

**STATE OF DELAWARE 403(b) PLAN**  
**COMMUNICATION WITH THOSE CHARGED**  
**WITH GOVERNANCE AT THE**  
**CONCLUSION OF THE AUDIT**  
**SUMMARY OF FINDINGS AND**  
**RECOMMENDATIONS**  
**DECEMBER 31, 2019**

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**I. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
AT THE CONCLUSION OF THE AUDIT**

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BELFINT • LYONS • SHUMAN  
Certified Public Accountants

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August 5, 2020

To the Plans Management Board  
State of Delaware 403(b) Plan  
Delaware State Treasury  
820 Silver Lake Blvd., Suite 100  
Dover, DE 19904

We have audited the financial statements of State of Delaware 403(b) Plan (Plan) for the year ended December 31, 2019, and have issued our report thereon dated August 3, 2020. Professional standards require that we provide you with information about our responsibilities under *Generally Accepted Auditing Standards* and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 26, 2020. Professional standards also require that we communicate to you the following information related to our audit.

***Significant Audit Findings***

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year. All significant transactions have been recognized in the financial statements in the proper period.

The Plan's financial statements, notes to the financial statements, and required supplementary information (RSI) were prepared in conformity with Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*. Statement No. 25 remains applicable to pension plans that are not administered through trusts covered by the statement and to defined contribution plans that provide post-employment benefits other than pensions. Statement 67 replaces the requirements of Statement No. 25 as it relates to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The State of Delaware 403(b) Plan is administered through custodial arrangements. Both Statement No. 25 and Statement No. 67 cover defined benefit pension plans in more detail and only cover note disclosures for defined contribution plans.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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1011 Centre Road • Suite 310 | Wilmington • DE 19805 | Phone: 302.225.0600 | Fax: 302.225.0625

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***Significant Audit Findings - Continued***

*Qualitative Aspects of Accounting Practices - Continued*

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedules and appendices summarize corrected and uncorrected misstatements of the financial statements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 3, 2020.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Plans Management Board  
State of Delaware 403(b) Plan  
August 5, 2020  
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***Significant Audit Findings - Continued***

***Other Audit Findings or Issues - Continued***

During our audit, we became aware of matters that are opportunities to strengthen the system of internal control and improve operating efficiency. The attachments to this letter summarize our findings and recommendations.

***Other Matters***

We applied certain limited procedures to the Management Discussion & Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

***Restriction on Use***

This information is intended solely for the use of the Plans Management Board, plan administrator, and management of State of Delaware 403(b) Plan and is not intended to be, and should not be, used by anyone other than these specified parties. We thank the management and staff of State of Delaware 403(b) Plan for their cooperation and courtesies extended to us during the performance of our audit.

Very truly yours,

*Belfint, Lyons & Shuman, P.A.*

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## **II. SUMMARY OF FINDINGS AND RECOMMENDATIONS**

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**STATE OF DELAWARE 403(b) PLAN**  
**INFORMATIONAL FINDING NUMBER 1**  
**DECEMBER 31, 2019**

**Deemed Distributed Loans on the Plan's Financial Statements (Informational Finding)**

Background - When participants default on their plan loans, plans must treat the defaulted loan as a deemed distribution and issue a Form 1099-R to the participant. Accounting policies require that distributions be recorded when paid, which means that the Plan's distribution expense should reconcile to the gross distributions presented on the Forms 1099-R.

However, some 403(b) vendors that issue collateralized participant loans do not offset the deemed distributed loans against the relevant participant accounts until the participants take a full distribution of their remaining account balances. Hence, the defaulted loans continue to be included in the participant account balances even after the participants have received a Form 1099-R for the deemed distribution. Additionally, these vendors continue to accrue interest on the defaulted loans, which is not reportable for tax purposes. The defaulted loan balance plus interest would only be relevant for determining the availability and amount of future loans, but new loans are not permitted by the plan.

Based on the Plan's accounting policies, when the financial statements use the amounts reported by the vendors that do not offset the deemed distributions against the participant accounts, they overstate the asset balance in the amount of the defaulted loans, and in future years, overstate interest income.

Informational Finding - The following represents the total defaulted loans plus interest on the books of each vendor that does not offset the defaulted loans against the participant accounts.

<u>Vendor</u>	<u>2019 Loan Balance per Confirms</u>	<u>Active Loans</u>	<u>Defaulted Loans</u>
Horace Mann	\$ 19,731	\$ -	\$ 19,731
Voya	4,705	-	4,705
MetLife	388,071	904	387,167
New York Life	15,862	-	15,862
Security Benefit	41,193	4,600	36,593
Symetra	45,151	10,488	34,663
VALIC	95,511	-	95,511
	<u>\$ 610,224</u>	<u>15,992</u>	<u>\$ 594,232</u>
Total per Confirms			
		<u>468,452</u>	
Total per Financial Statements			
Difference - Waived Adjustment		<u>\$ (452,460)</u>	

Resolution - Since the waived adjustment amount is not material to the financial statements, and it represents a timing difference until the participants take a terminating distribution, BLS will continue the past practice of reporting the loan balance presented on the compilation, which includes some of the defaulted loan balances.

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### **III. ADJUSTING ENTRIES**

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**STATE OF DELAWARE 403(b) PLAN**  
*Schedule of Waived Journal Entry*  
*December 31, 2019*

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b><i>Waived Journal Entry #1</i></b> - To adjust note receivable from participant balance to remove defaulted loans from outstanding balance.			
5001	Net Assets	\$ 452,460	\$ -
1003	Notes Receivable from Participants	-	452,460
	<b>Total</b>	<b><u>\$ 452,460</u></b>	<b><u>\$ 452,460</u></b>
<b><i>Waived Journal Entry #2</i></b> -			
5001	Net Assets	\$ -	\$ -
1002	Variable Annuities	-	-
	<b>Total</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>