

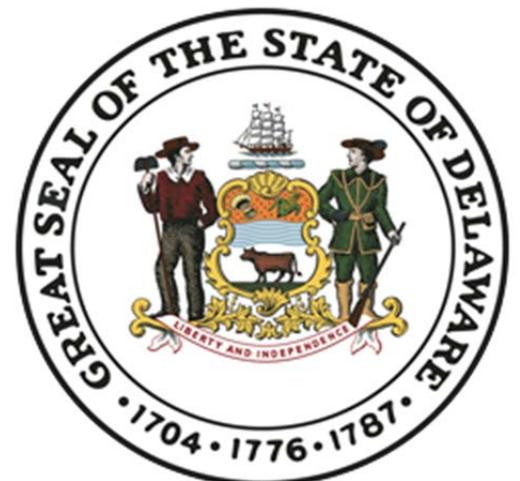
**State of Delaware
Office of Auditor of Accounts**

**Fiscal Year 2015 School District Revenue
and Debt Service Management
Sussex Technical School District**

Inspection

Issuance Date: March 22, 2017

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts





State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr., CFE, CGFM, CICA

At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Inspection

AOA performed this inspection to review revenues received by the Sussex Technical School District and ensure adequate internal controls over the revenue process.

This investigation was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

For further information on this release, please contact:

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What We Found

The Office of Auditor of Accounts (AOA) reviewed revenues received by the Sussex Technical School District (the School District) in Fiscal Year 2015, as reported by the School District in the Schedule of School District Revenues, and the controls surrounding the School District's receipt process. During Fiscal Year 2015, the School District received over \$27.8 million in revenue from federal, State, local, and other sources.

AOA's review of internal controls specifically focused on cafeteria, adult education, and student activity funds since these revenues are generated through cash receipts. We found that the School District did not always ensure the physical security of cash, segregate duties appropriately, and monitor adherence to cash receipts controls.

We recommend that the School District work to develop policies and procedures that are detailed enough to easily identify individual responsibilities and ensure an adequate segregation of duties. Finally, management should complete and document their monitoring activities, including reconciliations, to ensure a proper segregation of duties, and hold all individuals involved in the revenue process accountable for their responsibilities.

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Background

This engagement focused on school district revenues received and recorded in the State's accounting system during the period of July 1, 2014 through June 30, 2015 (Fiscal Year 2015). We also looked at how school districts manage the debt used to pay for school construction, including whether the school district has a reasonable amount of funds set aside to meet their bond obligations.

With the exception of donations, gifts, and student activity accounts among other sources, school district revenues generally come from federal, State, and local sources.

Sussex Technical School District

The Sussex Technical School District (the School District) located in Georgetown, Delaware, operates a single technical high school that had a Fiscal Year 2015 enrollment of 1,545 students, along with an Adult Education Division. The School District receives funds from a variety of sources including federal grant funding, State funding appropriated in the Budget Bill or through competitive grants, local funding (e.g. local tax collections), and other sources (e.g. student activity collections).

Federal Funding

Most federal grants received by the State are reimbursable, which means that the State must cover the payment of bills before reimbursement can be requested from the federal agency.

Federal grant applications are first reviewed at the agency level. Once the grant application is approved by the agency internally, it is submitted to the Office of Management and Budget (OMB) for the Delaware State Clearinghouse Committee's (DSCC) review. Once the grant application is approved by DSCC, the Delaware Department of Education (DOE) waits to hear from the federal granting agency on whether the State will receive the funds or not.

After DOE expends grant funds, the federal agency reimburses the State via a drawdown process. To drawdown the reimbursement, DOE must complete a few steps. DOE reviews the appropriate report and then logs onto the corresponding federal system to make the draw, then DOE receives a deposit for the amount requested. The deposit is entered into the State's accounting system, First State Financials (FSF), and applied to the applicable grant.

State Funding

Delaware school districts receive State funding which is mostly based on DOE's calculations using each school district's annual unit count. The unit count is a complex process that occurs each year during the last 10 student days of September. It includes the total pupil enrollment on the last school day in September¹ and considers various factors such as grade level and, if applicable, the special education needs of the child. DOE uses a web-based student information system called eSchoolPLUS² to calculate the unit count.

¹ 14 Del. C. §1704, <http://delcode.delaware.gov/title14/c017/index.shtml>

² eSchoolPLUS is a software developed by SunGard.

Determination of State Funding

There are three State funding types received by the school districts as a result of the annual unit count. The funding categories are referred to as Division I (Salaries and Benefits), Division II (All-Other Costs and Energy), and Division III (Equalization). The annual Budget Bill appropriates these funds to DOE, then DOE allocates and distributes the funds to the school districts.

Division I (Salaries and Benefits)

Division I funding is used to pay the salaries of school employees. The State pays approximately 70% of total salary costs and benefits for school employees, with the remaining balance paid by local funds. The number of authorized positions, which includes teachers, support staff, and administrators, is based on the annual unit count. As illustrated in Table 1 below, one teacher is earned per a prescribed amount of pupils counted in each unit category. A unit is a group of students that are grouped together by grade level and needs. The State-funded portion of an employee’s salary is determined by the annual Budget Bill; however, the school districts also pay a portion of the employees’ salaries with local funds.

Table 1: Division I Teacher Units³	
Unit Category	Teachers Earned
Preschool	1 per 12.8 pupils
K-3	1 per 16.2 pupils
4-12 Regular Education	1 per 20.0 pupils
4-12 Basic Special Education (Basic)	1 per 8.4 pupils
Pre K-12 Intensive Special Education (Intensive)	1 per 6.0 pupils
Pre K-12 Complex Special Education (Complex)	1 per 2.6 pupils

In addition to teachers, the unit count determines various other support staff and administrator positions. Table 2 below provides examples of positions that are generated based on the total number of units counted.

Table 2: Division I Support Staff and Administrator Units	
Position	Positions Earned⁴
Superintendent	1 per District
Assistant Superintendent	1 per 300 units (maximum 2)
Director	1 per first 200 units; 1 per 100 units thereafter (maximum 6)
Supervisor	1 per 150 units
Supervisor of Transportation	1 per 7,000 or more transported pupils
Specialist – Visiting Teacher	1 per 250 units
Specialists – Related services positions which include physical therapists, occupational therapists, speech language pathologists, school psychologists, or other related service specialist	1 per 57 units K-3, 4-12 Regular Education, and 4-12 Basic; 1 per 5.5 Intensive units; 1 per 3 Complex units

³ 14 Del. C. §1703(a)

⁴ 14 Del. C. §1321, <http://delcode.delaware.gov/title14/c013/index.shtml>

Career & Technical Education (CTE) Programs are also funded based on the annual unit count and result in corresponding occupational-vocational units. Delaware CTE Programs include Agriscience, Business Finance and Marketing, Family and Consumer Sciences, and Skilled and Technical Sciences. For New Castle County Vocational Technical School District, Polytech School District, and Sussex Technical School District, every 30 students enrolled equals one occupational-vocational unit. For the remaining school districts, occupational-vocational units are based on the minutes per week a pupil is provided an approved CTE program.⁵

Division II (All-Other Costs and Energy)⁶

Division II funding is appropriated to each school district and comprised of two components – “All-other Costs” and “Energy.” Section 323 of the Fiscal Year 2015 Budget Bill states that a Division II energy unit shall be valued at \$2,435 and an all other costs unit shall be valued at \$2,925. All-Other Costs provides for resources in the classroom, which include textbooks, furniture, and other classroom equipment. Energy funds are provided to heat and cool school buildings.

Division III (Equalization)⁷

Division III funding is referred to as equalization funding because it attempts to balance the disparity in funding received by school districts as a result of disproportionate property values. School districts receive varying amounts based on a complex tax effort formula determined by the Equalization Committee appointed by the Secretary of DOE. The formula is based on the property wealth of a school district compared to the State average property wealth, as well as the school district’s tax effort, or willingness of the school district’s citizens to accept higher tax rates. Division III funding is discretionary and may be used by school districts for virtually any purpose.

Since the unit count is not finalized until after the school year begins, OMB performs preliminary calculations in June of each year and preloads a portion of Division I, II, and III funds at the beginning of the fiscal year. OMB monitors Division I funds prior to the annual unit count and will transfer funding over to meet salary and benefit needs as necessary. After finalization of the annual unit count, the remaining funds are transferred to the school districts.

In addition to the Division I, Division II, and Division III funding discussed above, the school districts also receive State funding for transportation expenses, professional development, technology, and a variety of other needs. The additional funding sources are provided through DOE using an award method that is specific to each type of funding. For example, driver’s education funding is awarded based on the annual tenth grade enrollment within a school district, while funds for state testing are awarded through a competitive grant process where school districts submit applications to DOE. In another instance, funds may be provided based on need, such as transportation funds which are reimbursed to school districts by DOE based on contracts with transportation providers.

⁵ 14 Del. C. §1703(g), <http://delcode.delaware.gov/title14/c017/index.shtml>

⁶ 14 Del. C. §1706, <http://delcode.delaware.gov/title14/c017/index.shtml>

⁷ 14 Del. C. §1707, <http://delcode.delaware.gov/title14/c017/index.shtml>

Local Funding

Local Tax Collections

On a monthly basis, the school districts receive a lump sum amount of revenues collected from the three Delaware counties through real estate and capitation taxes.⁸ Sussex County school districts also receive rollback tax revenue.⁹ These revenues are commonly referred to as local funds.

To receive local funds, each school district's local school board approves and sends an annual tax warrant to their respective county, which authorizes the levy and collection of taxes. The tax warrant shows a separate tax rate for a combination of the following categories:

- **Current Expense:** costs associated with the general operation of the school district as well as specific voter approved programs. This tax rate can only be increased with taxpayer approval through referenda.
- **Debt Service:** the principal and interest payments on capital improvement bonds used to fund new construction, additions, and major renovations. Voters must authorize the issuance of bonds through a referendum. Thereafter, the school district's local school board annually sets the debt service tax rate to meet the authorized obligations.
- **Tuition:** the cost of providing in-district and out-of-district placements for students who must attend special schools within and outside of the State (e.g. Sterck School for the Hearing Impaired and Intensive Learning Centers). The local school board sets this tax rate annually based upon anticipated needs of the student body. A voter referendum is not required to adjust this rate and there is limited guidance regarding how to calculate the tax rate.
- **Match:** provides a local match to State appropriations where required or allowed by law. According to the Fiscal Year 2015 Budget Bill, examples of matching programs include minor capital improvements (MCI), technology, reading resource teachers, math resource teachers, and extra time programs. Although the State only provides its portion of the MCI match funds, qualified school districts are still permitted to collect taxes for their local portion of other match programs. An explanation of each match program is provided below:
 - MCI – These funds are used to keep real property assets in their original condition and are reserved for projects that cost less than \$500,000.¹⁰ School districts are required to pay 40% of this amount through local tax collections, according to 29 Del. C. §7528 (b), while the State provides the remaining 60%.
 - Technology – These funds are intended to support the replacement or purchase of equipment that supports classroom instruction, technology maintenance in schools either through the use of technology personnel or contractual services, or other technology needs which could improve or enhance the technology capabilities of the school district. According to Section 348 of the Fiscal Year 2015 Budget Bill Epilogue, all school districts are eligible for a technology

⁸ Capitation taxes are collected based on the number of adult residents in a school district.

⁹ Rollback taxes result when agricultural land is changed to another use, such as commercial or residential property. The basis for the tax is the difference between the land's value when classified as agricultural and the land's value under the new classification.

¹⁰ Section 7.1 of the State of Delaware *School Construction Technical Assistance Manual*.
<http://www.doe.k12.de.us/Page/1828>

match. The State portion of these funds is allocated proportionally to school districts based upon the Division I unit count.

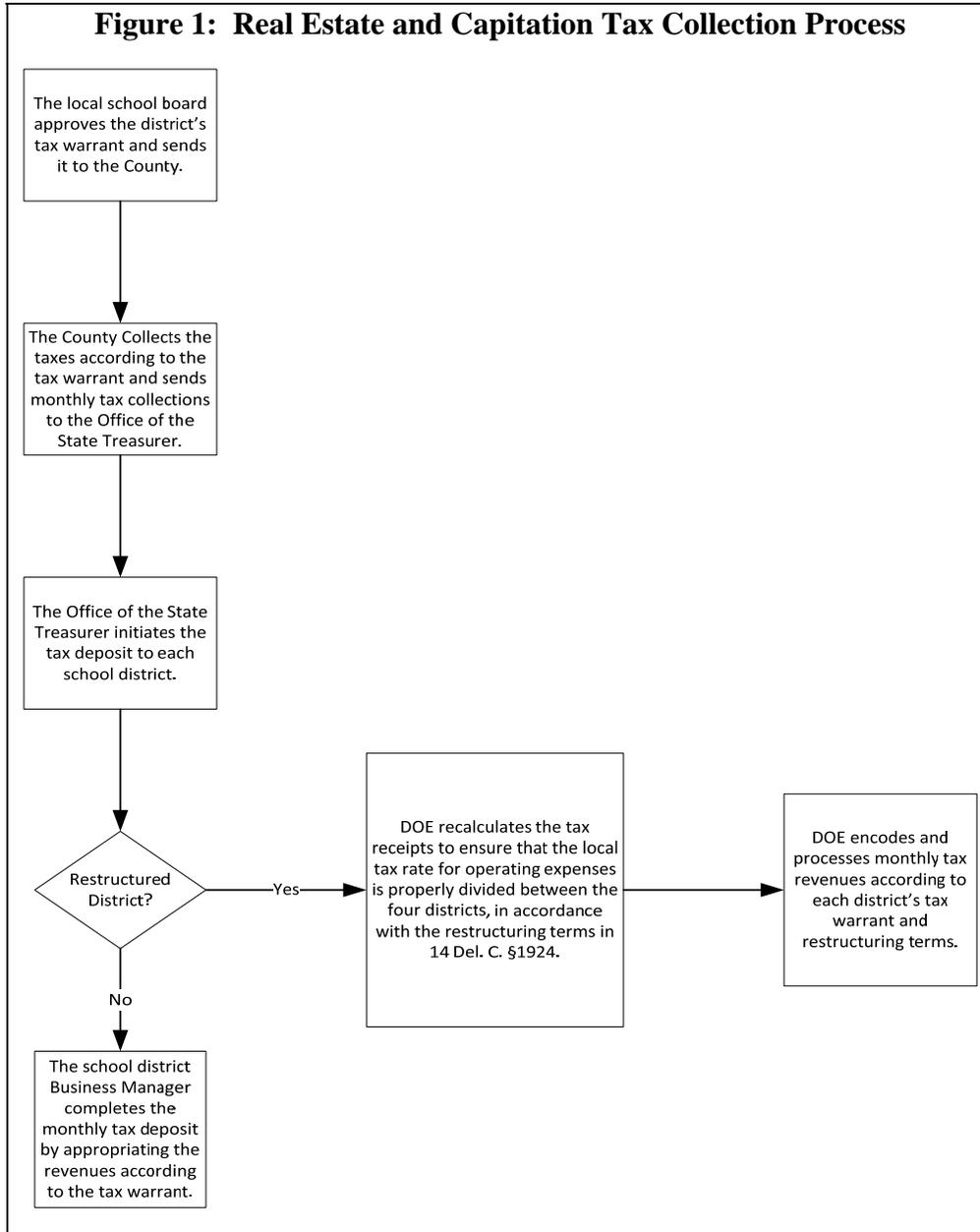
- Reading and Math Resource Teachers – Each school district, excluding state approved special schools, shall be entitled to one Reading Resource Teacher for each school which has a grade configuration of kindergarten through fifth grade. Each school district shall be entitled to a Mathematics Resource Teacher/Specialist for each school with a grade configuration containing both seventh and eighth grades. As specified in the Fiscal Year 2015 Budget Epilogue, all school districts shall be allowed to assess a local match based on their Fiscal Year 2010 Reading and Math Resource Teachers.
- Extra Time – This match provides additional instruction for low achieving students. As specified in the Fiscal Year 2015 Budget Epilogue, all school districts shall be allowed to assess a local match based on their Fiscal Year 2008 Extra Time funding.

To ensure equal disbursement of funds, DOE has taken responsibility for allocating local tax revenues to the four restructured school districts: Brandywine, Christina, Colonial, and Red Clay.¹¹ Although these four school districts operate separately, they all share a current expense tax rate as part of the restructuring plan. Each school district's student enrollment unit count is used as the basis for dividing the tax revenue attributed to current expense.

The tax collection process is summarized in Figure 1 below.

¹¹ These four districts were formerly the New Castle County School District but were divided in 1981 in accordance with 14 Del. C. §1924. Each of the four districts shares a local tax rate for the current expense appropriation, which is distributed by DOE to ensure the funds are disbursed objectively.

<http://archives.delaware.gov/collections/aghist/8181.shtml>



The school districts may also receive payments in lieu of taxes (also known as PILOT) from sources such as the Delaware State Housing Authority, Prime Hook National Wildlife Refuge, and Bombay Hook National Wildlife Refuge. It is the school district’s responsibility to deposit and code the revenue to the correct appropriation. These funds are in addition to the tax receipts collected by each county, so AOA takes these items into consideration.

Local Tax Cycle

The tax receipts for Fiscal Year 2015 were collected from the tax bills that were due September 30, 2014. Delinquent taxes from previous years’ tax billings may also be collected during this period.

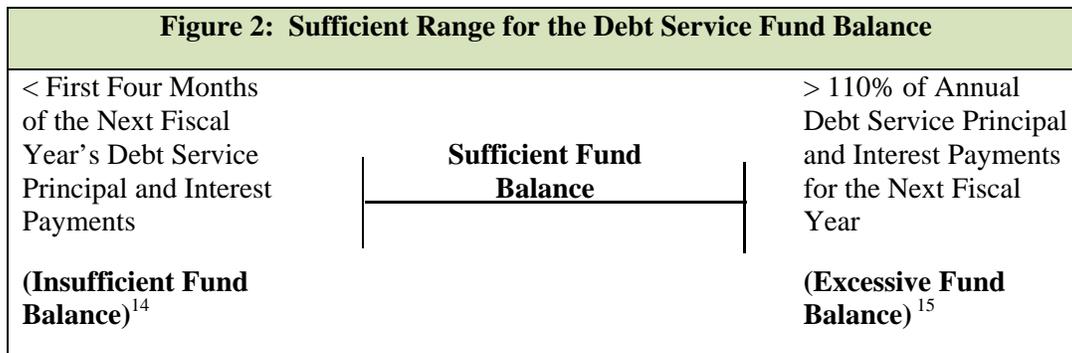
Other Revenue

Internal accounts consist of all monies other than federal, State, and local funds. Internal funds may include, but are not limited to, receipts from student activities (e.g. clubs, dramatics, yearbook, and fundraisers), donations, or before- and after-school care. Student activity funds are purely custodial and are treated as agency funds in the State’s Comprehensive Annual Financial Report (CAFR). Agency funds are used to account for monies and properties collected by the State for distribution to designated beneficiaries or governmental units.¹²

Debt Service Management¹³

Once approved by a taxpayer referendum, the General Assembly will approve a bond issuance to cover a school district’s construction cost. The school district is responsible for using county tax receipts to repay the local share of the bond, which is typically between 20% and 40%. The remainder of the bond is covered by other sources of funds. Most school districts have payment obligations for multiple debt service bonds that have accumulated over recent decades.

The debt service appropriation must be carefully monitored to ensure that the school has sufficient tax receipts to cover its debt service obligations without accruing an excessive fund balance. This analysis is a good indicator of whether the district’s tax rates need adjustment. The parameters surrounding the debt service fund balance are illustrated in Figure 2 below.



¹² Per Table 3.1 of the State of Delaware Budget and Accounting Policy

¹³ Debt Service is the series of principal and interest payments required on debt over a given time period.

¹⁴ Attorney General’s Opinion 89-I017.

¹⁵ Attorney General’s Opinion 1W-024.

Procedures and Results

The Office of Auditor of Accounts (AOA) reviewed revenues received by the Sussex Technical School District (the School District) in Fiscal Year 2015, as reported by the School District in Table 3 below, and the controls surrounding the School District's receipt process. During Fiscal Year 2015, the School District received over \$27.8 million in revenue from federal, State, local, and other¹⁶ sources.

Table 3: Schedule of School District Revenues Sussex Technical School District	
Federal Funding	
Name of Grant / Award	Amount Received
Individuals with Disabilities Education Act-B (IDEA-B)	\$ 296,988.00
21 st Century Learning	285,710.00
Title I	269,647.00
Title II	132,090.00
Career Tech	122,410.00
Adult Education	88,389.00
Total	\$ 1,195,234.00
State Funding	
Type	Amount Received
Division I	\$ 10,392,620.78
Contractor Transportation	1,648,521.62
Groves High School	614,264.00
Division II -Energy	400,108.00
Division II –All Other Costs	374,972.00
Division II Occupational/Vocational	360,451.00
Adult Trade/Apprenticeship	357,000.00
Educational Sustainment Fund	318,896.00
Alternative Secondary	231,997.00
Division III	187,823.00
Minor Capital Improvements	184,396.00
Family Literacy	150,158.00
Excellence Option	105,934.71
Drivers Education	100,893.00
Cafeteria Salaries	94,082.22
Adult Basic Education	76,392.00
World language Expansion	55,271.00
School Improvement	32,500.00
Technology Block Grant	26,427.00
Marine Mechanic	21,500.00
Dual Enrollment	19,583.20
Professional Development	16,476.00
Educator Accountability	9,690.00

¹⁶ Other sources revenue includes student activity funds (e.g. field trip money, student organization dues, or money earned through fundraisers), donations, and funds from renting out the School District's facilities.

Vocational Equipment Replacement	8,774.00
Transportation Supplies	1,000.00
Homeless Transportation	421.20
Total	\$ 15,790,151.73
Local Funding	
Classification	Amount Received
Current Expense	\$ 7,549,869.39
Debt Service	1,051,191.69
Adult Education	695,596.36
Cafeteria Funds	669,093.30
Match – Type 1 (e.g. Technology)	131,720.15
Indirect Costs	65,566.56
Match – Type 1 (e.g. Extra Time)	51,402.98
Athletic Gate Receipts	43,410.00
Interest	24,965.77
Donations	20,500.00
E-rate Funding	12,601.56
Miscellaneous Receipts	9,313.42
Total	\$ 10,325,231.18
Other Revenue (Donations, gifts, student activity accounts, etc.)	
Description	Amount Received
Student Accounts*	\$ 506,641.38
Recreation/Donations	\$ 25,501.17
Use of Facilities	600.00
Total	\$ 532,742.55
Grand Total FY2015 Revenue	\$ 27,843,359.46

*These funds are deposited into an account held at M&T Bank.

AOA’s review of internal controls specifically focused on cafeteria receipts, adult education receipts, and student activity funds since these revenues are generated through the receipt of cash. As detailed in the Findings and Recommendations section below, we found that the School District did not always ensure the physical security of cash, segregate duties appropriately, and monitor adherence to cash receipts controls.

We also reviewed the School District’s debt service ending balance and debt service reserve to ensure the School District maintained sufficient funds for their bond obligations without having an excessive debt service balance. We found that the School District’s debt service ending balance was sufficient to cover bond obligations for the first four months of the next fiscal year, while being less than 110% of the total debt service obligations for the fiscal year. AOA also reviewed local tax collections to ensure that these funds were properly recorded in FSF, and found that the School District’s tax receipts were accurately recorded.

Findings and Recommendations

Finding 2015-01 – Physical Security of Assets

According to the Standards for Internal Control in the Federal Government (Green Book),¹⁷ published by the Government Accountability Office (GAO), “*Management establishes physical control to secure and safeguard vulnerable assets. Examples include physical security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use.*”

Student Activities

Student Activity funds are stored in an unsecured location until School District personnel deposit the funds in the bank.

Recommendation

Management should establish a policy that requires all funds collected to be stored in a locked safe or file cabinet prior to deposit in the bank.

School District Response

The School District does not concur with the finding. The School District’s standard protocol is to collect funds during the day and hold those funds in a locked cabinet during the day and then deposit the funds at the bank on a daily basis. On the rare occasion when funds must be held overnight, they are moved from the locked cabinet to a locked safe located within the school until a deposit is made.

Auditor Response

AOA’s finding stands as written. It was expressed during our interview that cash is not secured during the day. The standard protocol described in the School District’s response is ideal to ensure physical security of cash.

Finding 2015-02 – Segregation of Duties

According to the Green Book,¹⁸ “*Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.*”

Student Activities

The Student Activity bank statements are opened by the Financial Secretary who also maintains the Student Activity account.

Recommendation

The School District should appropriately divide responsibilities to ensure adequate control over assets.

School District Response

¹⁷ Green Book 2014 Section 10.03

¹⁸ Green Book 2014 Section 10.03

The School District concurs with the finding. Due to budget constraints, the School District eliminated a secretarial position in the high school that was integral to the process of dividing responsibilities to ensure adequate control over assets. The principal's secretary now handles student accounting and opens the mail, which contains the Student Activity bank statements. The School District agrees that a separate person should be responsible for opening the Student Activity bank statements. Accordingly, to ensure the proper division of responsibilities and adequate control over assets, the principal will now open the Student Activity bank statements.

Finding 2015-03 – Inadequate Monitoring Activities

According to the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework, monitoring activities include, "...[performing] ongoing and/or separate evaluations to ascertain whether the components of internal controls are present and functioning."

Adult Education

There is no tracking mechanism in place to monitor revenue collected from multiple locations for the Adult Education program. Failure to monitor the amount of revenues collected prohibits those charged with governance from ensuring that revenues are accurate and complete, and holding the individuals who collect the receipts accountable.

Recommendation

The School District should evaluate the internal controls around revenue collections to ensure accuracy and completeness.

School District Response

The School District does not concur with the finding. Our Adult Education Division serves thousands of adult learners at several locations across Sussex County. Many of these adult learners lack the means and availability of transportation to drive to the Sussex Technical Adult Education's main site. Accordingly, off-site Adult Education Division employees will occasionally accept checks from those students and deliver those checks to the Sussex Technical Adult Education's main site. These employees understand the proper way to handle those checks. However, the School District will evaluate the internal controls around revenue collections to ensure accuracy and completeness in the future. And, we will implement procedures to ensure the individuals who collect the receipts are held accountable.

Auditor Response

AOA's finding stands as written. The finding does not imply that adult learners should commute to Sussex Technical Adult Education's main site; rather, the School District should establish internal controls to monitor the revenue collected from each location.

Finding 2015-04 – Inadequate Documentation

According to the COSO's Internal Control – Integrated Framework, supervisory controls "...assess whether other transaction controls (i.e., particular verifications, reconciliations, authorizations and approvals, controls over standing data, and physical control activities) are being performed completely, accurately, and according to policies and procedures." COSO adds that "effective documentation assists in capturing the design of internal control and communicating the who, what, when, where, and why of internal control execution, and creates standards and expectations of performance and conduct." Based on the lack of documentation discovered in our review of the cafeteria, adult education, and student activity processes discussed below, AOA determined that

School District management did not adequately review the cafeteria and student activity revenue processes.

Adult Education

While various Financial Secretaries receive the payments, create the deposit slips, and print off summary reports and a designated school custodian takes the deposit to the bank, there was no documentation (e.g. a signed deposit slip or deposit form) to confirm who performed each task in the process. Failure to keep records of the individuals performing daily tasks leaves the School District at risk of being unable to identify which individual performed a task on a given day if there are any discrepancies.

In addition, the School District does not have adequate policies and procedures in place for the processing of adult education funds. A lack of detailed policies and procedures leaves employees with an unclear outline of their responsibilities, and keeps auditors from determining individual responsibilities in a given process.

Cafeteria

While the cafeteria manager prepares the deposit slip, a designated custodian takes the deposit to the bank, and the Payroll Benefit Specialist and Senior Accountant verify and reconcile the deposits, there was no documentation (e.g. a signed deposit slip or deposit form) to confirm who performed each task in the process. Failure to keep records of the individuals performing daily tasks leaves the School District at risk of being unable to identify which individual performed any given task on a given day if there are any discrepancies.

In addition, the School District does not have adequate policies and procedures in place for the processing of cafeteria funds. A lack of detailed policies and procedures leaves employees with an unclear outline of their responsibilities, and keeps auditors from determining individual responsibilities in a given process.

For one \$141.00 Cafeteria cash receipt tested out of 19 receipts totaling \$82,726.48, the School District could not provide the cash collection receipt which documents the amount of cash received by the Cafeteria Manager.

Student Activities

The bank deposit slips and receipts are not signed off for evidence of reconciliation with Sussex Tech's Receipt Voucher forms, which document Student Activity revenue collections.

Recommendation

The School District should document which individuals perform the various cash receipts processes to ensure proper controls over cash in the School District's possession, and allow management to perform adequate reviews of cash receipts. In addition, the School District should require that all reconciliations or verifications of receipts be documented, so that the individual completing the reconciliation or verification can be easily identified if there is a discrepancy or issue. Next, the School District should work to develop policies and procedures that clearly identify individual responsibilities in all financial processes. Finally, maintaining appropriate support for all transactions, and ensuring the support is thoroughly completed, provides management with the necessary resources to complete a thorough review of the School District's transactions.

School District Response

The School District does not concur with the finding. The School District contends that it has adequate procedures for processing Adult Education funds, cafeteria, and student account funds. It is agreed that those procedures can and should be improved and better documented. Therefore, the School District will take action to do so by:

- documenting which individuals perform the various cash receipts processes to ensure proper controls over cash in the School District's possession, and allow management to perform adequate reviews of cash receipts.
- requiring that all reconciliations or verifications of receipts be documented, so that the individual completing the reconciliation or verification can be easily identified if there is a discrepancy or issue.
- working to develop policies and procedures that clearly identify individual responsibilities in all financial processes.
- maintaining appropriate support for all transactions.

Finding 2015-05 – Verification

COSO's Internal Control – Integrated Framework defines verification as, "...[comparing] two or more items with each other..., and [performing] a follow-up action when the two items do not match...." The School District did not maintain support that confirms the accuracy of the State and federal funds received through the DOE or the local funds received through Sussex County. Failure to document the confirmation that all federal, State, and local funds due to the School District were received may result in an oversight and a missed opportunity to claim all funds owed to the School District.

Recommendation

The School District should verify the accuracy of all funds received by and owed to the School District from federal, State, and local funding sources, and document such verification to ensure the School District receives all funds to which they are entitled.

School District Response

The School District does not concur with the finding. The School District verifies the accuracy of every dollar of State, Federal, and Local funds received annually. In addition, the Board of Education reviews those allocations on a monthly basis.

State funds are allocated to the School District into unique, individual appropriations based upon the annual unit count – it is formula driven. The School District prepares a preliminary budget in May or June of the prior fiscal year estimating State revenues based upon a projected unit count and the Governor's draft budget. The State front loads State funds in early July based upon unit count forecasts. Then, around the mid-point of the fiscal year the State transfers the balance of State funds into State appropriations. The State provides transfer documents with attachments itemizing their calculations. The School District faithfully, and without exception, verifies each of those transfers to ensure the State allocations are accurate based upon the State unit count. Furthermore, the School District briefs the Board of Education upon receipt of the final State distributions.

Federal funds are distributed to the School District by DOE electronically into unique, individual appropriations. The support is a Notification of Grant Award (NOTAG) that DOE emails to the School District. The School District, without exception, verifies the amount on the NOTAG matches the amount of funding loaded into the appropriations. Furthermore, the School District confirms the amount of the NOTAG is accurate based upon the approved federal grants and State allocation tables.

Local funds are primarily from property tax. In May or June of the prior fiscal year, the School District presents a Property Tax Rate Proposal to the Board of Education. That package contains forecasts for the four types of property taxes (current expense, tuition, technology, and extra-time). The board reviews and approves those estimates along with the tax rates. Once approved, the School District submits a tax warrant to Sussex County therein fixing tax rates for the new fiscal year. Once the year begins, the School District receives monthly statements from the Sussex County Tax Office quantifying the amount of tax collections received that month. The School District business office confirms that those amounts match the cash receipt document. Then, the CFO completes a monthly property tax reconciliation report to confirm the collections were accurately recorded. The Board of Education reviews the property tax collections each month comparing collections against forecasts.

Auditor Response

AOA's finding stands as written. The School District's process for verifying federal, State, and local revenues was observed by AOA during our interviews; however, the finding addresses the lack of documentation maintained to confirm that the School District verified the accuracy of all funds received by and owed to the School District during Fiscal Year 2015 from federal, State, and local funding sources.