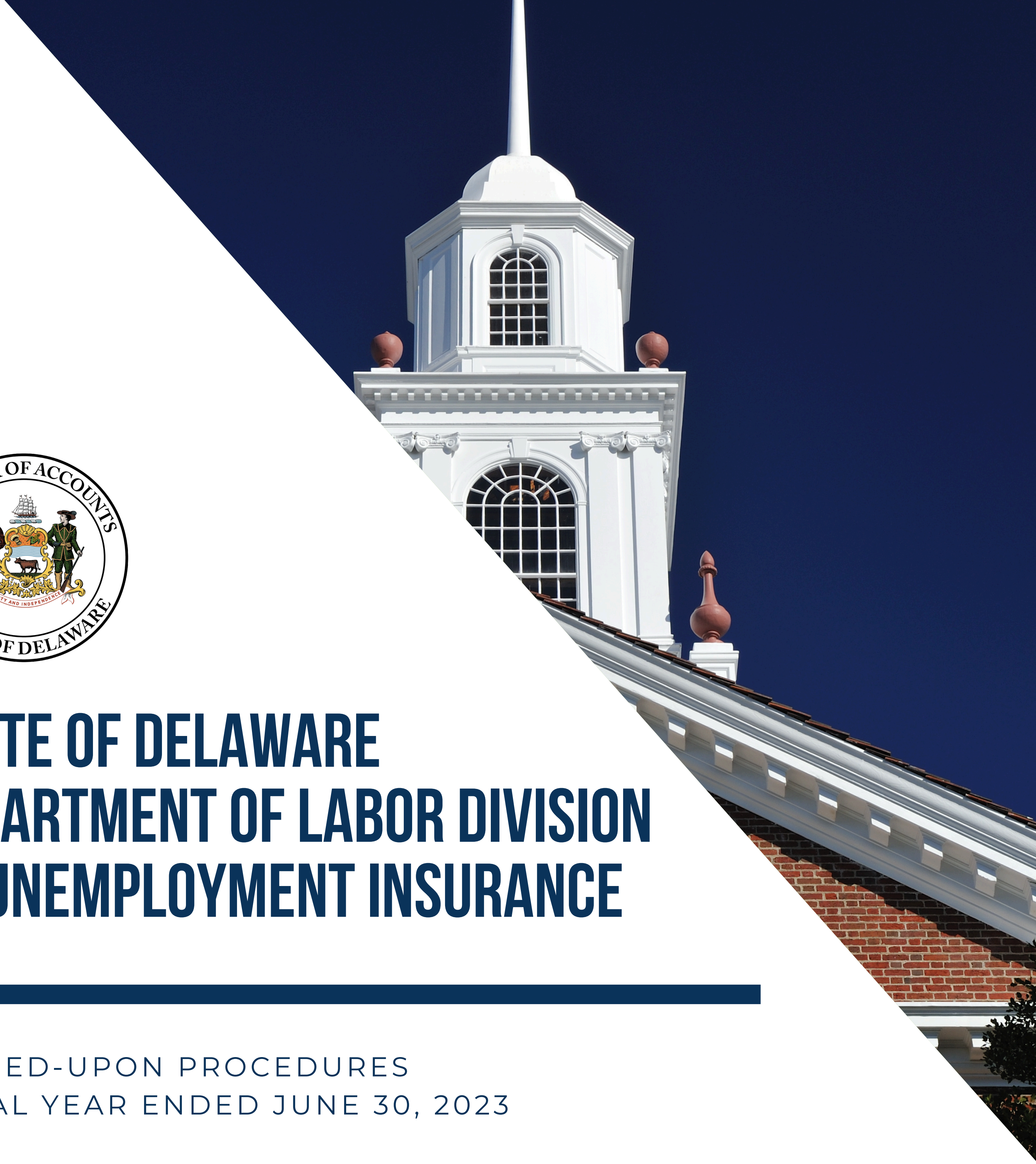

STATE OF DELAWARE DEPARTMENT OF LABOR DIVISION OF UNEMPLOYMENT INSURANCE

AGREED-UPON PROCEDURES
FISCAL YEAR ENDED JUNE 30, 2023

DOL UNEMPLOYMENT DIVISION

REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

BACKGROUND

The Delaware Office of Auditor of Accounts (AOA) presents an Agreed-Upon Procedures (AUP) report on the Delaware Department of Labor Division of Unemployment Insurance (DOLUI) for the fiscal year ended June 30, 2023.

DOLUI has received a Disclaimer of Opinion on its audited financial statements for three audit reports: the Fiscal Year 2023 and Fiscal Year 2024 Delaware Annual Comprehensive Financial Reports (ACFR), and the Fiscal Year 2024 Federal Uniform Guidance Single Audit. These disclaimers indicate an inability to audit DOLUI due to a lack of fiscal and accounting data.

AOA completed this AUP engagement as part of an ongoing process to move DOLUI towards auditability and establish a baseline of data regarding DOLUI's accounting processes, procedures, and data. This AUP tested 12 business processes within DOLUI for accuracy, reliability, and completeness of data.

This engagement was performed in accordance with **29 Del. C. § 2906.**

UNEMPLOYMENT PROCESS

The unemployment insurance system in Delaware is built on a number of business processes, many of which were tested in this AUP engagement. These processes begin with the collection of taxes paid by private businesses, grants from the federal government, and reimbursements from State agencies and nonprofit organizations. These funds are collected and held in State custody in the Delaware Unemployment Compensation Fund (DUCF), which is managed by DOLUI. Funds are then paid out from the DUCF to claimants as unemployment benefits.

Throughout these business processes, DOLUI employees and systems are meant to perform accounting tasks with supporting documentation on employers, claimants, and transactions. When performed correctly, these business processes and accounting tasks will accurately represent the fiscal activity of DOLUI.

UNEMPLOYMENT PROCESS CONT.

The business processes of unemployment, in a simplified form, are meant to operate as follows:

- A private company that employs people within the State of Delaware is required to register with DOLUI by submitting a completed UC-1 Form*.
    - DOLUI then creates a record* for the company in their Mainframe database and imports data about the company from the UC-1.
    - DOLUI uses this data to assign the company an initial Unemployment tax rate* in Mainframe.
    - Once every quarter, the company is required to submit a completed a UC-8 Form* (a quarterly unemployment insurance tax report) to DOLUI with their tax payment. This form includes information on the company's Delaware employees and their salaries.
    - The completed UC-8 form and tax payment are either mailed to a lockbox in a physical location at either JPMorgan Chase or PNC Bank, or submitted to an equivalent digital lockbox (payroll services often submit digitally).
    - The bank collects the tax payment into one of 21 bank accounts held by DOLUI (these accounts collectively make up the DUCF), and DOLUI collects the UC-8 form from the lockbox.
    - DOLUI then imports the information from the UC-8 form into Mainframe. This process includes creating records* for the company's tax payment and each of their employees.
    - After a period of time, DOLUI uses the data from collected UC-8 forms to assign the company a new Unemployment Tax rate more specific to their employee salaries and turnover, known as an experience rate*.

DOL UNEMPLOYMENT DIVISION

REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

UNEMPLOYMENT PROCESS CONT.

- Public sector employers and nonprofit organizations follow a different process. This process also begins with the employer submitting a UC-1 Form*.
    - DOLUI creates Mainframe records for public sector employers and nonprofit organizations, but these employers are not assigned an Unemployment Tax rate.
    - Once every quarter, these employers are required to submit a completed QPR1 Form* (Public Sector) or QPR2 Form* (nonprofit organizations). This form includes information on the employer's employees and their salaries.
    - The completed QPR1 and QPR2 forms are then mailed to an address associated with DOLUI or submitted to DOLUI digitally (payroll services often submit digitally).
    - DOLUI then imports information from the QPR1 and QPR2 forms into Mainframe. This process includes creating records* for all of the employees.
    - Once a month, after a former employee of a public sector employer or nonprofit organization claims Unemployment benefits, DOLUI then sends the employer a reimbursement invoice*.
    - The employer then pays that reimbursement invoice to a lockbox in a physical location at either JPMorgan Chase or PNC Bank, or to an equivalent digital lockbox (payroll services often submit digitally).
    - The bank collects the tax payment into one of 21 bank accounts held by DOLUI and DOLUI records the payment in Mainframe*.

DOL UNEMPLOYMENT DIVISION

REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

UNEMPLOYMENT PROCESS CONT.

- When a Delaware employee files an unemployment claim*, DOLUI searches for that claimant's record in Mainframe.
  - If an associated record in Mainframe can not be located, DOLUI investigates the claimant's claim by contacting their former employer, and then creates the record*.
  - Benefits are then paid weekly to that employee from the DUCF. These payments* are recorded in Mainframe.
  - The claimant is required to report on their employment and job search activity* to DOLUI weekly while they are collecting benefits.
- If an Unemployment benefit claimant has worked in multiple states including Delaware, this triggers a process known as a combined wage claim*.
  - In the combined wage claim process, each state must substantiate the unemployment claim, and states may reimburse each other for claims.
- Information on the fiscal activity within DOLUI, including tax payments in and benefits paid out, is exported from Mainframe at least once a month and recorded in journal entries*.
  - These journal entries are then reconciled with bank statements* from the 21 DUCF bank accounts.
  - The reconciliations are then recorded in a general ledger* kept in Microsoft Dynamics (an accounting software). These records are held on the cash basis.
  - To prepare DOLUI's accounting records for Delaware's ACFR, the Division of Accounting then converts the general ledger information from the cash basis to an accrual basis trial balance.

**Designates a supporting document that should be held by DOLUI to substantiate their accounting records.*

DOL UNEMPLOYMENT DIVISION

REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

KEY INFORMATION AND FINDINGS

DOLUI is experiencing several challenges that affect its operational efficiency, compliance with federal requirements, and financial reporting processes. These challenges appear to stem from:

- A lack of accessible data has created significant scope limitations, preventing thorough analysis of methodologies used to calculate amounts owed to employers. This raises concerns about compliance with federal laws such as the CARES Act and ARPA.

- Numerous inactive employer accounts continue to accrue interest, penalties, and court costs. These amounts are reserved in the allowance for doubtful accounts, as reflected in the accounting trial balance, but the ongoing accruals indicate systemic inefficiencies.

- Due to insufficient documentation, testing of certain processes, such as the reviewer/approver procedures, could not be completed. This undermines the ability to verify the accuracy and integrity of financial records.

- The inability to validate the methodology for calculating liabilities owed to employers raises doubts about the accuracy of recorded amounts in the accounting trial balance.

These concerns, in the aggregate, highlight the need for improved data management, process transparency, and compliance measures to ensure operational effectiveness and adherence to legal standards. Addressing these areas of concern will be essential to strengthening compliance, enhancing transparency, and improving overall operational effectiveness.

Table of Contents

Abbreviations:

AOA		Office of Auditor of Accounts
BAM		Delaware Budget and Accounting Manual
DOA		Division of Accounting
DOF		Department of Finance
DOLUI		Department of Labor, Division of Unemployment Insurance
DUCF		Delaware Unemployment Compensation Fund
EB		Extended Benefits
FPUC		Federal Pandemic Unemployment Compensation
FY		Fiscal Year
LWA		Lost Wages Assistance
MEUC		Mixed Earner Unemployment Compensation
PEUC		Pandemic Emergency Unemployment Compensation
PUA		Pandemic Unemployment Assistance
SEA		Self-Employment Assistance
STC		Short-Time Compensation
TRA		Trade Readjustment Allowances
UCFE		Unemployment Compensation for Federal Employees
UCX		Unemployment Compensation for Ex-Servicemembers

The mission of the Delaware Office of Auditor of Accounts
The Delaware State Auditor serves Delawareans by ensuring accountability in the use of taxpayer dollars to identify fraud, waste, and abuse through independent assessments of financial operations, performance management and statutory compliance of state government and to evaluate economy, efficiency, and effectiveness.

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Independent Auditor's Report on Applying Agreed-Upon Procedures

LaKresha Moultrie
Secretary
Delaware Department of Labor
4425 North Market Street
Wilmington, DE 19802

AOA has performed the procedures itemized below on the Delaware Unemployment Compensation Fund administered by the Department of Labor Division of Unemployment Insurance (DOLUI) for the year ended June 30, 2023 (fiscal year 2023). The Department of Labor and the Department of Finance are responsible for the preparation of the accounting trial balance of the Delaware Unemployment Compensation Fund (DUCF) during fiscal year 2023.

The Department of Labor has agreed to and acknowledged that the procedures performed are appropriate and meet the intended purpose of Title 29 of the Delaware Code, Chapter 29 Section 2906(a). This report may not be suitable for any other purposes. The procedures performed may not address all items of interest to a user of this report and may not meet the needs of all users of this report. Users are responsible for determining whether the procedures performed are appropriate for their purposes.

The business processes, procedures, and associated results are as follows:

Business Process 1:

There are two independent recordkeeping systems DOLUI maintains for its revenue recognition process: Mainframe and bank accounts. DOLUI compares the report queries from Mainframe to the bank statements for each lockbox account to verify completeness of data.

Procedure 1:

Select 5 business days for each month from July 2022 through June 2023, randomly, and compare receipts of tax forms submitted by employers via the PNC/JPMC lockboxes, as entered into Mainframe, to the daily cash receipts recorded by the corresponding bank statements from PNC/JPMC.

Result:

AOA determined that 73% of the selected sample accurately matched between the lockbox and the Mainframe comma-separated value (.csv) file. Additionally, 72% of deposit amounts matched between the lockbox and Line 10 of the UC-8 Form. However, AOA was unable to test 27% of the sampled deposit transactions due to insufficient supporting documentation.

See Appendix for detail on this procedure

Business Process 2:

Employer Contributions – Experience Rate Taxpayers – Private employers considered for-profit entities (Contributory Employers) are required to pay a percentage of net taxable wages (gross wages less amounts over thresholds) as a tax to DUCF. DOLUI collects forms from employers, either by paper or electronic format, as support for amounts deposited into bank accounts and data entered in Mainframe.

Procedure 2:

Determine if DOLUI kept the UC-8 Lockbox submission files as a back-up before data is entered into Mainframe for the period July 1, 2022 – June 30, 2023. If so, select a sample of employer contributions accompanying UC-8 forms submitted to the PNC/JPMC lockboxes and determine if the following attributes were recorded in Mainframe correctly:

- Quarter for form (ex. 24-2)
- Gross Wages (agrees to page 2 of form)
- Excess Wages (per employee) – Thresholds: $14,500 for FY2022 and $10,500 for FY2023 (Applicable Quarters: FY22 Q3 and Q4; FY23 Q1 and Q2).
- Taxable Wages (gross wages less applicable threshold)
- Tax Due (taxable wages multiplied by experience rate, as set by DOLUI letters to employers)
- Approved Credit (Determined from information from employer and reviewed by DOLUI)
- Net Tax Due (tax due less approved credit)
- Interest
- Penalty
- Amount Due

Also, verify the deposit was sent to the corresponding bank account, the deposit was included as revenue in the accounting trial balance, and count the number of days it took for the deposit to be sent to the U.S. DOL Trust Fund.

Result:

AOA selected a total of 60 samples of employer contributions accompanying UC-8 forms submitted to the PNC/JPMC lockboxes, AOA determined:

- AOA was unable to complete the testing on the reviewer/approver process relative to the transactions due to lack of supporting documentation regarding the reviewer/approver process for all sample selections
- 56 out of 60 samples (93%) matched the approved experience rating to Mainframe system screen printout
- Verification of the tax rates in Mainframe could not be completed for any sample selections due to the absence of supporting documentation, specifically the merit rating calculations used to formulate experience ratings for each employer in the sample

- For 35 out of 60 samples (58%), the cash receipt amounts were accurately allocated to the corresponding employer accounts. However, for the remaining 25 samples (42%), the amounts were not correctly applied
- AOA was unable to verify the deposits sent to corresponding bank accounts at the transaction or batch level. The deposits were recorded as revenue in the accounting trial balance, but the number of days it took for deposits to be sent to the U.S. DOL Trust Fund could not be determined

See Appendix for detail on this procedure

Business Process 3:

Employer Contributions – Non-Experience Rate Taxpayers - Organizations not assigned as experience rate taxpayers (State of Delaware and its municipalities; nonprofit organizations) must reimburse DUCF for all benefit payments to claimants dollar for dollar. DUCF sends invoices to these organizations regularly for payment due and remits funds collected to the U.S. DOL Trust Fund via its bank accounts.

Procedure 3:

Reimbursable Organizations - Select a sample from all invoices generated from information provided in Mainframe to non-contributory employers:

- Obtain Forms Quarterly Payroll Report 1 (QPR1) for Public Employers and Municipalities & QPR2 for Other Reimbursables to validate amounts billed by DOLUI
- Search for payment made by employer through the PNC/JPMC lockboxes and/or correspondence regarding charges (plus interest/penalties/court costs where applicable)
- Determine if entries regarding invoices are recorded in accounts receivable on the trial balance and summarized as an amount owed to DOLUI (Mainframe report or Excel Workbook)
- Reperform an allowance for doubtful account calculation (reserve method for recording bad debts against accounts receivable) and compare result to methodology used by DOLUI as a valuation of likelihood of collection

Result:

AOA selected a random sample from all invoices generated using information provided in Mainframe to non-contributory employers. In a sample of sixty (60) transactions for the receivables/revenue portion:

- For all 60 transactions (100%), AOA successfully verified the amounts due from the employer. However, testing could not be completed due to insufficient documentation regarding the reviewer/approver process.
- For 35 transactions (58%), AOA verified that the cash receipt amounts were correctly applied to the corresponding employer accounts
- For the remaining 25 samples (42%), the amounts were not correctly applied
- For 56 transactions (93%), AOA was able to reperform the Allowance for Doubtful Accounts calculation utilized by DOLUI.
- The four transactions in which no data was provided represented $5,209 of the $54,692 in accounts receivable transactions sampled (9.5% of the total).

AOA selected a random sample from all invoices generated using information provided in Mainframe to non-contributory employers. In a sample of nine (9) payments for the collection portion:

- In payments testing, AOA was unable to trace the receipt to the correct employer ID number and verify that the correct amount was applied in Mainframe
- DOLUI did not provide any additional evidence regarding the posting of payments to employer accounts for this sample leading to incomplete data submitted for payments testing
- For 8 payments (89%), AOA obtained copies of the checks submitted for payment of employer reimbursements from DOLUI.
- For all provided payments, DOLUI was unable to provide additional information about receipt and processing at the lockbox level or additional documentation for payments to employer account.
- No information was provided on 1 of the 9 items selected in the sample.

See Appendix for detail on this procedure

Business Process 4:

Claimants can incur wages earned in multiple States. When multi-state working claimants file for unemployment benefits in one State, that State generates an invoice to the other State to be reimbursed, partially or in full, based on the calculations. DOLUI reviews invoices received or sent to each State to validate the claims.

Procedure 4:

Combined Wage Claims

- Select a sample from all states sending invoices to DE DOLUI for benefit payment to claimants whereas claimant worked in multiple states but made the claim in a state other than Delaware
  - Vouch the invoice to supporting documentation, including vetting by DOLUI, and trace payable to accounting trial balance
- Select a sample of invoices sent by DOLUI to other states for benefit payment to claimants whereas claimant worked in multiple states but resides in Delaware
  - Vouch the invoice to supporting documentation, including vetting by DOLUI, and trace receivable to accounting trial balance

Result:

AOA was unable to complete vouching of invoices for all areas of Combined Wage Claims (Payables, Receivables, and Adjustments) due to a lack of supporting documentation related to the flow of funds through lockbox accounts and information related to the approval/reviewal process of those transactions.

See Appendix for detail on this procedure

Business Process 5:

Contributory Employers (from Business Process 2) paid quarterly tax assessments during the pandemic period. During this time, the federal government also allocated funding to all States to assist in benefit payments to claimants. Subsequently, States must determine whether employers are eligible to be refunded for taxes paid during the pandemic period.

Procedure 5:

Reimbursable CARES Act

Analyze the methodology used by DOLUI to calculate the amounts owed to employers who made tax payments during the pandemic where the federal government paid for the benefit payments to claimants during the public health emergency for conformance to federal law (CARES Act and ARPA). Then, select a sample of employers to determine if the amounts owed by DOLUI to the employers are calculated correctly and recorded in the accounting trial balance as liabilities.

Result 5:

AOA encountered a scope limitation due to the unavailability of data, which prevented the analysis of DOLUI's methodology for calculating amounts owed to employers who made tax payments during the pandemic. This analysis was crucial to ensure compliance with federal laws, including the CARES Act and ARPA. As a result, we were unable to determine whether the amounts owed by DOLUI to employers were calculated accurately and properly recorded as liabilities in the accounting trial balance.

See Appendix for detail on this procedure

Business Process 6:

The Mainframe database calculates interest and penalties on amounts owed by employers. Invoices for these amounts are recorded in Mainframe, as well as manual entries for court costs incurred to file judgments. DOLUI reviews the calculations through queries of Mainframe and determines probability of collectability based on an aging scale.

Procedure 6:

Contributory Employers - Interest, Penalties, and Court Costs

Identify all employers that Mainframe is charging interest, penalties, and court costs for outstanding account balances owed to DOLUI. Select a sample from the population and determine if:

- The employer had a balance owed from prior quarters and if Mainframe is calculating the interest and penalty amounts correctly
- DOLUI created a manual entry in Mainframe to adjust interest, penalties, and court costs charged to the employer due to circumstances (ex. Payment forthcoming or made, incorrect balance owed to DOLUI)
- Reperform an allowance for doubtful account calculation (reserve method for recording bad debts against corresponding accounts receivable) and compare result to methodology used by DOLUI as a valuation of likelihood of collection

Result:

AOA discontinued testing in this area due to the Mainframe database revealing that numerous inactive employer accounts continue to accumulate interest, penalties, and court costs. These amounts are subsequently reserved within the allowance for doubtful accounts as reflected in the DOLUI accounting trial balance.

See Appendix for detail on this procedure

Business Process 7:

On Sundays, claimants are instructed to communicate their activities for the preceding week to qualify for continued unemployment benefits. On Mondays, DOLUI gathers information from all eligible claimants and executes payments to claimants' bank accounts.

Procedure 7:

Benefit Payments to Claimants - Individuals Employed by State of Delaware Organizations

Select a sample of total benefit payments to claimants on a weekly basis (generally Mondays, unless a holiday, then Tuesdays) and

- Verify the total amount of benefit payment to claimants gathered for the week ended the previous Saturday, per Mainframe; the total amount requested from the U.S. DOL Trust Fund sent to the UI Benefit Payment Clearing Account and subsequently to the three separate bank accounts for payments (live checks, debit cards, direct deposit) recorded as expenses in the accounting trial balance
- Determine if there were any outstanding items for the week ended, and, if so, determine if they cleared bank statements in the subsequent month and, if not, determine DOLUI actions taken to remedy

Result:

AOA selected a random sample of 13 days at the start of the calendar work week for benefit payments to claimants. Out of these, 1 day had no transactions. For the remaining 12 days, AOA tested the population of executed transactions, where DOLUI made payments to claimants.

- AOA verified the total amount of benefit payment to claimants gathered for the week ended the previous Saturday, per Mainframe
- DOLUI executed all requests for transfers from the trust fund held at U.S. DOL without exception
- DOLUI, as indicated in its transmittal sheets, authorized fund transfers to three distinct bank accounts for payments: live checks, debit cards, and direct deposits. However, all transmittal sheets differed from those recorded in the Benefit Payments to Claimants workbooks, which were documented as expenses in the accounting trial balance
- AOA was unable to identify any outstanding items - such as checks, debit card payments, or returned direct deposit authorizations - for the weeks ended, AOA noted a lack of control mechanisms to monitor outstanding payments.

See Appendix for detail on this procedure

Business Process 8:

As part of Business Process 7, employees who ended employment with the federal government file for unemployment benefits in the respective States. DOLUI identifies these claimants and enacts a reimbursement process through a federal payment system to substantiate the claim and replenish the amount paid by DUCF through the U.S. DOL Trust Fund dollar for dollar.

Procedure 8:

Benefit payments to claimants for Unemployment Compensation for Ex-Servicemembers (UCX) and Unemployment Compensation for Federal Employees (UCFE).

Select a sample of federal employees requesting benefit payments as claimants during the period July 1, 2022 – June 30, 2023 and determine if DOLUI requested reimbursement from the federal government and directed the deposit to the U.S. DOL Trust Fund and how many days it took between benefit payment to claimant and reimbursement from federal government.

Result:

AOA received check registers for 39 out of 40 sampled items, representing 97.5% of the population. For these items, AOA successfully verified a correlation between the check registers and the transaction data. Additionally, payments were traced to the monthly Benefit Payments to Claimants (BPC) workbooks, which are used to track general ledger entries. However, DOLUI was unable to provide the requested documentation for the remaining sampled item.

AOA was unable to obtain sufficient documentation to verify the actual claim vetting process, the specific withdrawal of funds from the U.S. DOL Trust, or the federal reimbursement processes. Despite requests for documentation related to these aspects, DOLUI was unable to provide the requested materials.

See Appendix for detail on this procedure

Business Process 9:

DOLUI obtains requests for benefit payments to claimants that apply to the pandemic period (from FY2020 – FY2022) in addition to the current claims through Business Processes 7 and 8. DOLUI processes the claims and requests reimbursement from the federal government.

Procedure 9:

Benefit Payments to Claimants - Pandemic Programs - Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), Federal Pandemic Unemployment Compensation (FPUC), Mixed Earner Unemployment Compensation (MEUC), Lost Wages Assistance (LWA).

DOL will provide the processes and procedures used to identify the population of benefit payments to claimants that involved pandemic funding reimbursement during the period from July 1, 2022, to June 30, 2023. DOL will also demonstrate how it will determine if the benefit payments to claimants were made during the effective period, including any extensions, as directed by the federal government.

Result:

AOA was unable to determine if the benefit payments to claimants adhered to federal guidelines during the effective period of July 1, 2022, through June 30, 2023, due to the limited information and documentation made available by DOLUI.

See Appendix for detail on this procedure

Business Process 10:

At the end of each month, DOLUI compares financial activity (deposits and disbursements) recorded in its bank accounts to independent records as produced by its units: the Employer Contributions (ECO) and Benefit Payments to Claimants (BPC). Also, the BPC unit downloads activity recorded by the U.S. DOL Trust Fund to determine the balance held.

Procedure 10:

Cash Held in Bank Accounts and U.S. DOL Trust Fund

Obtain bank reconciliations (or proofs of cash) for all cash accounts held by DOLUI from period July 1, 2022 – June 30, 2023. For each bank reconciliation:

- Select a sample of reconciling items (deposits in transit, outstanding checks/direct deposit/debit card payments) and vouch supporting documentation
- Trace June 30, 2023 ending balances to July 1, 2023 beginning balances (June and July 2023 bank statements)
- Trace reconciling items to subsequent month(s) bank statements

Result:

AOA reviewed 21 bank accounts held by DOLUI, identifying that six accounts held zero balances. For 9 out of the 15 (60%) accounts with non-zero balances, AOA verified that the ending balances on the June 30, 2023, bank statements matched the beginning balances on the July 1, 2023, bank statements. AOA requested but did not receive bank statements for the remaining 6 accounts.

Due to the lack of information provided, AOA was unable to verify the supporting documentation for the reconciling items, which prevented AOA from tracing the reconciling items to the bank statements of the subsequent month(s).

See Appendix for detail on this procedure

Business Process 11:

DOLUI compiles its financial data on the cash basis, from Mainframe, statements of bank accounts and the U.S. DOL Trust Fund, and records as tracked through Excel. Then, DOLUI enters its financial transactions either in its Microsoft Dynamics accounting software or forwards to State of Delaware Department of Finance (DOF), Division of Accounting (DOA) for entry into its DOLUI designated trial balance in Excel. Subsequently, DOA converts the accounting trial balance from cash basis to accrual basis for financial reporting in the State of Delaware Annual Comprehensive Financial Report.

Procedure 11:

Vouch journal entries proposed by State of Delaware, Department of Finance, Division of Accounting to supporting documentation (including summary and detail, per Mainframe reports) in conversion of accounting trial balance from cash basis to accrual basis in the following areas:

- Taxes Receivable (UC-8)
- Accounts Receivable (reimbursable organizations, interest and penalties)
- Intergovernmental Receivable (federal government benefit payments to claimants)
- Accounts Payable (benefit payments to claimants, overpayments from employers, combined wage claims)
- Unearned Revenue
- Net Position (prior year's account balance, as reported in ACFR)
- Unemployment Taxes – State Funded
- Unemployment Benefits – State and Federal Funded
- Federal Grant Revenue

Result:

AOA determined all three accrual basis entries made in FY2022 were reversed completely in FY2023 to restore the DOLUI accounting trial balance to cash basis. The accounts involving in the reversing entries were as follows:

Accounting Trial Balance Account	$ Amount
Accounts Receivable Adjustments	$ 5,111,675
Tax Receivable Adjustments	(24,029,009)
Due from Federal Adjustments	(7,952,813)
Accounts Payable – Claims	10,781,595
Assessments Revenue – Contributory	18,917,334
Federal Funds Revenue	7,952,813
Benefits Expense Paid with Federal Funds	(7,952,813)
Benefits Expense Paid with State Funds	(2,828,782)
	$ 0

Per the State of Delaware Annual Comprehensive Financial Report for fiscal year 2023, one prior period adjustment decreasing net position for $54,134,412,12 was recorded on the FY2023 accounting trial balance during FY2024 to increase the liability for previously understated employer overpayment accounts.

See Appendix for detail on this procedure

Business Process 12:

As part of Business Process 11, DOA obtains cash basis activity recorded by DOLUI from July 1 (first day after fiscal year ended June 30) through a date near the reporting date for inclusion in the State of Delaware Annual Comprehensive Financial Report. DOA reviews the records and determines which transactions, in cumulative, are recordable with the fiscal year cash basis activity to derive accrual basis amounts for the year ended.

Procedure 12:

Subsequent Events (Activity Post-June 30, 2023)

Perform a data analysis on tax collections received subsequent to fiscal year end June 30, 2023 and filter for DE-UC8 forms labeled 2023-2 and earlier periods.

Perform a data analysis on benefit payments to claimants issued for the week ended July 1, 2023, and earlier paid after the week beginning July 3, 2023.

Result:

The Accounts Receivable and Assessments Revenue - accrual basis entry totaling $6,844,581.58 included only receipt of Forms UC-8 for the calendar year/quarter 2023-2 after the fiscal year end date of June 30, 2023. No other forms, such as calendar year/quarter 2023-1 and earlier, or other types of revenue (reimbursable organizations, combined wage claims, interest, penalties, court costs) were considered during the data query.

The Accounts Payable ($2,852,437.00); Due from Federal Adjustments $1,290,339.00; Federal Adjustments Revenue – ($1,290,339.00); Benefits Expense Paid with Federal Funds $1,290,339,00, and Benefits Expense Paid with State Funds $1,562,098.00 accrual entries showed all payments in the database that had a claim date earlier than June 30, 2023 but paid after June 30, 2023 were included. However, a difference of $54,788 was noted as an understatement of Benefit Payments to Claimants – State and an overstatement to Benefit Payments to Claimants – Federal.

See Appendix for detail on this procedure

Concluding Remarks

AOA was engaged by the Delaware Department of Labor to perform this Agreed-Upon Procedures engagement. Our engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. AOA was not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Delaware Unemployment Compensation Fund accounting trial balance for the fiscal year ended June 30, 2023. Accordingly, AOA does not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

AOA is required to be independent of the Department of Labor and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report, as required by statute, was provided to the Office of the Governor, Department of Labor, Department of Finance, Office of the Controller General, Office of the Attorney General, Office of the State Treasurer, and Office of Management and Budget. Under 29 Del. C., §10002, this report is a matter of public record, and its distribution is not limited.

Lydia E. York

Lydia E. York
State Auditor

Dover, Delaware
April 11, 2025

Appendix A – Population Demographics and AOA Observations by Procedure

Procedure 1:

Population Demographics:

Total amount of deposits made by Contributory Employers via UC-8 Tax Forms during the period July 1, 2022 – June 30, 2023, was $81,504,798.63.

Total Amount of Deposits per Bank Statements of Lockbox Account for the 60 days selected was $7,736,547.58, or 9.49% of the total population, with the following breakdown by Customer Reference Codes:

Cust Ref	Amount	% of total population
5515	$ 5,618,014.15	6.89%
55151	$ 15,365.88	0.02%
55153	$ 1,906,337.93	2.34%
55154	$ 196,829.61	0.24%
N/A	$ 0.01	(bank error) 0.00%

AOA Observations:

Mainframe database produces a .csv file for each day that transactions processed. Mainframe database .csv file shows the deposit made to the lockbox and the numbers reported on the UC-8 Form (Line 10) should be the same amount. The deposits totaling $5,618,014.15 with a customer reference of 5515 were matched between the lockbox bank statements and the Mainframe .csv file for deposits recorded. AOA testing shows differences between the lockbox and UC-8 Form (Line 10) amounts resulting in a net decrease of $12,278.74, or 0.22% of this sampled segment.

Bank statements were not provided for two deposits made on February 16, 2023, totaling $12,968.31 ($2,073.82 for 5515, $10,894.49 for 55154) or 0.17% of the total amount sampled, that were recorded on the Mainframe .csv file.

DOLUI reported to AOA that no transactions were evident for 7 of the 60 days selected (July 30, 2022; September 8, 2022; October 13, 2022; October 31, 2022; February 24, 2023; March 29, 2023; April 8, 2023) either in Mainframe .csv file or in the bank statement for the lockbox. AOA was unable to test sample selected deposits with a customer reference of 55151, 55153, and 55154 totaling $2,118,533.43 because DOL did not provide a Mainframe .csv file detailing the UC-8 forms received.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 2:

Population Demographics:

The total system calculated assessment amount (amount charged to the DOLUI accounting trial balance as of June 30, 2023, before accruals) for 140,058 records, which is used in summary totals, is significantly less than the employer calculated amount and the remittance amount.

- System calculated assessment amount (Used in Totals): $81,504,798.63
- Employer assessment amount: $98,002,181.12
- Remittance amount: $87,597,801.00

AOA's analysis of the population revealed:

- 7,776 records, or 5.6%, have an employer account number of '00000' (these accounts total $1,102,000.55 towards the system calculated assessment total)
- 388 records, or 0.28%, have a transaction receipt date outside of FY2023 (these total $172,682.93 toward the system calculated assessment)
- One record has a transaction receipt date of 10/25/1982
- 30 of these records, or less than 0.01%, were from March and April of 2024 (these contributed $48,303.44 to the system calculated assessment)
- 31 records observed in the total population showed as having posted to the DOL Mainframe before the indicated date at of receipt
  - Thirty (30) out of 31 transactions show as having receipt dates in March and April of 2024 despite being classified as transactions within the FY23
  - Twenty (20) out of 31 transactions show as having posted a full calendar year (365 days) or more before the recorded receipt date
  - One (1) out of 31 showed as having posted eight (8) days of ahead of the receipt date
- 66,902 records, or 47.77%, have a transaction posted date greater than 5 days after the receipt date
  - 6,656 records, or 4.75%, have a transaction posted date greater than 10 days after the receipt date
  - 158 records, or 0.11%, have a transaction posted date greater than 50 days after the receipt date
- 38,265 records, or 27.3%, fall outside of FY2023 in Transaction_Report_Year_Quarter, mainly due to forms for fiscal year/quarter 2022-2 and earlier were received during FY2023
  - 10 are from after FY2023
  - 2 appear to be coding errors (421 and 333)

AOA Observations:

AOA summarized the attributes outlined in the procedure into five areas when comparing Mainframe database information to supporting documentation:

(1) Recalculate amount due from employer (reported wages x experience rating) and trace approved experience rating to system screen printout.

- AOA recalculated the amounts due from employer and traced approved experience rating to system screen printout for 56 of the 60 items
- AOA received incorrect or incomplete documentation on 4 of the 60 items
  - 1 item - AOA received incomplete Employer Training Tax information for the employer
  - 3 items - Mainframe carried a different tax rate than the form.

(2) Verify experience rate is correct per the Unemployment Insurance Employer Handbook. DOL approves experience ratings in the system on a sample basis. CPA firm CliftonLarsonAllen LLP (CLA) obtained support for DOL Tax Administrator's review and approval of a sample of FY23 Employer experience ratings.

- AOA was unable to complete testing in this area due to lack of supporting documentation from DOLUI regarding experience rating for the employers selected in the sample. AOA outlined necessary documentation to complete this attribute. DOLUI provided documentation highlighting legislative and emergency action taken during the observed period. AOA requested specification of rates assigned in Mainframe and merit calculations used during that process for each employer selected in the sample to complete attribute testing; however, DOLUI was unable to supply the merit calculation that constitute the tax rate in order to verify accuracy. AOA noted that DOLUI received findings from the Uniform Guidance audits of the Unemployment Insurance program in FY2021-2023 (2021-005; 2022-005; 2023-018) regarding the incorrect calculations of employer experience ratings.

(3) Trace payment from employer to lockbox report or online remittance – observing signature of reviewer and approver.

- AOA was unable to perform testing on all 60 selected items due to insufficient supporting documentation concerning the reviewer/approver process. The approver/reviewer chain for the cycling of UC-8 data and payments is unclear, as is whether this process is fully automated or requires DOLUI/JPMC user support to approve or move payments through different stages.

(4) Trace the receipt to the correct employer ID number and verify that the correct amount was applied.

- AOA verified the correct amount was applied on 35 of the 60 items. AOA received incorrect or incomplete documentation on 4 of the 60 items. For those items, AOA received Employer Training Tax information on the employer (1) and Mainframe carried a different tax rate than the form (3). Also, for 20 of the 60 items tested, the returns viewed from DOLUI's online filing system carried a penalty populated on Line 9 of the Quarterly Tax Report despite the receipt dates not necessitating a penalty, and no penalty being assessed when the supporting Mainframe documentation (MOBIUS reports) was observed. AOA did not receive payment documentation from the lockbox for 1 of the 60 items.

(5) Trace lockbox batch total to the JPMorganChase Transaction Detail. Agreed amount and batch number.

- AOA was unable to complete the testing on this area for all 60 items based on the supporting documentation. AOA sought to trace the batch totals of the selected sample to the bank transaction detail with this attribute. AOA was unable to show connectivity between the two figures on any of the samples selected due to the fact that the method in which deposits are recorded in both the JPM lockbox and the Citizens Bank lockbox (online & scanned in-house payments) accounts is not separated in a way that it's discernable with what the source of the deposit is. As such, it's not traceable at the individual transaction or batch level, nor is possible to tell if deposit just encompasses a single classification of revenue. Additionally, AOA found inconsistency between the remittance totals in the Mainframe data provided in the Revenue Assessment, when analyzed by batch number, and the topline total from the MOBIUS reports associated with the same batch number on 23 of the 60 samples selected. These inconsistencies include the total value of remittances, and the total number of items allocated to the batch.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 3:

Population Demographics:

Total amounts reported on DOLUI accounting trial balance as of June 30, 2023:

- Assessments Revenue - Reimbursable - $3,530,728.89 for 3,660 items
- Reimbursable Employers Receivable - $2,145,862.64
- Allowance for Doubtful Accounts - Reimbursable Employers - $(1,641,199.12)

AOA Observations:

AOA, through discussions with DOLUI, discovered the split nature of the process of initiating, recording, reconciling, and reporting of UI taxes for reimbursable employers. As such, AOA ultimately settled on the creation of two separate sample selections for testing. One set of transactions would test the receivables/revenue portion of the process (60 transactions totaling $54,691.80), and the other set of transactions would test the payments collection portion of the process (9 items totaling $109,664.92).

AOA summarized the attributes outlined in the procedure into five areas when inspecting information of supporting documentation:

(1) Verify amount due from employer (reported benefit payment to claimant on employer payroll, plus interest, penalties, and court costs, where applicable) by observing review and approval from UI Unit.

- AOA was able to verify amounts due from the employer for all 60 items selected in the sample for receivables/revenue testing. However, AOA could not complete the test due to a lack of supporting documentation regarding the reviewer/approver process. It is unclear what the approver/reviewer chain is for data entry/movement of data for the reimbursable taxation process, and further unclear if this is fully automated or involves DOLUI user support to approve changes along the steps of the process.

(2) Trace payment from employer to lockbox report or online remittance - observing signature of reviewer and approver.

- In payments testing, AOA was unable to complete the testing in this area. DOLUI only sent copies of the checks for 8 of the 9 items selected in the sample (no information was provided on 1 of the 9 items selected in the sample. These copies contained no additional information about receipt and processing at the lockbox level.

(3) Trace the receipt to the correct employer ID number and verify that the correct amount was applied in Mainframe.

- In payments testing, AOA was unable to complete the testing in this area. DOLUI did not provide any additional evidence regarding the posting of payments to employer accounts for this sample leading to incomplete data submitted for this area.

(4) Trace lockbox batch total to the JPMorganChase Transaction Detail. Agreed amount and batch number.

- In payments testing, AOA was unable to complete the testing in this area. AOA sought to trace the batch totals of the selected sample to the bank transaction detail with this attribute. AOA was unable to show connectivity between the two figures on any of the samples selected due to the fact that the method in which deposits are recorded in both the JPM lockbox and the Citizens Bank lockbox (online & scanned in-house payments) accounts is not separated in a way that it's discernable with what the source of the deposit is. As such, it's not traceable at the individual transaction or batch level, nor is possible to tell if deposit just encompasses a single classification of revenue.

(5) Reperform Allowance for Doubtful Accounts calculation and compare to UI methodology.

- AOA was able to reperform the Allowance for Doubtful Accounts calculation utilized by DOLUI for 56 of the 60 items selected in sample. DOLUI did not provide sufficient sample information on four of the 60 receivable samples. In one instance. DOLUI, did not provide any documentation. In the other three instances, documentation was insufficient to term which specific payment from the billing connected to the Mainframe AR entries.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 4:

Population Demographics:

Total amount reported on DOLUI accounting trial balance as of June 30, 2023:

- Assessments Revenue - Combined Wage Claims - $818,210.65 for 480 items
- Assessments Revenue - Combined Wage Claims Adjustments - $2,896,579.85
- CWC Employers Receivable - $5,663,444.85
- Due to Other States - $15,437,659.78

AOA Observations:

In analysis of the trial balance and supporting documentation provided by DOA and BDO related to DOLUI's accounts dealing designated for Combined Wage Claim (CWC) related business, AOA was able to determine three classifications of transactions that each merited individual sampling and testing.

- Payables - Revenue owed to other states from DOLUI related to UI claim charges
- Receivables - Revenue owed to DOLUI from other states related to UI claim charges
- Adjustments - Manual entries outside of the scope of normal business that encompasses transactions on both the receivables and payables sides

AOA created samples for all three classifications for testing.

Payables

AOA summarized the attributes outlined in the procedure into four areas when inspecting information of supporting documentation:

(1) Verify amount due from/to other State (reported benefit payment to claimant on employer payroll, plus interest, penalties, and court costs, where applicable) by observing review and approval from UI Unit.

- While AOA was able to verify the amounts due from/to other states as part of this area, AOA was ultimately unable to complete testing on the attribute due to a lack of supporting documentation regarding the reviewer/approver process. It is unclear what the approver/reviewer chain is for data entry/movement of data for the CWC taxation process, and further unclear if this is fully automated or involves DOLUI user support to approve changes along the steps of the process.

(2) Trace payment from employer to lockbox report or online remittance - observing signature of reviewer and approver.

- AOA was unable to complete testing for this area due to a lack of supporting documentation related to the flow of funds through lockbox accounts and information related to the approval/reviewal process of those transactions.

(3) Trace the receipt to the correct employer ID number and verify that the correct amount was applied in Mainframe.

- AOA was able to complete testing in this area:
  - On 10 of the 30 transactions sampled, DOLUI recorded the correct payment amount in Mainframe
  - On 9 of 30 transactions sampled were classified as 'CWC Ins' meaning there was a flow of money from other states back into the DOLUI
  - On 8 of 30 transaction sampled, DOLUI did not provide evidence of a payment recorded after a liability was incurred
  - On 3 of 30 transaction sampled, DOLUI recorded an incorrect tax liability in mainframe. (One of the three resulted in a payment of $16,104.25 to New York when the liability was only $3,219.61. Two of the transactions flagged did not include proof of payment but showed a payable amount of $2784.00 to Montana when the liability should have been $1,237.50 and a payable amount of $60,703.00 to Massachusetts when the liability should have been $15,622.55)

(4) Trace lockbox batch total to the JPMorganChase Transaction Detail. Agreed amount and batch number.

- AOA was unable to complete testing for this area due to a lack of supporting documentation related to the flow of funds through lockbox accounts and information related to the approval/reviewal process of those transactions.

Receivables

AOA summarized the attributes outlined in the procedure into five areas when inspecting information of supporting documentation:

(1) Verify amount due from/to other State (reported benefit payment to claimant on employer payroll, plus interest, penalties, and court costs, where applicable) by observing review and approval from UI Unit.

(2) Trace payment from employer to lockbox report or online remittance - observing signature of reviewer and approver.

(3) Trace the receipt to the correct employer ID number and verify that the correct amount was applied in Mainframe.

(4) Trace lockbox batch total to the JPMorganChase Transaction Detail. Agreed amount and batch number.

(5) Reperform Allowance for Doubtful Accounts calculation for Combined Wage Claim Receivable and compare to UI methodology

AOA was unable to complete testing on any of the five areas due to a lack of supporting documentation. AOA was only provided proof of entries into Mainframe for receivables as evidence for this testing.

Adjustments

AOA summarized the attributes outlined in the procedure into five areas when inspecting information of supporting documentation:

(1) Verify amount due from/to other State (reported benefit payment to claimant on employer payroll, plus interest, penalties, and court costs, where applicable) by observing review and approval from UI Unit.

(2) Trace payment from employer to lockbox report or online remittance - observing signature of reviewer and approver.

(3) Trace the receipt to the correct employer ID number and verify that the correct amount was applied in Mainframe.

(4) Trace lockbox batch total to the JPMorganChase Transaction Detail. Agreed amount and batch number.

(5) Reperform Allowance for Doubtful Accounts calculation for Combined Wage Claim Receivable and compare to UI methodology

AOA was unable to complete testing on any of the five areas due to a lack of supporting documentation. AOA was provided Mainframe screenshots showing the addition of receivables and payables to state employer accounts and Treasury Direct reports showing money being received directly into the Trust Fund for payments made by other states (Transaction Reference Code: 82). AOA noted certain information on the transactions sampled in this area:

- DOLUI did not provide any supporting documentation for 36 of 58 samples chosen
- Reference Code 49 transaction ('To Add Interest Not Posted Automatically') that was offset on the same day by a Reference Code 39 transaction ('IP - To Reduce Interest') for 6 of the 58 samples chosen (the nature of this transaction is unclear)

- Reference Code 49 transaction ('To Add Interest Not Posted Automatically') for 4 of the 58 samples chosen
- Reference Code 82 transaction ("Payment - Reimbursable and CWC Accounts" for 7 of the 58 samples chosen
- Reference Code 96 transaction ('To Add Interest Not Posted Automatically') for 3 of the 58 samples chosen
- AOA was able to verify adjustment transactions that appeared to address double payment issues related to CWC liabilities for 2 of the 58 samples chosen:
  - On 5/18/20, a liability to another state of $567,911.63 was recorded. DOLUI recorded a payment of this liability on the same date and then recorded a subsequent payment for the same amount on 6/8/20. The adjustment made to the FY23 trial balance appears to correct this, but DOLUI did not show evidence of the correction in Mainframe.
  - On 4/15/20, a liability to another state of $5,662.90 was recorded. DOLUI recorded a payment of this liability on the same date and then recorded a subsequent payment for the same amount on 5/14/20. The adjustment made to the FY23 trial balance appears to correct this, but DOLUI did not show evidence of the correction in Mainframe.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 5:

Population Demographics:

As of June 30, 2023, DOLUI, through assistance from the Department of Finance, Division of Accounting, the accounting trial balance as of June 30, 2023, showed a liability of $67,871,010.31, which is attributable to 7,584 employers overpaying their required contributions to the Delaware Unemployment Compensation Fund.

AOA noted during its AUP engagement, per results of procedure 7, that on March 13, 2023, DOLUI remitted $3,618,339.55 to an employer for a refund of overpayments.

AOA Observation:

AOA obtained a spreadsheet containing the amounts owed to each employer for overpayments as of June 30, 2023. AOA suggested DOLUI investigate all data on employers with balances over $100,000.00 and determine if balances are calculated correctly so refund checks can be sent during FY2025.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 6:

Population Demographics:

Total amount reported on DOLUI accounting trial balance as of June 30, 2023:

- Assessments Revenue - Contributory Interest, Penalties, Court Costs - $7,573,931,27 for 300,635 records
- Assessments Revenue - Reimbursable Interest, Penalties, Court Costs - $6,480.65 for 73 records
- Assessments Revenue - Combined Wage Claims Interest, Penalties, Court Costs - $221.17 for 46 records

AOA reviewed data provided by DOLUI from the Mainframe database and found the following:

- The Summary and Allowance does not appear to factor in the number of inactive accounts within this data. All items are grouped regardless of account status
- Total interest/penalties/court costs, and total assessed for the POPULATION are $82,308,979.40 and $57,724,766.50, respectively
- Details of the 32,624 items in the population revealed:
  - 17,289 (53%) items are Over 60 months
    - Of these, 10,440 (60% of over 60 months, 32% of total pop) items are from accounts marked as Inactive
      - Of these, 9,532 (29.2% of total pop) items are from accounts that have an account status change date prior to 2019
        - Interest, Penalties, and Court Costs for these items totals $62,915,978.13 (76.4% of population total). The assessment amount for these items totals $37,612,595.04 (65.2% of population total)

In summary: Accounts marked as inactive, that were marked inactive before 2019, make up 76.4% of interest, penalties and court costs. They also make up 65.2% of total assessments. The inactive/active designation does not appear to be considered in the allowance for doubtful account calculation.

- Out of the total $71,545,116.04 listed under the 'emplEndingBalance' column in the data provided by DOLUI, $32,676,411.74 comes from accounts labeled as inactive
  - $30,821,399.63 is from accounts marked as inactive prior to 2020
  - $25,986,047.96 from accounts marked as inactive prior to 2016
  - $14,142,064.76 from accounts marked as inactive prior to 2011
  - $4,567,916.30 from accounts marked as inactive prior to 2006

AOA Observations:

AOA systematically selected 14 employers that had balances for interest and penalties that existed longer than 60 months:

- All do not have an active DE business license and have $392,544.83 in interest penalties accrued in the current year
  - 3 of these accounts are marked as active in the data

    - 07208 Brandywine Country Club (operations ceased in 2015)
    - 08172 Lone Star Steakhouse & Saloon
    - 16695 BFI Waste Services LLC
- 13 of the 14 employers had judgments issued against them for remittances of balances owed to DOLUI (DOLUI maintains these accounts as active receivables, less a standard methodology application for allowance for doubtful accounts)

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 7:

Population Demographics:

AOA analyzed the data provided by DOLUI regarding benefit payments categorized by fund code. The analysis identified the total population for the entire fiscal year as 171,289 benefit payments, with an associated amount of $50,732,770.

- 210 benefit payments had a check date earlier than the claim week ending date
- 20 benefit payments had an original claim date more than a week after the claim week ending date
    - Of these, 8 benefit payments had an original claim date over 200 days after the claim week ending date
- 59,155 benefit payments were delivered more than 5 days past the claim week ending date, amounting to $16,342,405
    - Of these, 50,010 benefit payments were delivered more than 10 days late
    - Additionally, 24,119 benefit payments were delivered more than 50 days late

AOA analyzed claimants individually using unique identifiers and discovered the following:

- 80 unique IDs received checks for more than 26 claim week ending dates during FY2023
- 310 unique IDs received over $11,600 in total weekly benefit amounts during FY2023

AOA Observations:

AOA selected a random sample of 13 days in the fiscal year for testing. AOA received information from DOLUI regarding all 13 days selected. For one of the 13 days (September 19, 2022), there was no transfer from the U.S. DOLUI trust fund and no benefit payment transactions, resulting in zero activity. Consequently, AOA tested the drawdown information for the remaining 12 days.

- DOLUI executed all transfer requests from the U.S. DOL trust fund without exception
- For 7 of the 12 tested days, between November 21, 2022, and March 13, 2023, DOLUI did not provide information regarding remittances for child support or other garnishments
- On March 13, 2023, DOLUI processed Employer Refunds (Overpayments to Employers) amounting to $3,618,339.55

- For all 12 tested days, the amount required for direct deposits, as indicated in the Benefit Wage Charge and Account Reconciliation Form, exceeded the actual payments made to claimants, as reflected in the BPC Daily Activities Excel spreadsheet
- For 5 of the 12 tested days, the amounts required for personal checks also exceeded the actual payments made to claimants, based on the BPC Daily Activities Excel spreadsheet
- for 2 of the 12 tested days, the amounts required for personal checks were lower than the actual payments made to claimants per the BPC Daily Activities Excel spreadsheet
- AOA noted that 1 of the 12 days tested (December 5, 2022) had a significant difference (greater than $6,000.00) of $233,832.00 between the amount transferred from the U.S. DOL trust fund and the payments made to claimants, which included federal withholding payments to the U.S. Treasury on behalf of claimants

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 8:

Population Demographics:

AOA reviewed data provided by DOLUI and noted the following in the population:

Total Benefit Payments to Claimants Designated for UCFE and UCX federal employees (civilian and military): $444,750

AOA reviewed benefits paid by fund code data provided by DOLUI for federal recipients. The analysis covered a population of 7,104 items, totaling $2,172,001. Key observations include:

- 97 items have a check date before the claim week ending date
- 3 items have an original claim date more than a week after the claim week ending date
- 6,186 items were delivered more than 5 days beyond claim week ending date, totaling $1,872,336
  - 6,104 items were delivered more than 10 days beyond claim week ending date
  - 5,612 items were delivered more than 50 days beyond claim week ending date

AOA Observations:

AOA sought to observe and trace the process of benefit payments to claimants receiving federal funds, specifically UCFE (federal employees) and UCX (separated military personnel) recipients, in the following six areas:

(1) AOA observed Claim Questionnaires and Determination Notices for sampled benefit payments, which required review and approval by the UI Unit. These notices were evaluated by a claims deputy and electronically signed.

(2) Documentation was reviewed to confirm that recipients met the weekly eligibility requirements for current payments.

(3) Documentation of the computation of weekly benefit amounts (including offsets for current earnings and any changes during the claimant's unemployment period) was observed.

(4) Payments were traced to batch numbers as initiated, reviewed, and approved by the UI Unit.

(5) Payments were traced to the applicable bank statements (Direct Deposit, Debit Card, or Checks).

(6) The process for requesting reimbursements from the federal government and depositing these funds into the U.S. DOL Trust Fund was reviewed, from preparation to final review and approval by the UI Unit.

AOA was unable to complete testing for any of the six areas above due to insufficient documentation. Key details include:

- Check registers documenting the payment of benefits were provided for 39 out of 40 sampled submissions (AOA verified a correlation between the registers and the transaction data used in the trial balance calculation)
- Payments were successfully traced to the monthly BPC workbooks, which DOLUI uses to track GL entries
- No documentation was provided for any sample regarding the actual claim vetting process
- No documentation was received for federal reimbursements of benefits
- There was no evidence to substantiate the flow of benefit payments from the UI Trust Fund through the clearing account to the claimants

DOLUI received findings indicating significant deficiencies and material weaknesses in internal controls for the Unemployment Insurance program. These findings span fiscal years 2021 through 2023. To address these issues, DOLUI implemented corrective action plans, with four corrective actions continuing into FY2023. The findings and their corresponding areas of concern are as follows:

- 2021-004; 2023-024: Issues related to the preparation and accuracy of the Financial Status Report for federal programs UCFE and UCX
- 2021-029: Eligibility concerns for claimants under UCFE, UCX, PEUC, PUA, EB, STC, TRA, and SEA programs
- 2022-004; 2023-017: Deficiencies in the processing and management of unemployment benefit payments
- 2022-007: Time lags in reporting first benefit payments (excluding the Workshare Program Report)
- 2022-008; 2023-023: Issues with the preparation and accuracy of Financial Status Reports for general UI programs
- 2022-009; 2023-022: Eligibility-related issues

- 2023-020: Concerns related to monitoring and compliance with the defined period of performance for relevant programs

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 9:

Population Demographics:

AOA conducted a review of 44,277 PUA transactions to examine the time gap between the week the claim was filed and the issuance of the corresponding check. The findings are as follows:

- The shortest interval between the week the claim was filed, and the corresponding check date is 300 days
- 165 items had a check date more than 1,000 days after the week the claim was filed
- The average time between filing and issuance is 524 days
- The median time between filing and issuance is 492 days
- There is no single, predominant time interval between filing dates and check issuance
- The following time gaps were observed most frequently, each occurring more than 600 times:
  - 478 days
  - 485 days
  - 520 days
  - 471 days
  - 464 days
  - 499 days
  - 506 days

AOA Observations:

DOLUI continued its efforts on the pandemic funding assistance segment of its operations throughout the duration of the agreed-upon procedures engagement. The total amounts on the accounting trial balance for federal grants receivable and federal grants payable are estimates without reasonable substantiation.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 10:

Population Demographics:

DOLUI provided the bank statements for June 2023 to AOA. Upon review, AOA observed the following about the population:

The accounting trial balance of DOLUI Delaware Unemployment Compensation Fund (DUCF) as of June 30, 2023, shows cash and cash equivalents totaling $394,016,473.81 as follows:

- DOLUI Trust Fund - one account held by the United States Department of Labor totaling $385,059,977.02
- DOL bank accounts - 21 totaling $8,956,496.79

DOLUI maintained 21 cash accounts across various financial institutions as follows:

- 11 accounts were held at the primary bank utilized by the State of Delaware
- 9 accounts were held at a previously approved bank by the State of Delaware Office of State Treasurer, which are currently in the process of being transitioned to the newly approved bank
- 1 account was held at a financial institution explicitly approved for DOLUI's use by the State of Delaware Office of State Treasurer

The 15 non-zero bank accounts collectively held funds totaling $9,103,031.10, which were credited to the DUCF as of June 30, 2023, according to the bank statements:

- 1 account held funds totaling $2,388,701, which is evidently due to a Federal Emergency Management Agency (FEMA) overfunding of benefits paid during the pandemic
- 3 accounts held funds totaling $287,458.85
- 5 accounts held funds totaling $4,020,265.33. These accounts hold employer contributions to the DUCF
- 6 accounts held funds totaling $2,406,605.92. These accounts are designated for benefit payments to claimants

The difference between the balances reflected in the bank statements and those recorded in the accounting trial balance amounted to $146,534.31.

AOA Observations:

AOA inspected all 21 bank accounts and the U.S. DOL Trust fund and observed the following:

- The accounts held at the U.S. DOL and 11 of the 15 bank accounts that had balances as of June 30, 2023, produced no reconciling items

DOLUI provided lists of reconciling items for four bank accounts that showed:

- 1 had $15,978.00 of overpayments to benefit claimants, which produced an overdrawn bank balance of $48.48
- 1 had $25,262.34 of overpayments to employers refunded
- 1 had $105,294.00 of benefit payments to claimants
- 1 showed at $0.03 rounding adjustment

DOLUI, through Department of Finance (DOF)/Division of Accounting (DOA), did not provide subsequent records to test the outstanding items to subsequent month bank statements to prove existence.

AOA was able to agree the June 30, 2023, ending balances and July 1, 2023, beginning balances on bank statements for 9 of the 15 bank accounts and the Trust Fund held by U.S. DOL. DOLUI did not provide July 2023 bank statements for 6 bank accounts.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 11:

Population Demographics:

- FY2022 Accrual Entries Reversed in FY2023 (3 total)
- Assets/Revenue reduced by $26,870,147
- Liabilities/Expenses reduced by $10,781,595
- FY2023 Accrual Entries - See Procedure 12
- FY2023 Prior Period Adjustment - $54,134,412.12

AOA Observations:

Historically, DOLUI management uses the cash basis throughout the fiscal year to report its activity and needs assistance from the Department of Finance, Division of Accounting (DOF-DOA) to record journal entries to account for full accrual basis for financial reporting on the State of Delaware Annual Comprehensive Financial Report (ACFR) (i.e. the State's financial statements).

AOA noted the DOLUI DUCF accounting trial balance that DOF-DOA made a reversal for those accruals it proposed during FY2022 to place the DOLUI books in cash basis mode.

However, when DOA prepared the accounting trial balance for DOLUI DUCF as of June 30, 2023, it recorded a prior period adjustment of a $54.1 million reduction to net position. AOA read the FY2024 ACFR note disclosure to obtain the reason why the prior period adjustment occurred. The prior period adjustment in FY2023 was partially offset by a $19.9 million addition to net position in FY2024 due primarily to understated employer overpayment accounts.

Click Here to return to the corresponding section in the Independent Auditor's Report

Procedure 12:

Population Demographics:

For Accounts Receivable accrual:

- Form 23-2 amounts remitted post June 30, 2023 - $6,844,581.58
- Employer 00000 was charged 1,715 entries totaling $108,330.96
- 21,167 employers remitted Form 23-2 after the due date of July 31, 2023 totaling $4,106,857.32

For Accounts Payable accrual - Benefit Payments to Claimants incurred before June 30, 2023 but paid after June 30, 2023

- 10,491 Total Benefit Payments to Claimants totaling $2,852,437
  - 5,952 Benefit Payments to Claimants totaling $1,616,886 for State (Codes 10 and 19)
  - 765 Benefit Payments to Claimants totaling $250,021 for Federal (Codes 16, 20, 30)
  - 3,774 Benefit Payments to Claimants totaling $985,530 for Federal Pandemic - Sagitec supported

AOA Observations:

For the Accounts Receivable Accrual:

DOLUI downloaded data from Mainframe showing information received from employer contributions (UC-8 Forms only) from July 1, 2023 - July 25, 2025. DOL filtered the database showing submissions for Form 23-2 only (reporting period April 1, 2023 - June 30, 2023). Per Procedure 2, DOLUI receives forms from employers covering many quarters, for either current or delinquent filings. AOA cannot determine how many Form UC-8s covering the period 23-1 and earlier that DOLUI received during the subsequent event period based on the information provided for this procedure.

For the Accounts Payable Accrual:

DOLUI downloaded data from Mainframe showing information received on payments made by the DOLUI DUCF that were executed In-House (DOLUI staff) from July 1, 2023 - October 31, 2023 and contracted vendor (Sagitec) (July 1, 2023 - October 25, 2023). AOA noted that all payments in the database that had a claim date earlier than June 30, 2023 but paid after June 30, 2023 were included in the accounts payable accrual. However, In-House State and Federal Benefit Payments to Claimants appear to be inconsistent in classifications on the journal entry. Mainframe Codes 10 and 19 appear to be State benefits, which produced an amount of $1,616,886, but Sum Function of Pivot Table on Summary tab points to Codes 10 and 30, which produced an amount of $1,562,098, was used in the journal entry to split the benefit payments between State and Federal.

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