 2007. At that time, 91.3% of the roadway condition assessments were in the fair or better category. 91.3% of the bridge structures were in the good or better category, and 97.9% of the bridge deck ratings were in the good or better category.

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

Structural Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2007		2006		2005	
	BCR Condition Rating	Number	Percent	Number	Percent	Number	Percent
Good	6-9	1,131	77.6	1,112	78.5	1,048	76.3
Fair	5	261	17.9	245	17.3	243	17.7
Poor	0-4	65	4.5	60	4.2	83	6
Totals		1,457	100	1,417	100	1,374	100

Deck Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2007		2006		2005	
	OPC Condition Rating	Square Feet	Percent	Square Feet	Percent	Square Feet	Percent
Good	6-9	6,809,939	93.4	6,860,141	94.4	6,808,227	94.0
Fair	5	450,384	6.2	383,680	5.3	390,978	5.4
Poor	0-4	29,590	0.4	24,111	0.3	42,604	0.6
Totals		7,289,913	100	7,267,932	100	7,241,809	100

Center-Line Mile Numbers and Percentages for Road Pavement

		Calendar Year Ended December 31					
		2007		2006		2005	
	OPC Condition Rating	Center-Line Mile	Percent	Center-Line Mile	Percent	Center-Line Mile	Percent
Good	3.0-5.0	3,071	68.9	3,055	68.6	3,070	69.0
Fair	2.5-3.0	935	21.0	933	20.9	914	20.5
Poor	Below 2.5	448	10.1	466	10.5	469	10.5
Totals		4,454	100	4,454	100	4,453	100

Comparison of Estimated-to-Actual Maintenance/Preservation*

(Expressed In Thousands)

	Fiscal Year Ended June 30				
	2008	2007	2006	2005	2004
Estimated	$197,301	$129,138	$135,991	$138,517	$122,662
Actual	$271,333	$256,571	$211,347	$311,397	$133,765

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

Required Supplementary Information – Pension

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

Delaware Public Employees' Retirement System (DPERS)

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

Delaware Public Employees' Retirement System
Schedule of Funding Status and Progress
(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees *	6/30/08	$ 6,751,949	$ 6,549,856	$ (202,093)	103.1%	$ 1,711,473	(11.8%)
	6/30/07	6,437,916	6,208,025	(229,891)	103.7%	1,654,609	(13.9%)
	6/30/06	5,998,746	5,901,072	(97,674)	101.7%	1,589,185	(6.1%)
Special	6/30/08	$ 614	$ 492	$ (122)	124.8%	N/A	N/A
	6/30/07	673	530	(143)	127.0%	N/A	N/A
	6/30/06	758	704	(54)	107.7%	N/A	N/A
Closed State Police +	6/30/08	$ 618	$ 299,912	$ 299,294	0.2%	$ 1,152	25,980.4%
	6/30/07	514	297,183	296,669	0.2%	1,695	17,502.6%
	6/30/06	1,663	294,149	292,486	0.6%	1,912	15,297.4%
New State Police *	6/30/08	$ 216,368	$ 214,921	$ (1,447)	100.7%	$ 47,971	(3.0%)
	6/30/07	194,560	195,811	1,251	99.4%	46,924	2.7%
	6/30/06	169,824	170,877	1,053	99.4%	43,579	2.4%
Judiciary*	6/30/08	$ 47,209	$ 55,856	$ 8,647	84.5%	$ 9,689	89.2%
	6/30/07	43,050	53,686	10,636	80.2%	9,825	108.3%
	6/30/06	38,407	50,177	11,770	76.5%	9,397	125.3%
Diamond State Port Corporation	6/30/08	$ 13,391	$ 14,139	$ 748	94.7%	$ 10,270	7.3%
	6/30/07	11,911	13,604	1,693	87.6%	11,213	15.1%
	6/30/06	10,361	12,738	2,377	81.3%	11,130	21.4%
County & Municipal Police Firefighters	6/30/08	$ 102,423	$ 103,911	$ 1,488	98.6%	$ 49,328	3.0%
	6/30/07	87,395	89,022	1,627	98.2%	45,059	3.6%
	6/30/06	72,120	72,832	712	99.0%	38,342	1.9%
County and Municipal Other Employees	6/30/08	$ 12,980	$ 14,308	$ 1,328	90.7%	$ 18,632	7.1%
	6/30/07	10,405	11,578	1,173	89.9%	16,183	7.2%
	6/30/06	8,529	9,222	693	92.5%	13,027	5.3%
						Active Member ++	Cost per Active Member ++
Volunteer Firemen	6/30/08	$ 12,972	$ 25,719	$ 12,747	50.4%	5,066	2,516
	6/30/07	12,225	24,809	12,584	49.3%	5,170	2,434
	6/30/06	11,340	23,925	12,585	47.4%	5,160	2,439

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

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

++ Not expressed in thousands.

N/A – Not Applicable

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2008.

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

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 101,660	N/A	$ 25,337	$ 6,643	$ 2,644
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years	N/A	29 years	20 years	14.1 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.3% to 10.1%	N/A	4.8% to 5.3%	4.8% to 16.7%	4.3% to 13.1%
Cost-of-living adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Firefighters'	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	$ 715	$ 6,246	$ 1,492	$ 1,553
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	Entry Age Normal**	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Closed
Remaining Amortization Period	16 years	10 years	10 years	20 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.8%	4.3% to 15.7%	4.3% to 10.1%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

[1] Excludes liability and amortization payments due to cost-of living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each COLA is funded over 5 years.

N/A: Not applicable

DelDOT - Delaware Transit Corporation – Pension Data

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

Funding Status and Progress
(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2007	$ 10,533,449	$ 10,873,946	$ (340,497)	96.87%	$ 9,993,019	(3.40%)
	07/01/2006	8,709,127	9,076,068	(366,941)	95.96%	8,897,785	(4.12%)
	07/01/2005	7,539,479	7,932,143	(392,664)	95.05%	8,019,950	(4.89%)
Contributory Plan	1/1/2008	$ 26,949,255	$ 27,608,650	$ (659,395)	97.61%	$ 18,689,331	(3.53%)

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

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 768,204	$ 440,338
Contributions Made	$ 800,040	$ 879,154
Actuarial Valuation Date	7/01/07	01/01/08
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	18	15
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

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

Required Supplementary Information – OPEB Trust

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

OPEB Trust

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

OPEB Trust
Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liabilities (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2006	$ 25	$ 4,656	$ 4,631	0.5%	$ 1,644	282%
7/1/2008	79	5,489	5,410	1.4%	1,770	306%

Valuation Date	July 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Rate of Salary Increases	3.75%
Ultimate Rate of Medical inflation	5.00%
Initial Rate of Medical Inflation	9.00%

	Total	Governmental Activities	Business Type Activities
Net OPEB obligation at June 30, 2007	$ -	$ -	$ -
Annual required contribution	464.6	439.2	25.4
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	464.6	439.2	25.4
Employer contributions	(183.2)	(173.6)	(9.6)
Net OPEB obligation at June 30, 2008	$ 281.4	$ 265.6	$ 15.8

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2008 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 464.6	38%	$ 281.4

Delaware Transit Corporation – OPEB

As of June 30, 2008, Delaware Transit Corporation's OPEB plan was zero percent funded. The actuarial accrued liability was $76,135,000, which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was $29,535,214, and the ratio of the UAAL to the covered payroll was 258%.

In the May 1, 2008 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost tread rate of 9% initially, reduced by decrements to 7.10% after ten years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.