

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, 2015

STATE OF DELAWARE 403(b) PLAN
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**I. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
AT THE CONCLUSION OF THE AUDIT**

Draft (Subject to Change)



BELFINT • LYONS • SHUMAN
Certified Public Accountants

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August 9, 2018

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, 2015, and have issued our report thereon dated August 9, 2018. 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 March 16, 2017. 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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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. The material misstatements noted in the Posted Adjusting Journal Entry section detected as a result of audit procedures were corrected by management.

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 9, 2018.

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.

Significant Audit Findings - 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.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Draft (Subject to Change)

STATE OF DELAWARE 403(b) PLAN
INFORMATIONAL FINDING NUMBER 2
DECEMBER 31, 2015

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 part of the participant accounts 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 to report as plan assets the deemed distributions that have not been offset against the participant accounts, the asset balance is therefore overstated in the amount of the defaulted loans, and in future years, interest income is overstated.

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

Vendor	2015 Loan Balance per Confirms	Active Loans	Defaulted Loans
AXA	\$ 15,335	\$ 15,335	\$ -
Horace Mann	114,060	94,329 *	19,731
ING	4,705	-	4,705
Kades Margolis	11,608	11,608	-
MetLife	656,654	44,412	612,242
New York Life	28,813	28,813	-
Security Benefit	101,923	15,328	86,595
Symetra	102,548	21,751	80,797
VALIC	206,881	-	206,881
Total per Confirms	\$ 1,242,527	231,576	\$ 1,010,951
Total per Financial Statements		876,067	
Difference - Waived Adjustment		\$ (644,491)	

* Fixed account balance of \$94,329

STATE OF DELAWARE 403(b) PLAN
INFORMATIONAL FINDING NUMBER 2
DECEMBER 31, 2015

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.

Security Benefit Investment Detail Report Does not Tie to the Total of the Participant Account Balance Report

Finding - Security Benefit provided BLS with an audit package that consisted of a participant account balance report and schedule of investments for the Plan. Initially, the assets on the participant account balance report totaled \$70,084,050 and the schedule of investments totaled \$71,100,430 as of December 31, 2015, a difference exceeding one million dollars.

Resolution for 2015 - BLS used the participant account report because it included the largest total investment amount and we were able to reconcile the beginning balance to the prior year's ending balance after eliminating IRA accounts and adding missing participant statements.

Recommendation - It is imperative to be able to verify the completeness and accuracy of data, and that the total assets per the participant account balance report agree with total investment balances. BLS recommends that the State follow up with Security Benefit to establish important parameters of how all statements and reports must be complete and accurate, including all and only State of Delaware 403(b) Plan accounts, which should lead to the same total assets whether the report is produced by participant, by investment, or otherwise.

III. ADJUSTING JOURNAL ENTRIES

Draft (Subject to Change)

STATE OF DELAWARE 403(b) PLAN
Schedule of Posted Adjusting Journal Entry
December 31, 2015

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<i>Posted Adjusting Journal Entry #1</i> - To adjust compilation to audited numbers.			
1001	Fixed Annuities	\$ 2,469,298	\$ -
6001	Participant Contributions	398,272	-
6010	Net Appreciation in Fair Value of Investments	260,904	-
6012	Interest Income on Notes Receivable from Participants	41,808	-
7002	Administrative Expenses	4,652	-
8001	Transfer in (out) of Plan	12,205,974	-
1002	Variable Annuities	-	1,807,107
5001	Net Assets	-	853,858
6002	Rollover Contributions	-	323,545
6011	Interest and Dividends	-	799,541
7001	Benefits Paid to Participants	-	11,596,857
		<u>\$ 15,380,908</u>	<u>\$ 15,380,908</u>

STATE OF DELAWARE 403(b) PLAN
Schedule of Waived Journal Entries
December 31, 2015

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Waived Journal Entry # 1 - To adjust note receivable from participant balance to remove defaulted loans from outstanding balance.			
5001	Net Assets	\$ 659,819	\$ -
1003	Notes Receivable from Participants	-	659,819
	Total	\$ 659,819	\$ 659,819
Waived Journal Entry #2 - To remove IRA contracts included in the investment beginning balance.			
5001	Net Assets	\$ 203,554	\$ -
1002	Variable Annuities	-	203,554
	Total	\$ 203,554	\$ 203,554