

**STATE OF DELAWARE  
DEPARTMENT OF TRANSPORTATION**



**REPORT TO THE SECRETARY  
ON SELECTED ACCOUNTING SERVICES  
APRIL 25, 2012**

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## REPORT TO THE SECRETARY

To the Secretary  
State of Delaware Department of Transportation

BST Valuation & Litigation Advisors, LLC (BST) was engaged to assist the Delaware Department of Transportation (DelDOT or the Department) in addressing legacy issues conveyed to the Secretary by staff, evaluate current practices within the Department, and recommend possible reforms. Prior to our engagement, we were apprised of the issues to be addressed and the results of preliminary investigations undertaken by the Secretary's office. Based upon the information obtained in this pre-engagement meeting, we developed a phased approach to the engagement

The Phases of the engagement were as follows:

- Phase I - Review of Cash Transactions and Departmental Interviews
- Phase II - Systems Documentation
- Phase III - Review of Development Transactions

Our engagement involved a series of forensic and investigative procedures over the period March 15, 2012 through April 5, 2012, which included interviews with senior and subordinate staff, and reviews and research of Department documents in print and electronic form.

Findings with respect to our procedures are as follows:

- The lack of a **centralized document management system** impedes logical understanding, limits knowledge bases, contributes to a silo approach, inhibits overall efficiency and effectiveness within the Department, and may lead to errors or partially-informed decision making.
- The Department is **over-reliant on historic institutional knowledge** from past senior level management. While certain information has been handed down, gaps within documents maintained in DelDOT files can be attributed to the intuitive and undocumented decisions of former senior management.
- DelDOT is **people dependent**. The funneling of processes or procedures through key personnel, without appropriate controls, backup, or support, leads to inefficiencies within the Department as the process or procedure stops or slows down considerably when the "key" person is absent.
- The failure to adequately respond to challenges of implementing **changes within Department systems and programs** may have directly contributed to the failure to timely deposit at least \$161,000 of DelDOT fees and escrow or program contributions.
- The **implementation of a cashiering system** would enhance internal controls over the handling of cash receipts within Planning. Currently, engineers and program managers have the responsibility of handling checks, a duty more appropriately aligned with Finance.
- **All receipts should be deposited in accordance with the State of Delaware Budget and Accounting Policy** which states, in part, that all monies that belong to the State must be deposited on the day of receipt, except funds received after the close of normal banking hours. Justifications for departures from the policy appear to be without merit.

- Upon receipt, all checks should be *restrictively endorsed* “For Deposit Only - DelDOT.”
- Basic *reconciliation processes should be implemented* immediately with respect to cash receipts of Planning and amounts recorded by DelDOT Finance.
- DelDOT should immediately proceed with a process to *recover funds* for fees and escrow deposits approximating \$161,000 represented by the stale dated and uncashed checks held by DelDOT.
- Our engagement *did not identify any instances* of DelDOT employees profiting from transactions which we reviewed.
- When asked about personal relationships and accepting gifts from vendors and contractors, employees did not seem to be *aware of the Governor’s Executive Order* covering the state’s policy. Varying answers were received from every employee interviewed.
- *“That’s the way we’ve always done it”* was a recurring theme heard during interviews of DelDOT employees. This statement was used to both defend current practices and to justify procedures from the past. A challenge to the status quo is required to engage and stimulate forward thinkers at the Department.
- Improved *interaction and cooperation* between Finance and Planning is required to further DelDOT’s desire to improve accuracy, efficiency and accountability.

Additional information regarding our procedures, findings, and observations follows.

While our engagement was focused on legacy issues identified by the Department, the procedures performed in investigating the issues afforded us the opportunity to understand the history of the Department and its policies and procedures through reviews of documents and, more importantly, by working directly with DelDOT personnel.

We recognize that the Department has initiated processes to address certain of the legacy issues including:

- Recording and indexing files by parcel numbers;
- Reorganizing and indexing active project files;
- Departmental initiative to develop a comprehensive electronic file system;
- Assignment of responsibility to recover funds due for uncashed checks held by the Department, and
- Amended policies with respect to Planning cash receipts.

The desire to challenge the status quo and implement change was apparent throughout the Department.

We encourage management of the Department to be a proponent of change to improve accuracy, accountability, efficiency, and transparency.

Should you have any questions or require additional information, please call.

Very truly yours,

BST VALUATION & LITIGATION ADVISORS, LLC



Paul L. Goetz, Partner



## BACKGROUND

BST Valuation & Litigation Advisors, LLC (BST) was engaged to assist the Delaware Department of Transportation (DelDOT or the Department) in addressing specific legacy issues conveyed to the Secretary by staff, evaluate current practices within the Department, and to recommend possible reforms. Prior to our engagement, we were apprised of certain issues made known to the Secretary's office. The issues initially identified by the Secretary's office to BST were as follows:

- Various instances of checks not being deposited on a timely basis;
- Uncashed checks found in files maintained within the DelDOT Planning division;
- Certain questionable land acquisition transactions and reviews of land development applications initiated during the terms of two former DelDOT Secretaries, and
- Instances of lax financial management.

DelDOT's recordation issues with Kent County and the history of senior management change at the Department, including that of the Secretary, were also discussed.

Based upon the information obtained in the pre-engagement meeting, BST developed a phased approach to investigate the issues made know to us.

The Phases of the engagement and summarized work efforts were as follows:

- Phase I - Review of Cash Transactions and Departmental Interviews

*Review of uncashed checks, reconciliations of cashed and uncashed checks on a sample basis for ultimate disposition, and interviews of DelDOT personnel regarding policies, procedures, and possible wrongdoings.*

- Phase II - Systems Documentation

*Review and documentation of cash transaction cycles of specific departments.*

- Phase III - Review of Development Transactions

*Understanding of certain real estate purchases and land development applications identified by DelDOT through review of DelDOT files and interviews of DelDOT personnel to gain insight of the transactions and form opinions on the propriety of each transaction.*

Our engagement involved a series of forensic and investigative procedures conducted over the period March 15, 2012 through April 5, 2012. The procedures were conducted by a team of Certified Public Accountants and Certified Fraud Examiners. Periodic status meetings were held throughout the term of the engagement to apprise the Secretary's office of interim findings and observations.



## PROCEDURES, FINDINGS, AND OBSERVATIONS

### Phase I - Review of Cash Transactions and Departmental Interviews

#### Cash Transactions

At the commencement of our engagement, BST was provided with a listing of 25 checks accumulated by the Department that had not been cashed. The checks were brought to the Secretary's attention by Planning during February 2012. It was represented to BST that the majority of the checks were discovered as physical files were being prepared for archiving. The remainder of the checks was in the possession of Planning personnel. Once discovered, the uncashed checks were logged and ultimately delivered to DeIDOT Finance for safekeeping. The checks, together with certain supporting documentation, are currently being held by Finance. The aggregate amount of these uncashed checks is \$160,879.21, consisting of fee and escrow type checks of \$13,341.48 and \$147,537.73, respectively. (Exhibit A).

BST developed procedures to document and test the process by which Planning records cash transactions. Our procedures were designed to gain an understanding of the process of receiving and recording check transactions, to uncover a systemic cause as to the reasons why the uncashed checks were not processed in accordance with established policies and procedures of the Department, and to uncover any other potential uncashed checks.

In an attempt to ascertain the root cause for Planning holding the uncashed checks, BST obtained specific knowledge of certain of the uncashed checks through inquiry of DeIDOT employees. Not one DeIDOT employee could explain the specific reason as to why any particular check may have been held. However, employees frequently provided a common explanation as to why checks may have gone uncashed. The employees stated that project owners and developers would often incorrectly calculate fees due to DeIDOT. The employees further explained that due to the cumbersome process by which Finance issues refund checks, they would simply return the original check to a developer and ask that they provide a new check for the correct fee amount. As our engagement progressed, it was apparent that this explanation was essentially baseless, as the majority of the uncashed checks related to DeIDOT escrow accounts rather than for the routine fees that the Department has been processing for years. Employees also frequently noted that due to significant workloads, checks may have been put aside for various reasons or issues with the checks, or documents accompanying the checks, with intentions to address the issues at a later date. It is apparent that the issues were never resolved.

When questioned as to why checks for incorrect fee amounts were not simply deposited (and refunds issued or additional amounts billed), Planning noted that Finance policies and procedures require numerous approvals to issue checks. The approval process was described to us as cumbersome and time consuming, leading to significant delays in the refund process. While the check approval process was not evaluated by BST, it can be assumed the process was established as part of the overall system of internal controls. The practice of returning checks, which circumvents the established system of internal controls, should be curtailed.

As no credible explanation was received from DeIDOT employees for the uncashed checks, BST requested project files associated with a sample of 10 of the uncashed checks representing \$112,763.63 of funds not deposited. The project files were reviewed in an attempt to develop patterns and consistencies or to provide other credible evidence as to why a check would not be processed in accordance with established policies and procedures.

Our review of the associated project files noted the following:

- DeIDOT established a program during 2008/2009 whereby developers may be required to contribute to a traffic or area wide study to be performed at a later date.
- DeIDOT established a program during 2008/2009 whereby developers may enter into an agreement to make contributions to walkway or multi-use path accounts rather than provide for these on their respective properties. The funds are accumulated by DeIDOT and are to be used to fund improvements in the respective development areas.
- Checks received from developers may be difficult to identify with project names assigned by DeIDOT as developer checks may use ownership names that bear little resemblance to the project names.



Our review of the project files also noted one instance where an uncashed check for \$520 was retained within the file. The check represented the developer's payment to DeIDOT for the initial stage review fee. A notation in the file indicated that the fee was incorrectly calculated by the developer. It could not be determined if DeIDOT ever received the correct fee amount. After notifying the Secretary's office, the check, dated August 25, 2009, was turned over to Planning by BST.

In addition, our procedures discovered an instance in which Planning initially accepted an escrow check which was held within Planning for a significant period of time and, when eventually deposited, was ultimately returned by the bank (presumably due to insufficient funds). Collection efforts were not timely pursued (see Systems Documentation - Escrow Checks below).

Department check transactions were reviewed on a sample basis to verify that the sample items were ultimately deposited into DeIDOT bank accounts. Our sample of 71 receipts were selected from various source documents originating in Planning, including mail logs, check logs (rentals), project logs, and escrow receipt summaries. While inconsistencies were noted within documentation, all items selected for testing (except for checks already identified as being uncashed by DeIDOT) were ultimately traced to deposit records of Finance. Documentation inconsistencies included certain receipts not being recorded on the mail logs, lack of supporting documentation, and insignificant deposit differences.

Based upon our understanding of the cash receipts cycle and testing of the process, it appears that Finance ultimately deposits all receipts received from Planning. The completeness of Planning accounting for receipts cannot be confirmed, however, due to deficiencies in the internal controls over cash receipts in Planning as evidenced by incomplete documentation, the group of checks currently being held by Finance, and the discovery of an uncashed check by BST within a project file maintained by Planning.

### **Departmental Interviews**

At the request of senior management of DeIDOT, BST conducted formal interviews with several DeIDOT employees to gain perspective of DeIDOT policies and procedures and an understanding of any possible wrongdoings within the Department. DeIDOT initially identified eight employees with significant knowledge of the areas of focus of our engagement to formally interview. The formal interviews were supplemented by numerous informal interviews with other Department employees identified by BST during the course of our engagement as also having either overall or specific knowledge of the various focus areas. While no former DeIDOT employees were interviewed, BST was given unfettered access to all current DeIDOT employees for the interview process.

The formal process, conducted by Certified Fraud Examiners of BST, included a series of investigative questions. The focus of each interview centered upon the interviewees specific knowledge of uncashed checks, questionable development transactions, and any possible wrongdoings of the Department or its employees. No employee refused to participate in the interview process.

Our departmental interviews noted the following:

- Blame for "loose" practices was frequently placed on former senior Planning personnel acting under the direction of former Department Secretaries.
- References to indifference and complacency among former employees.
- While acknowledging that processes could be improved, a common defense was "That's the way we've always done it" which inhibits change.
- The thought that management reacted to pressure by becoming directly involved in decision making that bypassed established practices.
- Inconsistencies among employees with respect to their understanding of Delaware State Law pertaining to acceptance of gifts, favors, entertainment, or privileges from any vendor or supplier.
- Several instances of bright, energetic employees committed to improving policies and procedures within DeIDOT.





Aggregate initial and review stage fees totaled approximately \$4,360,000 during the period from July 1, 2003 through March 22, 2012. The total of the uncashed checks held by the Department relating to these types of fees approximates 0.3% of fees recorded during the period.

Planning records all incoming mail on an Excel worksheet referred to as the mail log. The principal use of the mail log is to document all correspondence received by Planning. The log is also used to document any checks received, the associated project, the DelDOT project responsible person (the manager associated with the project), and the amount of and the name on the check.

Electronic mail logs were obtained by BST for the period from January 1, 2000 through March 15, 2102, and were used to support and test Planning cash receipts. While the mail log should not be considered a financial reporting document, the following observations were made:

- Not all cash receipts were entered on Planning mail logs;
- Check amounts were not always entered onto the mail logs;
- Incomplete details on mail logs (dates, amounts), and
- Non-standardized fields were used on the mail logs.

Based upon our observations and testing of the mail logs, we determined that the document, while containing substantial amounts of information, could not be relied upon to determine the completeness of Planning cash receipts. With some minor changes in form and procedures, the mail log could become a useful control tool.

#### *Escrow Deposits*

The Department currently accepts deposits for the following:

- In-lieu of fees for Multi-Use Paths;
- In lieu of fees for Area Wide Traffic Impact Studies;
- Traffic Signal Revolving Funds;
- Developer Contributions to Capital Projects, and
- Rt. 40 Progression Study Contributions.

The fee in-lieu of programs of the Department were implemented in 2008 and 2009. Planning has established seven accounts to track and monitor activity within these funds, referred to as escrow accounts by DelDOT. Program managers within Planning monitor activity within these accounts using an internal system (Planning and Development Coordination Application, or "PDCA"). Support Services within Planning also monitors activity within the accounts through the use of electronic spreadsheets. The PDCA system is maintained by engineers and project personnel within Planning, while the spreadsheets are maintained by Planning accounting personnel.

Finance records the receipt of escrow deposits presented to them by Planning in the First State Financial System (SFS). Neither system maintained within Planning is reconciled to records maintained within Finance. A reconciliation of information maintained by Planning with that maintained by Finance would most likely have prevented the accumulation of uncashed checks.

Inquiries of Planning and Finance personnel noted confusion as to the proper recording of the escrow receipts within SFS. Further, certain escrow deposits were presented to Finance without proper documentation and ultimately returned to Planning. While we are unable to corroborate the facts or circumstances presented to us, it is apparent that the receipt of escrow funds, the failure to deposit and record such funds, and the inability or unwillingness on anyone's part to address the issue is real. Approximately 92% of the uncashed checks maintained by DelDOT represent escrow fund type receipts.



Our review of escrow deposits also noted one instance where an escrow check received by Planning was held for an extended period of time, did not clear the bank, and collection efforts appear to have been poor.

Details of the check are as follows:

- Amount: \$6,830
- Check Date: August 5, 2010
- Date received by DelDOT: August 6, 2010
- Date deposited by DelDOT: November 22, 2010
- Date returned by bank: November 26, 2010

Approximately 15 weeks passed between the receipt of the check until the check was forwarded to Finance for deposit. Another six weeks passed after the check was returned unpaid by the bank until Finance notified Planning that the check did not clear.

BST reviewed email correspondence between Planning and Finance regarding collection efforts. The correspondence indicated that the collection efforts were limited to a phone call with the owner of the project. The emails indicated that Planning did not expect to hear from the owner again. Logically it would seem that if the owner presented a check to DelDOT and the check was returned, the funds are still due to DelDOT. BST could not determine why the check appeared to be held for over three months prior to being deposited. Further, it appears that DelDOT is not in compliance with **State of Delaware Office of Management and Budget, Budget and Accounting Policy Chapter 9.4.1 Collections** which states that “every reasonable effort should be made to collect all receivables.”

#### *Real Estate Division*

Through its Real Estate division, Planning receives rental income on certain properties owned by DelDOT. It was noted that Real Estate recently implemented procedures to track and monitor due dates of amounts due under its leasing arrangements. The process for recording rental income within Real Estate was reviewed and tested. The results of our testing indicated that rental receipts are being processed and recorded on a timely basis. It was noted that Real Estate is a division within Planning. Our previous experience with Departments of Transportation suggests that, due to its inherent nature, this division may be a more appropriate department within Engineering or Right of Way.

#### *Policies*

During August 2000, the fee collection system of Planning was termed “flawed and unacceptable” by the then Director of Planning in response to an internal audit report. The Director noted a lack of sufficient training and questioned the multiple handling of checks within Planning. It is apparent that the concerns of the Director were not addressed.

During March 2012, DelDOT revised its policy with respect to the receipt of miscellaneous revenues. The revised policy, Policy Implement A-32, documents the requirement to deposit all receipts on the day of receipt in accordance with State law. Adherence to this policy should help prevent the accumulation of uncashed checks. Implementing a cashiering system would further enhance current policies.

#### **Phase III - Development Transactions**

BST was requested to review a series of a total of 10 development transactions. The transactions were selected for our review by DelDOT and were characterized as transactions that were of sufficient concern to Department staff that they were highlighted to the Secretary as potentially problematic.



The development transactions reviewed were as follows:

- Garrison's Lake
- Greenwood
- Felton Holly Kia
- Bread and Cheese Island
- Weldin House
- Stateline Road
- Sharp Property
- Trotter Lea
- Elks Lodge
- Oakwood Village

Each of the transactions reviewed represented a unique transaction of the Department. Specific concerns of each transaction were communicated to BST prior to our review. Accordingly, our file review was concentrated on those concerns previously identified by the Department. Further, due to the uniqueness of each transaction, each file was not reviewed for the same purpose. Because of the condition of the files, it was sometimes difficult to ascertain if all required procedures were followed, if all conclusions were appropriately documented, and if all decisions were documented, reviewed and approved. This situation results in some uncertainty surrounding some significant transactions and prevents the Department from being able to fully reconstruct and support past decisions. However, we did not find clear evidence of intentional disregard for policies and practices, nor did we note any instance of illegal, or even improper, activity.

#### *Files*

Files for each of the development transactions were made available for our review. General observations with respect to the files presented for review are as follows:

- As each division within Planning maintains project files, not one file could be classified as the "official" file.
- While generally paper files, certain electronic files also exist.
- There is only minimal standardization of file content and format.
- There is minimal coordination between Divisions as to content and limited sharing of files.
- Clear documentation of late stage negotiations and decisions by senior management was absent from several of the file reviewed.
- Certain real estate transactions were directed through State legislation.

While the principal focus of our file review was to gain insight of the transactions and form opinions on the propriety of each transaction, it was noted that there is no predetermined procedure for what is required to be kept in files and what is not to be kept. Certain of the files reviewed were quite neat and organized, while other seemed to have no organization whatsoever. A checklist in the front of the file would result in greater consistency and would help staff know what information/documentation was needed. The checklist could also be used to document appropriate signoffs.

Several files were noted to contain multiple copies of the same document and many copies of drafts that had been revised. We suggest that an effort be made to retain only one copy of each document. The benefits of retaining revised drafts after the revised document is final and issued could not be determined.

Files generally contained printed copies of emails. Each email, together with the previous chain made the files both repetitive and cumbersome.



There is no directory/master list of files and, therefore, no way to determine the whereabouts of any file. DeIDOT does not use a tracking system to monitor movement, control, and possession of files. Files are generally unsecured and are stored in unlocked cabinets or in work areas.

We suggest a central list of files by name and parcel number. This list should also indicate the location of the file and the last individual responsible for the file. When a file is moved from one person/division to another (or archived), the master list should be updated. From a more short-term perspective, there should be a method of signing out a file when it is taken out to be used.

It is our understanding that Subdivision application and construction fees should never be waived. Such fees are non-refundable and should be received before any work is done on the project. In some cases, it is unclear as to what fees were charged and what fees were received. It is recommended that this information should be included in the file and on the checklist.

#### *Conflicts of Interest*

Planning should have guidelines/rules relating to managing projects for which outside relationships exist. Policies should require recusing oneself if conflicted.

#### *Documentation and Monitoring of Conditions Subsequent to Sale*

In some instances, there are conditions of sale that call for certain subsequent actions by the buyer of DeIDOT real property. There does not seem to be any formal or well-coordinated method of monitoring the buyer, follow up if it is not clear whether or not the action has been taken, and, if it is concluded that the action has been taken, documentation of the resolution so the file is complete.

#### *Final Negotiation Documentation*

We noted that the documentation is generally voluminous until the final negotiation. In certain cases, documentation of critical aspects of the ultimate decision and/or negotiations is limited or non-existent.

#### *Use of Consultants as DeIDOT Employees*

Our review of Planning's organizational structure noted a consulting arrangement with Johnson, Mirmiran & Thompson, Inc. ("JMT"). JMT serves as the Subdivision Program Manager for New Castle County. DeIDOT employees serve as Program Managers for Subdivision within the other two counties in the State, Sussex and Kent. Employees of JMT essentially represent DeIDOT throughout the approval process for land development within New Castle County.

In this capacity of DeIDOT representation, JMT employees are provided with state.de.us email addresses and correspond with land owners and developers as representatives of DeIDOT. However, while representing DeIDOT, correspondence (emails and letters) with owners and developers displays the JMT logo, and the JMT email addresses and phone number. The use of the JMT logo and contact information while representing DeIDOT is confusing, seems to put JMT in a very favorable light with developers, and has the appearance of marketing.

While we understand that the use of JMT employees assists Planning in achieving its goal of moving projects through a more expeditious and well-rounded plan review and may result in a higher level of service provided to both developers and the public, we question whether JMT is taking advantage of this relationship. We recommend that DeIDOT review the practice of JMT's use of dual contact information and corporate logo.

EXHIBITS

## Exhibit A - Uncashed Checks

A detail of uncashed checks currently held by DeIDOT is as follows:

Check Date	Type	Amount	Purpose
9/10/2003	Fee	\$ 2,340.00	Initial Stage Fee
11/9/2005	Escrow	3,288.20	Traffic Signal Study
10/16/2006	Fee	3,722.40	Construction Stage Fee
4/8/2007	Fee	1,100.00	Initial Stage Fee
5/26/2007	Fee	662.50	Corrected Plans
6/1/2007	Fee	2,000.00	Corrected Plans
12/20/2007	Fee	1,364.00	Initial Stage Fee
1/30/2008	Escrow	9,463.00	Multi-Use Path
8/7/2008	Escrow	17,136.66	Multi-Use Path
3/2/2009	Fee	690.08	Initial Stage Fee
3/24/2009	Escrow	2,495.00	Area Wide Traffic Study
4/8/2009	Escrow	2,725.00	Area Wide Traffic Study
4/28/2009	Escrow	3,810.00	Area Wide Traffic Study
5/28/2009	Escrow	6,151.00	Multi-Use Path
9/1/2009	Escrow	4,060.00	Area Wide Traffic Study
8/13/2010	Escrow	4,000.00	Traffic Signal Study
11/4/2010	Escrow	3,542.80	Contributions
1/12/2011	Escrow	5,200.00	Multi-Use Path
2/14/2011	Escrow	9,087.07	Multi-Use Path
2/14/2011	Escrow	17,487.00	Progression Study
5/7/2011	Escrow	27,737.00	Multi-Use Path
6/2/2011	Fee	877.50	Construction Stage Fee
6/2/2011	Fee	585.00	Initial Stage Fee
6/8/2011	Escrow	22,437.00	Traffic Signal Study
9/12/2011	Escrow	8,918.00	Contributions
		<u>\$ 160,879.21</u>	

A summary of uncashed checks by type is as follows:

Escrows	\$ 147,537.73
Fees	13,341.48
	<u>\$ 160,879.21</u>



**Exhibit A - Uncashed Checks**

A summary of uncashed checks by check date is as follows:

<u>Check Date</u>	<u>Amount</u>
2003	\$ 2,340.00
2004	-
2005	3,288.20
2006	3,722.40
2007	5,126.50
2008	26,599.66
2009	19,931.08
2010	7,542.80
2011	92,328.57
2012	-
	<u>\$ 160,879.21</u>



**REQUEST FOR  
POLICY IMPLEMENT**

**STATE OF DELAWARE**

**DEPARTMENT OF TRANSPORTATION**

**P.I. NUMBER: A-32**

**Receipt of Miscellaneous Revenues**

**INDEX      FILING CODES**

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References:

Issued      04/07/08

Revised:    03/29/12

Effective:   05/06/08

Primary Responsibility:  
Director of Finance

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**I.      Purpose**

To establish a formal review process for all contracts entered into by the State of Delaware, Department of Transportation (DelDOT) that result in revenue being received by DelDOT and to ensure that the appropriate accounting treatment is implemented to properly record all revenues received and to ensure that revenues are being recorded as received.

## **II. Policy**

This is an internal policy to enhance our process of identifying and recording our revenue and third party transactions.

## **III. Procedures**

1. In order to exercise close control in the handling of cash/check receipts, all state agencies must abide by the State of Delaware Budget and Accounting Policy. This policy states in part that "all monies that belong to the State must be deposited on the day of receipt, except funds received after the close of normal banking hours. Monies received after the close of normal banking hours will be deposited on the next business day."
2. All receipts must be forwarded to the Finance Unit within twenty-four hours of their receipt as required by State policy. This does not apply to those sections that handle their own deposits directly with the bank. Any employee accepting a non-routine receipt shall complete the Department of Transportation Miscellaneous Deposit of Funds (Attachment A) and Cash Collection Form (Attachment B) forms to the best of his/her ability. There should be no circumstances that would result in a receipt of funds of any kind being held by any individual for any reason. If there are specific circumstances that surround the collection of the receipt, then that should be noted on the form.
3. All receipts that are forwarded to Finance using the Miscellaneous Deposit of Funds form should be addressed to the Administrative Assistant at the front desk in the Finance Unit as the primary contact. If it is determined that the receipt is related to escrow or a deposit that needs to be handled by another Finance employee, the Administrative Assistant will still record the deposit and forward it within the office.
4. The Finance Unit will deposit all receipts they receive each day. All receipts will be tracked using the information based on the required forms, and the funds will be placed in the proper account(s).
5. The Transportation Trust Fund Administrator ("TTF Administrator") will review all Transportation Trust Fund ("TTF") deposits to identify any new sources of revenue that may require special accounting treatment as they are received. A monthly bank review will be performed on funds that were directly deposited into our accounts.
6. When new revenue is identified, the TTF Administrator will determine the source of the revenue and review his/her findings with the Controller. The TTF Administrator and Controller will determine if the revenue will be directly deposited into the Transportation Trust Fund ("TTF") or if it will be a receivable against a specific Capital Construction Project ("project").
7. If it is determined that the revenue will be deposited into the Trust Fund, the TTF Administrator will be responsible for determining the proper accounting method for

reporting the revenue, the proper deposit account and the appropriate tracking and reporting. The contract will be maintained in the TTF Audit File.

8. J accounts: If it is determined that the revenue is to be used for a specific project, the Assistant Director, Capital Program will be notified. The Assistant Director, Capital Program will ensure that a project currently exists. If no project currently exists, he/she will have a project initiated and will proceed with funding authorization. He/she will also ensure that a fully executed third party agreement accompanies the initial request (a sample third party agreement is included as a template with this policy). Any modifications to the agreement will be addressed in supplemental amendments to the original agreement. All documentation related to these agreements and/or amendments will be maintained in the capital project files. Any checks received prior to project initiation will be deposited into an escrow account until proper coding for the project is established. If the agreement states that the third party will be billed, the Accountant responsible for third party agreements will send an invoice to the entity. The TTF Administrator, Assistant Director and/or Controller will review all checks as received for deposit into escrow accounts to verify proper accounting treatment. Any questionable deposits will be reviewed with the Controller and re-coded as necessary. It is preferred that funds are received prior to Notice to Proceed.
9. Non-revenue related reimbursements: DelDOT receives reimbursement for expenses incurred while providing Traffic Management for special events. These events include but are not limited to: Delaware State Fair, University of Delaware Football games and the two NASCAR events at Dover Downs. Each event holder reimburses DelDOT once they receive a bill. Once the funds are received, they are used to reimburse DelDOT for the expenditures that were incurred and are coded back to each fund to replenish the state funds that were used to pay the initial expenses. These funds are not revenues as they are used to replace state funds that were expended.

#### **IV. Definitions**

Non-routine receipts include but are not limited to: Payments for development rights, Deed restrictions, easements, entrance plans, traffic signals, Title 21 violation Revenues, hot mix penalty payments, escrow account deposits, damage claim Payments, "J" account checks, copy revenue and sign shop proceeds.

#### **V. Justification**

The Financial Statements of DelDOT were audited as of and for the year ended June 30, 2006. In the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Accounting Standards*, the auditors made the

following recommendation; “ We recommend that the management establish a formal review process over contracts entered into by the Department effecting revenue for the purpose of determining the year end accounting treatment for all significant transactions”.

This policy implements the auditor’s recommendation by ensuring that all revenues are identified and that the proper accounting method is determined and implemented to accurately record all revenues. Proper accounting for these revenues will eliminate the need for year-end accounting adjustments and will avoid either over-stating or under-stating revenues deposited into the fund.

Due to recordation concerns this policy was updated in March 2012.

**VI. Effective Date**

This policy shall become effective 30 day(s) after signature by the Secretary, or, if applicable, upon compliance with the regulatory process required by the Administrative Procedures Act (29 Del.C. Ch. 101).

DELAWARE DEPARTMENT OF TRANSPORTATION  
THIRD PARTY AGREEMENT

This Agreement, made and executed in quadruplicate, the day, month, and year affixed by the signature of the Department of Transportation's representative by and between the State of Delaware, Department of Transportation, (STATE) and \_\_\_(Name and address of contributor)\_\_\_\_\_, their heirs and assigns, (CONTRIBUTOR).

WITNESSETH THAT

WHEREAS, the STATE intends to (description of task and location) and

NOW THEREFORE, the parties do hereby agree as follows:  
(Detailed explanation of each party's responsibility regarding the following: Installation, Maintenance, Replacement, Right of Way, Safety, Timing, Design, Planning, etc.)

It is further agreed that all costs related to the modification of the above work shall be borne by CONTRIBUTOR. All costs relating to catastrophic failures shall be billed for as incurred. When the billing costs are received by CONTRIBUTOR, it is agreed that they will be paid within 30 days of receipt. Upon completion of the work, the STATE shall reimburse or bill DEVELOPER for any difference between the estimated and actual costs.

It is agreed that either party can terminate this agreement by giving a 60 day written notice. (Terms of termination).

IN WITNESS WHEREOF, the parties to these presents have duly executed this AGREEMENT in quadruplicate the day, month and year affixed by their signatures.

SEALED, AND DELIVERED IN THE  
presence of

\_\_\_\_\_  
Name of Contributor

Attest: \_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signature

CORPORATE SEAL

\_\_\_\_\_  
Title

Dated: \_\_\_\_\_

In the case of a corporation, firm, or partnership, this contract must be signed by the appropriate officials of such corporation, firm, or partnership and their corporate seal must be affixed hereto.

**FOR THE STATE OF DELAWARE, DEPARTMENT OF TRANSPORTATION**

SEAL

Attest:

\_\_\_\_\_  
Martha N. Dobson, Director,  
Technology and Support Services

By:

\_\_\_\_\_  
Name, Director

Dated: \_\_\_\_\_

Approved as to Form:

\_\_\_\_\_  
Frederick H Schranck  
Deputy Attorney General

Dated: \_\_\_\_\_

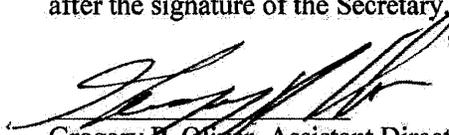
**DELAWARE DEPARTMENT OF TRANSPORTATION**  
**POLICY IMPLEMENT NUMBER: A-32**  
**TITLE: Receipt of Miscellaneous Revenues**

( ) Policy Implement Number A-32 has been reviewed for form, content and meets all legal and administrative requirements currently in effect, approved by the Delaware Department of Transportation Directors, and signed by the Secretary of Transportation.

( ) Policy Implement Number A-32 has been revised, reviewed for form, content and meets all legal and administrative requirements currently in effect, approved by the Department of Transportation Directors, and signed by the Secretary of Transportation.

( ) Policy Implement Number A-32 is deleted effective with the signature of the Secretary of Transportation.

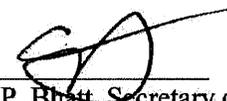
( ) Policy Implement Number A-32 is subject to the regulatory process required by the Administrative Procedures Act (29 Del.C. Ch.1001) and will begin the regulatory review process after the signature of the Secretary.

  
Gregory P. Oliver, Assistant Director, Planning

Frederick H. Schranck, Deputy Attorney General  
(Approved as to Form/Regulatory Review)

  
Pamela Lowe, Director, Division of Finance

  
Patrick Wlaschin, Chief of Staff

  
Shailen P. Bhatt, Secretary of Transportation

3/30/12  
Date of Secretary's Signature

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## Chapter 9 – Receipt of Funds

All receipts of monies of the State are credited into the General Fund (**29 Del. C. §6102(a)**), except as noted otherwise in this Manual. Funds not deposited into the General Fund are placed in Special Funds and accounts.

The State Treasurer is responsible for loading daily deposit information received from the State's banks into FSF. Agencies are then responsible for applying deposits into the correct agency appropriation.

The Secretary of Finance is accountable for all monies collected on behalf of the State. These monies include, but are not limited to, receipts for taxes, fines, fees, sales (including proceeds from the disposition of surplus property), rentals, admissions, tuitions, gifts, grants, and donations.

### 9.1 Cash Management Policy Board

The Cash Management Policy Board (Board) (**29 Del. C. §2716**) determines policies for the investment of all money belonging to the State, except money deposited in any state pension fund or State Deferred Compensation Program. Additionally, the Board determines the terms, conditions, and other matters relating to the protection and maintenance of state investments, including the designation of permissible investments.

The Board has determined and requires that:

- Deposits of state monies must be continuously and fully secured by direct general obligations of the United States of America, other obligations unconditionally guaranteed (principal and interest) by the United States of America, or other suitable obligations; (**29 Del. C. §2716(a)(1)**)
- The selection of financial institutions to provide banking and investment services involving the funds for which the Board is responsible must be conducted on an open and competitive basis; (**29 Del. C. §2716(a)(2)**) and
- Temporary clearing accounts and major disbursement accounts are established in a bank or banks whose principal office is located within the State. (**29 Del. C. §2716(a)(3)**)

The State Treasurer is responsible for enforcing all policies established by the Board with respect to the creation of all checking accounts by the State. (**29 Del. C. §2716(d)(2)**) The State Treasurer is also responsible for investing monies belonging to the State in accordance with the Board's policies, except as noted otherwise in this Manual. (**29 Del. C. §2716(e)(1)**) The Board



### 9.2.1 Stock Dividends and Interest

The State Treasurer may receive dividends or interest from any stock, shares, loans, or investments of monies belonging to the State or to a school. The State Treasurer is responsible for allocating the received funds to the proper agency. **(29 Del. C. §2709)** Agencies are responsible for applying the funds to the correct agency appropriation.

### 9.2.2 Tax Receipts

The Division of Revenue (DOR), Department of State, and the Bank Commission have independent systems to manage the detailed accounting associated with the tax revenues collected by the Division. Tax period and taxpayer-specific information is captured from the tax remittance documents (e.g. tax return forms, checks) and entered into the appropriate system. A Cash Receipt (CR) transaction is processed by DOR to properly credit the cash receipts into the State's cash collections account and FSF.

## 9.3 Special Funds Collections

The current list of Special Funds and Accounts follows:

1. Accounts established by agencies for the collection of receipts for:
  - Board;
  - Tuition;
  - Hospital Treatments; and
  - Sale of Farm Products

**(29 Del. C. §6102(b))**
2. Revenue Refund Accounts **(29 Del. C. §6533(e))**
3. Federal Aid Funds - All federal financial assistance program money received by the State, whether directly or indirectly, in the form of cash, check, or via an electronic funds transfer method. **(29 Del. C. §2711)**
4. Capital Improvement Projects Fund – All monies received from the sale of bonds and notes issued for the capital improvement program. **(29 Del. C. §7414)**
5. First State Improvement Fund **(29 Del. C. §5080)**

6. Advanced Planning and Real Property Acquisition Fund (29 Del. C. §6343)
7. Accounts established for minor capital improvements by local school districts (29 Del. C. §7528)
8. Accounts established for the rental, repair, and lease purchase of portable classrooms by the State Board of Education (29 Del. C. §6102(d))
9. Accounts established for the Business Enterprise Program's vending receipts, operated by the Division for the Visually Impaired, within the Department of Health and Social Services. (29 Del. C. §6102(l))
10. Accounts established for the improvement of statewide (departmental and divisional) indirect cost recoveries from programs financed in whole or in part with federal funds. (29 Del. C. §6102(k))
11. Accounts established for the Delaware Emergency Management Agency (29 Del. C. §6102(i))
12. Division of Corporations Corporate Revolving Fund (29 Del. C. §2311 (b))
13. Emergency Housing Fund (29 Del. C. §7953(c))
14. State Lottery Fund (29 Del. C. §4815)
15. Delaware Higher Education Loan Program Fund (29 Del. C. §6102(e))
16. University of Delaware Funds (29 Del. C. §6120(b))
17. Delaware State University Funds (29 Del. C. §6102(b))
18. Delaware Technical and Community College Funds (29 Del. C. §6102(b))
19. Delaware Child Support Enforcement Account (29 Del. C. §6102(g))
20. Delaware State Housing Authority Funds (29 Del. C. §6102(h))
21. Housing Development Fund (29 Del. C. §4030)
22. Local School District Funds (29 Del. C. §6102(j))
23. Delaware Home Improvement Insurance Fund (31 Del. C. §4050)

### **9.3.1 School Internal Funds**

School internal funds are generally collected by the school district, but the disbursement of the funds is not at the discretion of the school authority. Accounts should be maintained for all internal funds in a safe depository, and each school district must define procedures concerning the maintenance of their internal accounts, including the proper documentation of all transactions. All internal funds are subject to audit by the State Auditor.

School internal funds include the following:

- Accommodation accounts for student and employee community drives;
- Student Class/Club accounts that are expended only upon the authorization of the class or club; and
- Accounts for small miscellaneous sums to be paid to the State Treasurer at the end of each month.

Funds not maintained under the custody of the State Treasurer should be managed as regular school internal funds and are subject to the accounting procedures described above.

### **9.3.2 Cash Receipts from the Sale of Bonds, Notes, and Revenue Notes**

Proceeds from the sale of bonds, notes, and revenue notes, including premiums and accrued interest, are deposited by the State Treasurer into State Funds as follows:

- All proceeds from the sale of bonds or notes, other than premiums or accrued interest, are deposited into a Special Fund or Funds of the State, and are applied for the purposes for which the bonds or notes were issued.
- All proceeds from the sale of revenue notes and all accrued interest from the sale of bond or revenue notes are deposited into the General Fund.
- Any premium from bonds or revenue notes are deposited, at the discretion of the OMB Director, the Controller General, and the Secretary of Finance, into:
  - A Special Fund of the State; or
  - An escrow fund to redeem or refund debt service on any debt or obligation of an instrumentality of the State.

**(29 Del. C. §7414(a))**

### 9.3.3 Federal Grant Funds

All federal grant funds should be made payable to the State Treasurer. Funds will be credited to the State's "Federal Aid Account" Special Fund (**29 Del. C. §2711(a)**), unless the federal government requires the funds for a specific grant to be segregated into a separate account. The State Treasurer is responsible for establishing any such segregated accounts for grant funds in compliance with all federal requirements. Agencies should use the delivered functionality of the State's finance and accounting system to bill grantors for draw downs associated with the agency's grant(s).

### 9.3.4 Credit Advances

An agency may advance credit to another agency, person, or corporation in the form of goods or services (bulk purchases of paper products or gasoline, automobile servicing, utilities, custodial services, etc.). Providing that the expenditures are not for functions that are the responsibility of the advancing agency, the reimbursement of the advance is deposited by the advancing agency into the appropriation account from which it was expended.

### 9.3.5 Refunds to the State

Agencies periodically receive refunds from employees (unused portion of a travel advance) or from vendors (overcharges, product returns). The refunds are processed as follows:

- General Fund and Special Fund refunds resulting from **current fiscal year expenditures** are credited to the appropriation from which the monies were expended.
- General Fund and Special Fund refunds resulting from **prior fiscal year expenditures** are treated as revenue items. General Fund refunds are credited to the fiscal year cash account appropriation; Special Fund refunds are credited to the proper active appropriation.

Refunds of federal grant or Capital/Bond Fund monies are credited to the appropriation from which the monies were expended, regardless of whether the expenditure is from a prior or current fiscal year.

**NOTE:** Expenditure-reducing credits are intended for use with refunds only. **Expenditure-reducing transactions are not to be used as a routine method of processing the receipt of fees and/or reimbursements**, except when specifically identified and authorized by the Delaware Code, Budget Act Epilogue, other legislation, or this Manual. If this limitation hampers or jeopardizes an agency's programs or operations, the agency should discuss the issue with its assigned OMB Fiscal and Policy Analyst.

### 9.3.6 Insurance Recoveries

If an agency receives an insurance recovery for equipment that is damaged or destroyed, the payment is credited to the appropriation account that would be used to replace or repair the equipment, as follows:

- General Fund and ASF Special Funds -- If the recovery is received in the **same fiscal year** in which the equipment is repaired or replaced, the payment is credited as an expenditure reduction. If the recovery is received in a **different fiscal year**, the payment is credited as revenue.
- NSF Special Funds, Federal Grant Funds, Capital/Bond Funds – the recovery is recorded as revenue, regardless of when the recovery is received.

### 9.3.7 School Facilities Usage Fees

A local school board may allow school-sponsored organizations, nonprofit organizations, or any governmental agencies to use school property or equipment under its jurisdiction free of charge; or the local school board may adopt a policy to charge these agencies or organizations a fee for costs incurred in excess of normal operations.

Other organizations, including for profit organizations, which receive approval to use school property and/or equipment, are charged an amount at least equal to the costs incurred in excess of normal operations. Local school boards are responsible for determining and calculating these costs and for maintaining appropriate documentation of the calculations, which are subject to audit.

Recoverable costs include: custodial salaries, other employment costs, heat, lighting, and other identifiable operational costs. All such facilities usage fees collected by a local school board are retained by the school district to be used as local funds for any permissible educational purpose.

### **9.3.8 Reproduction Charges**

The Freedom of Information Act (**29 Del. C. §10003**) allows the charge of a reasonable fee for the reproduction of public documents, upon the request of any citizen. A standard copy charge of \$0.25 (twenty-five cents) per copy has been approved for statewide use by the OMB Director. Agencies should credit the receipt of these fees as an expenditure reduction for reproduction costs.

If \$0.25 per copy is not an adequate recovery for an agency, the agency may submit a "Copy Fee Approval Request" form for review by the OMB Director. The request should include cost factors based on both the copy machine cost and the operator's cost. Agencies requiring assistance in calculating a modified copy fee should contact OMB's GSS.

### **9.3.9 Restitution Processing**

State employees and private citizens who are found guilty by a court or through another settlement process of theft, embezzlement, or fraud in the handling or receipt of state funds or property may be required to make restitution to the State. Due to the wide array of variable criteria that can apply to each case, the proper handling of the restitution must be addressed on a case-by-case basis.

Agencies must inform the OMB Director and the Secretary of Finance of the details of any and all incidents of theft, embezzlement, or fraud with respect to state monies or property as soon as the alleged behavior is discovered. This notification will allow the Budget and Finance offices to effectively participate in the investigation and/or resolution processes, including the development of acceptable settlement and restitution provisions. Agencies should contact a state accountant to determine proper processing requirements for any restitution payments received.

## **9.4 Accounts Receivable**

Accounts Receivable represents amounts billed or billable to patients, clients, or taxpayers when the State provides goods and services or when the State establishes a due date for various fees or taxes. An accounts receivable report is submitted to the Secretary of Finance each year as part of the annual GAAP reporting package.

### **9.4.1 Collections**

Every reasonable effort should be made to collect all receivables. Each agency with accounts receivable must develop and implement procedures for a positive collection effort, including procedures for evaluating the effectiveness of the agency's collection efforts and procedures for determining Doubtful Accounts.

Agencies should coordinate with the DOF and consult with the Attorney General to develop collection procedures. Each agency must provide an annual written report of its procedures, or any amendments to its procedures, to the Secretary of Finance by June 30.

Agencies are required to cooperate with the Attorney General in effecting collections and should use the remedies provided by the legal system, as appropriate. If the account remains uncollectible, the agency should refer the account to the Secretary of Finance with all pertinent information.

All agencies collecting accounts receivable should solicit the assistance of other agencies that have a collections staff. Agencies with collections staff should make every effort to provide assistance to other agencies. Agencies require prior written approval from the Secretary of Finance and the Attorney General to enter into a contract with a professional collection service.

### **9.4.2 Doubtful Accounts**

Agencies are required to calculate an Allowance for Doubtful Accounts to determine a realistic net value for expected receivables. "Doubtful Accounts" is the term for the estimated receivables an agency does not expect to collect in the near future.

Agencies may determine an Allowance for Doubtful Accounts using either the Percentage of Outstanding Receivables method or the Aging of Receivables method. Agencies should contact a state accountant for assistance calculating doubtful accounts.

Agencies must document the procedure used to determine the amount of doubtful accounts and include the procedures as part of the annual written submission to DOF of the agency's collection policies and procedures. The procedures used to determine doubtful accounts should be reviewed periodically to determine whether revisions are necessary due to changing conditions.

**NOTE:** The Allowance for Doubtful Accounts is not a write-off of accounts receivable.

### **9.4.3 Waiver of Accounts Receivable Compliance**

An agency may request a full or partial waiver from Accounts Receivable requirements if the agency satisfies outside requirements that are more stringent than the State's policy. Waiver requests should be made in writing and submitted to the Secretary of Finance for approval.

### **9.4.4 Write-Offs**

Agencies must obtain written approval from the Secretary of Finance to remove an account from an agency's list of active accounts receivable. The reclassification of a full or partial account balance to an inactive status does not forgive the debt. The account balance remains subject to collection in the event the agency determines circumstances have changed at a later date.

Agencies must provide the Secretary of Finance with the following documentation to obtain approval to reclassify an account balance to an inactive status:

- Documentation of the agency's collection efforts for the account balance in question;
- Documentation of the collection efforts, if any, by the Attorney General; and
- Certification by the Attorney General, or his deputy, that the potential recovery and costs of collection do not merit further collection efforts.

An agency may certify it has followed its previously filed and approved collection plan, in lieu of a declaration from the Attorney General that further collection efforts are unwarranted.

Upon approval by the Secretary of Finance, agencies should remove the full or partial account balance from the agency's active accounts receivable file and place the account into a permanent inactive file. The agency's Accounts Receivable policy should include periodic review of inactive accounts receivable to determine if the account(s) should be reclassified for further collection efforts.