



BELFINT • LYONS • SHUMAN
Certified Public Accountants

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August 13, 2018

To the Plans Management Board
State of Delaware Deferred Compensation Plan
Delaware State Treasury
820 Silver Lake Blvd., Suite 100
Dover, DE 19904

We have audited the financial statements of the State of Delaware Deferred Compensation Plan (Plan) for the year ended December 31, 2016, and have issued our report thereon dated August 8, 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 February 27, 2018. 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. GASB Statement No. 72, *Fair Value Measurements and Application*, which was adopted during the year ended December 31, 2016 addresses accounting and reporting issues related to fair value measurements. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The Plan adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, for the year ended December 31, 2016. This standard permits qualifying external investment pools to measure pool investments, which function similarly to private sector money market funds. The Statement also established additional disclosure requirements, which includes information about any limitations or restrictions on participant withdrawals, for both the pool and its participants. The Plan implemented accounting and reporting requirements of GASB No. 79 as of January 1, 2016. This implementation did not materially change the Plan's accounting and reporting policies. All significant transactions have been recognized in the financial statements in the proper period.

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 known misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No misstatements were noted during the audit.

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 8, 2018.

Management Consultations with Other Independent Accountants

To our knowledge, management has not consulted with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation had involved an application of an accounting principle to the Plan's financial statements or a determination of the type of auditors' opinion that may have been expressed on those statements, our professional standards would have required the consulting accountant to check with us to determine the consultant had all the relevant facts.

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.

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

This information is intended solely for the use of the Plans Management Board, plan administrator, and management of the State of Delaware Deferred Compensation 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 the State of Delaware Deferred Compensation Plan for their cooperation and courtesies extended to us during the performance of our audit.

Very truly yours,

Belfint, Lyons & Shuman, P.A.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations
December 31, 2016

Recommendation Number 1 - Special Limitation (Section 457) Catch-up Contribution

Background - Section 4.3 of the plan document allows a special limitation (Section 457) catch-up contribution for one or more of a participant's last three taxable years ending before the participant attains normal retirement age. The special limitation (Section 457) catch-up allows a participant to defer the lesser of: (a) twice the dollar amount in effect (\$18,000 for 2016) or (b) an underutilized limitation. The underutilized amount is the sum of:

1. An amount equal to (i) the Basic Limitation (\$18,000 for 2016) of the taxable year plus each calendar year beginning after December 31, 2001 during which the participant was an employee under the plan reduced by (ii) the participant's annual deferrals under the plan during such years, and
2. An amount equal to such limitation as established under Section 457(b)(2) of the Internal Revenue Code for each taxable year beginning after December 31, 1978 and before January 1, 2002 in which the participant was eligible to participate less the amount of the participant's annual deferrals to Pre-2002 Coordination Plan (as defined in Section 4.4.) for such taxable year or years (disregarding any age 50 catch up deferrals).

The underutilized limitation is a calculation which requires (1) maintenance of detailed records of participant contributions since the elections started for the participant, (2) accurate input of participant detail used to determine the maximum allowable contribution, and (3) accurate records of pre-2002 contributions to coordination plans. The maximum allowable contribution cannot be calculated if detailed records are not maintained or if incorrect data is input into the calculation.

It was also noted from Office of the State Treasurer (OST) officials that the State's Payroll Human Resources Statewide Technology (PHRST) is unable to monitor the maximum deferral limits in place for the plan year and the vendor, Voya is not monitoring if limits are exceeded.

Recommendation - BLS recommends plan management track all employees that are receiving this special limitation (Section 457) catch-up contribution and monitor each person's limits. To help with this tracking, BLS has created an Excel spreadsheet to track these employees and identify key requirements of the contribution.

The Excel spreadsheet will help identify the following:

1. Normal Retirement Age (NRA) Elected - It is important to track this age since participants may only be allowed to contribute a special limitation (Section 457) catch-up contribution election in the three years *prior* to attaining this NRA.
2. Years Contributing a Special Limitation (Section 457) catch-up contribution - Plan management should work with Voya regularly to determine who is making this election and that the special limitation election stops after three years. Corrections would be necessary for those participants contributing more than three years.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN

Findings and Recommendations

December 31, 2016

Recommendation Number 1 - Special Limitation (Section 457) Catch-up Contribution - Continued

3. Age 50 Catch-up Election - when a participant is contributing a special limitation (Section 457) catch-up contribution, the normal age 50 catch-up election is not allowed. Plan officials should ask plan counsel whether reclassification of the source codes is necessary when contributions are made to both catch-up accounts, even if they don't exceed the limits in total.

Finding Number 1 - Special Limitation (Section 457) Catch-up Contribution - Contribution in Inappropriate Years Based on Certified NRA

Background - As noted in the *Background* section of *Recommendation Number 1*, the Plan provides that the special limitation (Section 457) catch-up contribution may be contributed during one or more of the participant's last three taxable years ending before the participant reaches NRA.

NRA, as defined by the Plan, is defined as the age designated by the participant that falls within the range of ages beginning at the earlier of age 65 or the age at which the participant has the right to retire and receive, under the State pension plan applicable to the participant, immediate retirement benefits without actuarial or similar reduction because of retirement before some later specified age, and ending at age 70 ½.

Finding - BL&S noted four participants that were contributing outside of the three years before the participant's elected NRA.

<u>Participant</u>	<u>Year Self-Certified NRA Attained</u>	<u>Three Years before Attaining NRA *</u>	<u>Years Special Limitation (Section 457) Catch-up Contributed</u>	<u>Recalculated NRA Year **</u>
1	2016	2013 2014 2015	2016	2019
2	2016	2013 2014 2015	2016	2019
3	2019	2016 2017 2018	2014 2015 2016	2017
4	2019	2016 2017 2018	2015 2016	2018

* Years the participant was allowed to make special limitation (Section 457) catch-up contribution based on NRA that was self-certified.

** The NRA the participant would have had to self-certify to contribute the special limitation (Section 457) catch-up contribution based on the years that the special limitation (Section 457) catch-up was actually contributed.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations - Continued
December 31, 2016

Finding Number 1 - Finding Number 1 - Special Limitation (Section 457) Catch-up Contribution - Contribution in Inappropriate Years Based on Certified NRA - Continued

In addition, there were six participants for whom documentation of their elected NRA was not available.

Recommendation - Plan management should coach participants who want to contribute their vacation paycheck to self-certify a NRA three or four years in the future, depending on when the first special catch-up will take place.

Additionally, if appropriate, the Certification of Eligibility form could be enhanced so that participants are aware that they may only elect to have the special limitation (Section 457) catch-up contribution withheld during the three taxable years ending before the year in which the participant attains NRA, as self-certified.

Lastly, documentation should be maintained for each participant's NRA election.

State of Delaware Office of State Treasurer Response – We have created an Excel spreadsheet to track those employees using the Special Limitation (Section 457) Catch-up Contribution.

Finding Number 2 - Special Limitation (Section 457) Catch-up Contributions Exceeding Three Year Limit

Background - As noted in the *Background* section of *Recommendation Number 1*, the Plan provides that the special limitation (Section 457) catch-up contribution be contributed during one or more of the participant's last three taxable years ending before the participant reaches NRA.

Finding - BL&S noted two participants that were contributing for more than three years before the participant's elected NRA:

Participant	Years Special Limitation (Section 457) Catch-Up Contributed	Special Limitation (Section 457) Catch-Up Contributed	Excess Distributions in Current Year	Net Special Catch-Up Contributions	Pre-Tax Deferrals in Year Four	Regular Catch-Up in Year Four
1	2013	\$ 10,837				
	2014	16,827				
	2015	17,500				
	2016	15,481	\$ (8,582)	\$ 6,899	\$ 17,077	\$ -
<i>Recommended Reclassification</i>				(6,899)	923	5,976
<i>Balance after Reclassification</i>				\$ -	\$ 18,000	\$ 5,976

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations - Continued
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Finding Number 2 - Special Limitation (Section 457) Catch-up Contributions Exceeding Three Year Limit - Continued

Finding - Continued

Participant	Years Special Limitation (Section 457) Catch-Up Contributed	Special Limitation (Section 457) Catch-Up Contributed	Excess Distributions in Current Year	Net Special Catch-Up Contributions	Pre-Tax Deferrals in Year Four	Regular Catch-Up in Year Four
2	2013	\$ 1,662				
	2014	8,502				
	2015	8,502				
	2016	7,057	\$ -	\$ 7,057	\$ 11,943	\$ -
				(7,057)	6,057	1,000
				\$ -	\$ 18,000	\$ 1,000

Recommendation - The State should review all the inputs into the special limitation (Section 457) calculation to verify the data is accurate. If all inputs appear accurate, the source codes for the fourth year should be reclassified as either a pre-tax deferral or a regular catch-up contribution, where possible.

State of Delaware Office of State Treasurer Response - Both participants are no longer in the Plan and we will need to seek feedback from IceMiller on corrective steps. For participant 2, an excess distribution was processed on December 19, 2016 in the amount of \$8,581.58 for the Special Limitation (Section 457) Catch-up. This participant is no longer with the Plan.

Finding Number 3 - Total Deferrals Larger than the Maximum Deferral Limitation Calculated

The special limitation (Section 457) catch-up contribution may not be more than the lesser of:

- a. Twice the dollar amount in effect for the year (\$18,000 for 2016); or
- b. The underutilized limitation.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations - Continued
December 31, 2016

Finding Number 3 - Total Deferrals Larger than the Maximum Deferral Limitation Calculated - Continued

Finding - Our testing of the special limitation (Section 457) catch-up contribution for 2016 uncovered the following list of participants who contributed an amount in excess of the allowable special limitation (Section 457) catch-up:

Participant	Pre-Tax Deferrals	Regular Catch-Up (a)	Special Catch-Up	Total Actual Deferrals	Twice the Dollar Amount in Effect During Plan Year	Maximum Deferral Limitation Calculated by BLS *	Deferrals Over Limit
Participant 1	\$ 17,056	\$ -	\$ 18,000	\$ 35,056	\$ 36,000	\$ 24,000	\$ 11,056
Participant 2	18,000	-	18,000	36,000	36,000	26,554	9,446
Participant 3	17,296	2,120	16,875	36,291	36,000	36,000	291 **

* Lesser of twice the dollar amount in effect during the plan year or the underutilized limit.

(a) Since the special limitation (Section 457) catch-up is only allowed if the participant does not make a regular catch-up contribution on account of being 50 years of age or older, we treated the contributions that Fidelity designated as regular catch-up contributions as being attributable to the special catch-up contributions and included them in the calculation of the excess special limitation (Section 457) catch-up computation. In addition, the plan indicates that the type of catch-up contribution that allows the higher limit should be used for each participant.

** See Finding Number 4 for Source Code reclassification needed.

The underutilized limitation calculation is shown below:

Participant	Total Historical Plan Limits since DOH	Total Historical Actual Deferrals	PY Special Limitation (Section 457) Catch-up Contributions	Underutilized Amount	Current Year Plan Limit	Maximum Deferral Limitation Calculated by BLS
Participant 1	\$258,000	\$231,464	\$ 33,328	\$ -	\$ 24,000	\$ 24,000
Participant 2	258,000	213,946	35,500	8,554	24,000	26,554
Participant 3	258,000	86,955	-	171,045	18,000	189,045

This calculation is based on management's representation that there is no evidence of deferral contributions to Coordination Plans from these participants.

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Finding Number 3 - Total Deferrals Larger than the Maximum Deferral Limitation Calculated - Continued

Finding - Continued

For the participants who did not exceed the limitation, the computations assume that the participants did not contribute to State of Delaware Pre-2002 Coordination Plans. Additional participants may have contributed excess amounts that were not detected during our audit step.

Recommendation - The State should review all the inputs into the special limitation (Section 457) calculation to verify the data is accurate. If all inputs appear accurate, legal counsel should be contacted for advice regarding any necessary corrections for excess contributions.

State of Delaware Office of State Treasurer Response - Participant 3 is no longer in the Plan. We will need to seek feedback from IceMiller on corrective steps.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations - Continued
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Finding Number 4 - Dual Catch-up Contribution Types Used

Background - In governmental plans, the age 50 and older catch up contribution may only be used in years in which the special limitation (Section 457) catch-up contribution would result in a lower contribution limit.

Finding - Our testing of the special limitation (Section 457) catch-up uncovered participants utilizing both types of catch-up contributions in 2016:

Participant	Pre-Tax Deferrals	Regular Catch-up	Special Limitation (Section 457) Catch-up	Excess Distributions in Current Year	Net Special Catch-Up Contributions	Roth Contributions	Roth Regular Catch-up	Roth Special Limitation (Section 457) Catch-up
1	\$ 18,000	\$ 4,105	\$ 13,895	\$ (8,016)	\$ 5,879	\$ -	\$ -	\$ -
<i>Recommended Reclassification</i>		(4,105)			4,105			
<i>Balance after Reclassification</i>		\$ -			\$ 9,984			
2	\$ 18,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300	\$ 5,700
<i>Recommended Reclassification</i>						300	(300)	
<i>Balance after Reclassification</i>						\$ 300	\$ -	
3	\$ 2,530	\$ 150	\$ 180	\$ -	\$ -	\$ 360	\$ -	\$ -
<i>Recommended Reclassification</i>	150	(150)						
<i>Balance after Reclassification</i>	\$ 2,680	\$ -						
4	\$ 4,550	\$ 450	\$ 3,400	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Recommended Reclassification</i>	450	(450)						
<i>Balance after Reclassification</i>	\$ 5,000	\$ -						
5	\$ 5,850	\$ 75	\$ 175	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Recommended Reclassification</i>	75	(75)						
<i>Balance after Reclassification</i>	\$ 5,925	\$ -						
6	\$ 17,296	\$ 2,120	\$ 16,875	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Recommended Reclassification</i>	704	(1,829)	1,125					
<i>Balance after Reclassification</i>	\$ 18,000	\$ 291*	\$ 18,000					

* See Finding 3 for excess contribution calculation.

* **Recommendation** - The State should work with the new record keeper to reclassify the contributions to the correct source code if legal counsel thinks this correction is necessary.

State of Delaware Office of State Treasurer Response - Voya has received instructions to correct for the dual catch up source code issue for participants 1 through 5 and 6 is not in the plan, so we will need to seek feedback from IceMiller on corrective steps.

STATE OF DELAWARE DEFERRED COMPENSATION PLAN
Findings and Recommendations - Continued
December 31, 2016

Finding Number 5 - Payroll Misclassified 457(b) Contribution as a 403(b) Contribution

Finding - BL&S noted a participant whose 457(b) contribution, in the amount of \$18,000, was classified as a 403(b) contribution in the payroll software and on the participant's tax form.

Recommendation - Legal counsel should be contacted for advice regarding any necessary corrections and updated tax forms that might need to be issued.