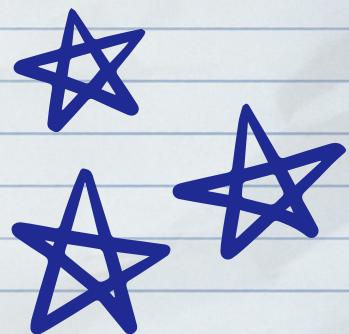
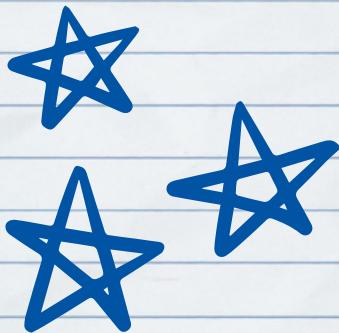




# Cape Henlopen School District Local Funds Performance Audit

## For Year Ended June 30, 2021



Kathleen K. McGuiness, RPh, CFE  
Delaware State Auditor



KATHLEEN  
**McGUINNESS**  
DELAWARE  
STATE AUDITOR

**Cape Henlopen School District**  
**Local Funds Performance Audit**  
For Year End June 30, 2021

**What Was Performed?** A performance audit of the design and operation of Cape Henlopen School District's internal controls over Local Funds and compliance with the requirements of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *Budget and Accounting Policy Manual*, School District Accounting Policies, and the School District Budget.

**Why This Engagement?** The State Auditor is authorized under 29 Del. C., §2906 to conduct post-audits of local school district tax funds budgets and expenditures. Delaware Code provides for school districts and vocational-technical school districts to levy and collect additional taxes for school purposes upon the assessed value of real estate in the district with some exceptions. For purposes of this report, real estate taxes levied for school purposes are referred to as "Local Funds." The school districts' authority to levy taxes is governed by 14 Del. C., c. 19 for nonvocational districts and by 14 Del. C., c. 26 for vocational districts.

There were four objectives established for the performance audit of the School District:

1. School district internal controls over the expenditure of Local Funds were designed and operated based on requirements in the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *Budget and Accounting Policy Manual*, School District Accounting Policies, and the School District Budget.
2. The school district's internal controls over the receipt of Local Funds were designed and operated in accordance with the requirements.
3. The school district's real estate taxes were approved and calculated in accordance with the requirements.
4. The school district's tuition tax funds were calculated and spent in accordance with the requirements.

In March 2020, the Governor of the State of Delaware declared a state of emergency to mitigate the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021 and included temporary school district closures. In response to the challenges faced by school districts related to teaching, remote learning, nutrition and emotional support to students, State Auditor McGuiness honored requests from school districts to delay this engagement. This accommodation not only fulfilled the needs of school districts but ensured the integrity of the engagement.

**What Was Found?** Based on the work performed, the following findings were identified:

- **Lack of Proper Approvals in State Accounting System:** Seven non-tuition local tax funds disbursement transactions for minor capital, totaling \$23,972, lacked proper approval in the state accounting system (FSF) of the forty tested disbursement transactions.
- **Non-Compliance with State Procurement Requirements:** One purchase order for \$62,500 did not have the required state procurement actions taken by the district of the five tested purchase orders. This included not issuing an RFP for services or maintaining a written determination for a sole source procurement.
- **Debt Service Reserve Exceeds Allowable %:** The district debt service rate for FY2021 was 122.64% of the expected total debt service expenditures expected for FY2022, which exceeded the 110% of future fiscal payments allowed. The district's debt tax-rate setting process did not consider other significant

debt service revenue sources and used the maximum tax rate approved rather than a calculated rate.

The Cape Henlopen School District Local Funds Performance Audit for Fiscal Year Ended June 30, 2021 can be found on our website: [click here](#).

For any questions regarding the attached report, please contact State Auditor Kathleen K. McGuiness at [Kathleen.Mcguiness@delaware.gov](mailto:Kathleen.Mcguiness@delaware.gov).

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**CAPE HENlopen SCHOOL DISTRICT**  
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*Independent Auditors' Report*

Mr. Robert Fulton, Superintendent  
Cape Henlopen School District  
1270 Kings Highway  
Lewes, Delaware 19958

Dear Mr. Fulton:

We present the attached report which provides the results of our performance audit of the Cape Henlopen School District's Local Funds' design and operation of internal controls and compliance with applicable state and district regulations and policies during the year ended June 30, 2021. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Cape Henlopen School District's Local Funds under OAOA Contract Number 22-CPA01\_SDLOCALFUNDS.

The Office of Auditor of Accounts is authorized under 29 Del. C., §2906(f) to perform post-audits of local school district tax funds' budget and expenditures. The Cape Henlopen School District's management is responsible for the design and operation of internal controls over Local Funds and compliance with the applicable Delaware Code sections.

We conducted this performance audit in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended solely for the information and use of the Cape Henlopen School District, the Delaware Department of Education and the Office of Auditor of Accounts, and is not intended to be, and should not be, used by anyone other than these specified parties. Under 29 Del. C. §10002, this report is a matter of public record, and its distribution is not limited. This report, as required by statute, will be provided to the Office of the Governor, General Assembly, Office of the Controller General, Office of the Attorney General and Office of Management and Budget.

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

June 7, 2022  
Wilmington, Delaware

cc: Kathleen McGuiness, RPh, CFE - State Auditor  
Oliver Gumbs - Director of Business Operations

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT**  
**JUNE 30, 2021**

## **PERFORMANCE AUDIT OVERVIEW**

Performance audits are audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

## **BACKGROUND**

**Overview** - Any Delaware School District may, in addition to the amounts apportioned to it by the Department of Education (DOE) or appropriated to it by the General Assembly, levy and collect additional taxes for school purposes upon the assessed value of all taxable real estate in the district except real estate exempt from taxation per 14 Del. C., §1902 and 14 Del. C., §2601. The purpose of this performance audit is to determine whether internal controls over the collection and use of these real estate tax funds were designed and operated in accordance with Delaware law and District Policy. For purposes of this report, real estate taxes levied for school purposes are referred to as “Local Funds.” Although there are other types of Local Funds, they are not included in the scope of our performance audit.

**Laws and Regulations** - The School District’s authority to levy taxes is governed by 14 Del. C., c. 19 for nonvocational districts and by 14 Del. C., c. 26 for vocational districts. The legislative provisions and other policies relevant to local school taxes are summarized below. There are four categories of local school taxes: current expense, debt service, tuition, and match taxes.

**Current Expense** - Current expense tax rates are levied for general operation expenses incurred by the School District. Rate increases are approved via voter referendum. Vocational school districts do not require a referendum to increase their current expense rate as the rate is established by 14 Del. C., §2601.

**Debt Service** - Debt service tax rates are levied to cover the local share of the principal and interest payments on bonds funding major capital projects, which per Delaware Administrative Code 401 *Major Capital Improvement Program*, are projects costing \$750,000 or more. The local share of major capital projects is between 20% and 40% of the total cost per 29 Del. C., §7503(b) with the remaining balance financed by the State of Delaware. The project must be approved by the DOE and bond issuances are authorized via voter referendum. Per 14 Del. C., §2116 and §2118(a), with a passing referendum, districts are authorized to levy a debt service tax sufficient to cover the local share of annual principal and interest payments plus 10% for expected delinquencies.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**BACKGROUND - CONTINUED**

***Debt Service - Continued***

Vocational schools do not require a referendum to increase their debt service rate. Per 29 Del. C., §7503(b), the bond authorization act in which the project is included authorizes the vocational district to levy taxes sufficient to cover the local share of principal and interest bond payments.

The District is required to maintain debt service reserve, within a range of at least four months to 110% of the following fiscal year's debt service payments based on the following opinions issued by the State of Delaware Attorney General:

- Attorney General Opinion 89-I017 from 1989 stated that, per the DOE, a sufficient reserve is at least four months of the following fiscal year's debt service payments.
- Attorney General Opinion 1W-024 from 1975 stated that a reserve is considered excessive when it is greater than 110% of total debt expenditures in the following year as districts' powers to levy taxes for debt service are limited per 14 Del. C., §2116 and §2118(a) to principal and interest and 10% for delinquencies.

**Tuition** - Tuition tax rates are levied to cover educational expenses for in-district and out-of-district placements of students in special programs and schools. The rate is set annually by the school board based on anticipated needs in the district and does not require a voter referendum. Per 14 Del. C., §2601(b), vocational school districts are not authorized to levy tuition taxes.

**Match** - Match funds provide a local match to State appropriations where required or allowed by law. Examples of Match programs include technology, minor capital improvements (MCIs), extra time, reading and math resource teachers, student success block grants and opportunity funds.

**Technology** - These funds are intended to support the purchase and replacement of technology, technology maintenance through personnel or services, professional learning, or other technology needs intended to improve the School District. The FY 1999 Bond and Capital Improvements Act authorized appropriations for education technology and authorized school districts to indefinitely levy up to one half of the rate required to meet the district's match. Technology match taxes are currently set by a Delaware DOE memo issued December 1998.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**BACKGROUND - CONTINUED**

***Match - Continued***

*Minor Capital* - Per Delaware Administrative Code 405 *Minor Capital Improvement Program*, minor capital pertains to projects costing less than \$750,000, intended to keep assets in their original condition. The maximum local share for minor capital expenditures is 40% per 29 Del. C., §7528(b). The State of Delaware provides the remaining balance up to a maximum dollar amount which is included in the Delaware Capital Budget annually.

*Extra Time and Reading Resource and Math Resource Teachers* - The FY 2021 Operating Budget Epilogue authorizes school districts to levy a local match for Extra Time as well as Reading Resource Teachers and Mathematics Resource Teachers which were originally established by the following:

- Per the FY 2008 Operating Budget Epilogue, the extra time appropriation is intended for additional instruction for low achieving students and school districts were encouraged to match on a 70% state and 30% local basis.
- Per the FY 2010 Operating Budget Epilogue, the reading and math resource teacher appropriations are intended to fund state salaries for resource teachers in each school and districts were encouraged to match on a 70% state and 30% local basis.

*Student Success Block Grant* - The State of Delaware FY 2021 Operating Budget Epilogue authorizes school districts to assess a local match for costs relating to the Student Success Block Grant appropriations, which are intended for basic special education in grades K-3 and reading assistance in grades K-4.

*Opportunity Fund* - The State of Delaware FY 2021 Operating Budget Epilogue authorizes school districts to assess a local match for costs associated with Opportunity Fund appropriations intended to cover staffing, contractual services, materials and supplies for English learner and low-income students. Per a June 2019 Delaware DOE Memo, schools are allowed to match on a 70% state and 30% local basis.

***Capitation*** - Districts may also levy a school capitation tax on all persons 18 years of age and older, determined by the board, provided that such school capitation tax is approved by the voters of the district in the same manner as required for the levy of taxes on the assessed value of real estate, per 14 Del. C., §1912.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**DISTRICT SPECIFIC SUMMARY**

The Cape Henlopen School District, located in Sussex County, operates K-12 schools with over 5,800 students. The Cape Henlopen School District employs over 1,100 employees to educate and support its students. Cape Henlopen has 5 elementary schools, 2 middle schools, and 1 high school. In addition, the District is also home to the Sussex Consortium and the Little Vikings Learning Center. The Cape Henlopen District Board of Education is the governing body of the District. The School Board includes seven elected members who serve four-year terms. For the purposes of this report, Cape Henlopen School District is referred to as the “District.”

**AUDIT OBJECTIVES**

The objectives established for the performance audit of the School District were:

***Objective 1*** - School District internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *Budget and Accounting Policy Manual (BAM)*, School District Accounting Policies, and the District Budget (the requirements).

***Objective 2*** - School District internal controls over the receipt of Local Funds were designed and operated in accordance with the requirements.

***Objective 3*** - School District real estate taxes were approved and calculated in accordance with the requirements.

***Objective 4*** - School District tuition tax funds are calculated and spent in accordance with the requirements.

**AUDIT SCOPE**

The period covered by the Performance Audit was July 1, 2020, through June 30, 2021. We sampled and examined transactions from the populations of expenditures and receipts of Local Funds for the period from July 1, 2020, through June 30, 2021. In sampling these transactions, we relied on documentation provided by the District, the DOE and the State of Delaware’s financial accounting and human resources systems.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS**

To address the audit objectives of this performance audit, we performed the following procedures:

- A. Planning Phase: The audit relied on various sources of information and methods to properly plan the audit and to obtain an understanding of and assess Local Funds' processes for the School District, including the following:
  1. Reviewed the applicable sections of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *BAM*, School District Accounting Policies, and the School District Budget to gain an understanding of the legal and policy requirements governing Local Funds.
  2. Inquired about whether there were any findings and recommendations in reports resulting from previous audits that relate to the objectives of this audit and whether the recommendations have been implemented.
  3. Reviewed the minutes of the Board of Education's meetings for the audit period.
  4. Identified and reviewed contracts, agreements, and other important documents.
  5. Performed risk assessment procedures such as:
    - a. Obtained and documented an understanding of the School District and its environment and identified risks,
    - b. Completed engagement team discussions, including discussions about the possibility of error or fraud involving Local Funds,
    - c. Made inquiries of management and others about risks (including fraud risks, related-party transactions, unusual transactions, and compliance with laws, regulations, contracts, and grant agreements),
    - d. Obtained and documented an understanding of the School District's internal control system over Local Funds by performing walkthroughs.
  6. Identified key internal controls over the District's Local Funds for testing.
- B. Performance Assessment: Based on the information gathered, we developed the following procedures to assess the design and operation of material controls over Local Funds with respect to the audit objectives:
  1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and local tuition tax funds to determine that transactions complied with State and District requirements.
  2. To assess the design and operation of payroll internal controls, we sampled and tested transactions from the population of payroll expenditures from Local Funds for the following attributes:
    - a. Verified employee education and experience, which are the main drivers of salaried pay.
    - b. Agreed hourly pay to timecard evidence.
    - c. Tested a sample of bi-weekly payroll expenditures for management's reconciliation, review and approval.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

3. To assess the design and operation of internal controls over the approval and calculation of real estate taxes, including tuition tax:
  - a. We compared taxes levied per official tax warrants to supporting rate calculations, budgets, and amounts authorized by referendum, relevant legislation (including tax revenue reserve limits) and School District approval.
  - b. Analyzed tax revenue reserves at the beginning and end of the fiscal year.
  - c. Verified local tax fund receipts were properly recorded to the related tax appropriation based on the official tax warrant.

***Objective 1*** - School District internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

**Results** - We found the design of the key internal controls over the expenditure of Local Funds, including payroll, non-payroll and debt service, was in accordance with the requirements, for the period from July 1, 2020 through June 30, 2021.

To assess the operation of the internal controls over non-payroll expenditures of Local Funds during FY 2021, we selected a random sample of 40 disbursement transactions (excluding transactions from tuition Local Funds tested in Objective 4). Except as noted below, our testing of the selected transactions determined that the disbursements complied with State and District requirements, and that the transactions were properly approved at the District level, as evidenced by approval on invoices and receipts as well as in First State Financials (FSF), the State of Delaware's accounting system. We found the District did not obtain additional DOE approvals for seven of the transactions.

Refer to Finding #1 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

We also examined the five largest purchase orders against local funds. We found one purchase order did not comply with state purchasing and procurement requirements.

Refer to Finding #2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 1 - Continued***

**Results - Continued**

To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 50 employees paid from Local Funds. To test the employees' salaries, we compared each employee's salary profile in the State's payroll system, Payroll and Human Resource Statewide Technology (PHRST), to education and experience verifications provided by the District. We also compared each employee's salary to the District's approved FY 2021 salary schedules. We also agreed hourly pay or extra pay received by the employees to approved timecards without any exceptions.

We reviewed evidence of the District's bi-weekly payroll reconciliation and approval process for a random sample of four bi-weekly payroll cycles and determined that authorized personnel at the District performed and maintained evidence of a review of bi-weekly payroll expenditures.

We examined the requirement that the District maintain its debt service reserve, within a range of at least four months and no more than 110% of the following fiscal year's debt service payments. We also compared budget to actual debt service expenditures, at the District level, during our analysis of debt service real estate tax rate calculations in Objective 3. Because the payment of debt service is managed and initiated at a statewide level by the State of Delaware Department of Finance, it is outside of the scope of this performance audit, and we did not assess the design or operation of internal controls over debt service expenditures.

***Objective 2 - School District internal controls over the receipt of Local Funds were designed and operated in accordance with the requirements.***

**Results** - We obtained the Sussex County Reports of Local Property Tax Collections, recalculated the District's distribution of its receipts among the four categories of local taxes and determined that the District accurately distributed the receipts based on the official warrant and code requirements.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3*** - School District real estate taxes were approved and calculated in accordance with the requirements.

***Results*** - To determine if real estate taxes were approved and calculated in accordance with the requirements, we obtained the official tax warrant for FY 2021 and concluded the following:

- The District's current expense rate was supported by a referendum passed in March 2018.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Student Success Block Grant, and Opportunity Fund. We found the District's match tax rates were consistent with relevant legislation and guidance.
- We compared debt service collections based on the debt service rate to principal and interest schedules for FY 2021 and determined that the rate and existing reserves were in excess of the amounts required to cover debt service expenditures in FY 2021. The District's reserve at the end of FY 2021, which was equal to approximately 122.64% of FY 2022 debt service payments as summarized below, exceeds the maximum of 110% of FY 2022 debt payments set by the State of Delaware Attorney General. Refer to Finding #3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

FY 2021	FY 2021
Debt Service	Debt Service
Tax Collections	Principal and Interest
<hr/>	
\$ 8,904,424	\$ 6,627,581
FY 2022	
Debt Service Reserves	Reserve to Expected
at June 30, 2021	Future Payments
<hr/> \$ 9,332,036 <hr/>	<hr/> 122.64% <hr/>
Debt Service	

The sources of the information we accumulated to meet this audit objective are as follows: The FY 2021 Debt Service Collections were obtained from the June 30, 2021 YTD Cumulative Budgetary Report (Document Direct Report DGL011), which is a cumulative report of transaction detail by ledger group and appropriation. The FY 2021 and FY 2022 Debt Service Principal and Interest were obtained from the District's FY 2022 Final Budget. The FY 2021 Debt Service Reserves were obtained from the June 30, 2021 Daily Validity Report (Document Direct Report DGL060), which is a daily report on the status of

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3 - Continued***

Results - Continued - appropriations and does not include \$2 million in Market Pressure Funds that the District had not expended at the end of FY 2021. The District was authorized by the State of Delaware FY 2020 Bond and Capital Improvements Budget Bill to allocate debt service funds to meet the local Market Pressure Fund match for its Lewes School Renovation/Shields School Demolition project. Market Pressure Funds are available to School Districts to mitigate increasing construction costs and maintain high quality construction.

- We compared actual tuition tax expenditures and funds transferred out to special programs and other districts to the tuition tax rate and determined that the rate appeared to be consistent with the related criteria. Our review determined that at the end of FY 2021 the District held approximately \$23 million in tuition reserves and that reserves, prior to the September 30<sup>th</sup> due date for tax receipts, which is three months after the start of the fiscal year, were sufficient to meet expected FY 2022 expenditures of approximately \$18.6 million.

Comparison of Tuition Receipts, Expenditures, and Reserves

FY 2021 Tuition Tax Collections	<u>\$ 17,427,084</u>
FY 2021 Tuition Transfers and Expenditures	
Transfers Out to Special Programs and Other Districts	\$ 731,631
Private Placements Expenditures	289,436
Sussex Consortium/LVLC/District ILC/SCOPE Expenditures	<u>14,209,075</u>
Total FY 2021 Transfers and Expenditures	<u>\$ 15,230,142</u>
FY 2021 Tuition Reserves	
Tuition	\$ 8,052,368
Sussex Consortium	9,166,850
Little Vikings Learning Center	742,596
District ILC	5,187,650
SCOPE	<u>66,160</u>
Total Reserves at June 30, 2021	<u>\$ 23,215,624</u>
Projected FY 2022 Expenditures	<u>\$ 18,592,250</u>

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3 - Continued***

**Results - Continued**

The sources of the information we accumulated to meet this audit objective are as follows:

The FY 2021 Transfers Out to Special Programs and FY 2021 Tuition Tax Receipts were obtained from the YTD Cumulative Budgetary Report (Document Direct Report DGL011). The expenditures for private placements, Sussex Consortium, LVLC, District ILC, and SCOPE were obtained from the June 2021 FY 2021 Appropriation Expenditures by Operating Unit Report (Document Direct Report DGL010). The projected FY 2022 tuition-based expenditures were obtained from the District's FY 2022 tax rate proposal.

***Objective 4 -*** School District tuition tax funds are calculated and spent in accordance with Delaware Code, State of Delaware Budget and Accounting Policy Manual and District Policies.

**Results** - We examined a random sample of 25 disbursement transactions from tuition tax funds and determined that the purchases both complied with state and District requirements and that the transactions were properly approved by the District, as evidenced by approval on invoices and receipts as well as in FSF.

We examined payroll expenditures made from tuition tax funds in conjunction with the procedures performed over non-tuition payroll expenditures. Results are reported in Objective 1.

We examined tuition tax fund calculations in conjunction with procedures performed over the non-tuition Local Funds. Results are reported in Objective 3.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**JUNE 30, 2021**

***Finding Number 1 - Minor Capital Disbursements Lacked Proper Approval in FSF***

**Condition:** Of the 40 non-tuition local tax funds disbursement samples that we tested for compliance with the requirements, seven disbursements totaling \$23,972 from appropriation 91151 MCI - Local (Minor Capital Improvement - Local) were not approved by the State of Delaware DOE Capital Projects Management. These disbursements were funded on a 60% State and 40% local basis as authorized by the Delaware Code.

**Criteria:** Chapter 6 *Approvals*, Section 6.6.5 *Capital Improvements* of the *BAM* requires DOE Capital Projects Management to approve all Minor Capital Improvement purchase orders, change orders, and direct claim vouchers.

**Cause:** The DOE's approval is an ad-hoc approval that is manually inserted into the FSF approval workflow by the District. The FSF system does not automatically route workflow for vouchers for Minor Capital Improvement - Local to the DOE for approval.

**Effect:** The District's minor capital purchases which were made with both state and local funds were not in compliance with the requirements of the *BAM*.

**Recommendation:** We recommend that District implement procedures to ensure that purchase orders, change orders, and direct claim vouchers that are disbursed from minor capital funds are routed to the DOE for approval after the business manager's approval at the District.

**View of Responsible District Officials and Planned Corrective Actions:** Refer to the Management Response section.

***Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements***

**Condition:** Of the five purchase orders that we tested for compliance with the requirements, one did not comply with the State's procurement requirement. The District procured \$62,500 of Apple device management software from JAMF Software during FY 2021. We found the following:

- This procurement exceeded the \$50,000 professional services threshold for a formal Request for Proposal (RFP). The District did not issue an RFP for these services.
- The District considered the purchase a sole source purchase under 29 Del. C. §6925(a), which exempts textbooks and related instructional materials from procurement. This procurement does not appear to be textbooks or instructional materials. The District's procurement file did not include a written determination for the sole source procurement.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2021**

***Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued***

**Criteria:** School Districts must adhere to the procurement and purchasing requirements of the *BAM* and the Delaware Code.

- Chapter 5 *Procurement*, Section 5.3.3 *Professional Services Thresholds* of the *BAM* requires that professional services purchases, which are purchases that will require specialized education, training or knowledge and involve intellectual skills per 29 Del. C. §6902(20), that are \$50,000 and over on a contract basis in FY 2021 are procured through a formal process.
- Sole source procurement requires the following:
  - "(a)... Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases.*
  - (b) An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award.*
  - (c) The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement."*

**Cause:** The District's application of the sole source exemption for textbooks and instructional material to the purchase of device management software resulted in the District not procuring these services through a formal RFP as required by the *BAM* and Delaware Code. The District did not prepare contemporaneous written documentation for the sole source procurement.

**Effect:** By not procuring the services through a formal RFP process, the District increased its risk that it did not obtain the best price or quality.

**Recommendation:** We recommend that the District implement the following:

- Request DOE to define the scope of "Textbooks and related instructional materials" to help the District correctly apply 29 Del. C. § 6925.
- Update its procurement policy to include a definition of "Textbooks and related instructional materials."
- Procedures to properly evaluate purchases and document its decisions when relying on the "sole source" exemption from the policy.

**View of Responsible District Officials and Planned Corrective Actions:** Refer to the Management Response section.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2021**

***Finding Number 3 - Debt Service Reserve is in Excess of 110% of Future Fiscal Year Payments***

**Condition:** We found the following conditions regarding the District debt service tax rate and reserve:

- The District's FY 2021 Tax Rate Proposal issued June 25, 2020 calculated a debt service tax rate of \$.526 to fund budgeted FY 2021 debt service. The District recommended and adopted a debt service tax rate of \$.691.
- The District's FY 2021 debt service rate resulted in a debt service reserve at the end of FY 2021 equal to 122.64% of total debt service expenditures expected in FY 2022.
- The District's debt service tax rate-setting process did not consider the following significant debt service revenue sources: Other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes.

**Criteria:** The District is required to maintain its debt service reserve of at least four months and no greater than 110% of the following fiscal year's debt service payments based on the following opinions issued by the State of Delaware Attorney General:

Attorney General Opinion 89-I017 from 1989 stated that, per the DOE, a sufficient reserve is at least four months of the following fiscal year's debt service payments.

Attorney General Opinion 1W-024 from 1975 stated that a reserve is considered excessive when it is greater than 110% of total debt expenditures in the following year as Districts' powers to levy taxes for debt service are limited per 14 Del. C., §2116 and §2118(a) to principal and interest and 10% for delinquencies.

**Cause:** The District's FY 2021 tax rate was levied at the maximum rate of \$0.691, which was approved by voter referendum in March 2016. However, this rate, existing reserves and other debt service revenues resulted in receipts that exceeded the District's need to meet obligations and maintain acceptable reserves.

**Effect:** By using the maximum tax rate approved by the March 2016 referendum rather than calculated rates, the District had an excessive service reserve as of June 30, 2021.

**Recommendation:** We recommend the District utilize expected debt service expenditures to set debt service tax rates. We also recommend that the District consider the effect of other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes (PILOT) will have on debt service reserves and make efficient use of its reserves to avoid future tax increases.

**View of Responsible District Officials and Planned Corrective Actions:** Refer to the Management Response section.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**CONCLUSION**  
**JUNE 30, 2021**

Based on the work performed in connection with this performance audit, we concluded the following:

***Objective 1*** - The School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements with the exception of seven transactions for which the District did not obtain additional DOE approvals in FSF, which are only required for certain circumstances, and one purchase that did not comply with state purchasing and procurement requirements.

***Objective 2*** - The School District's internal controls over the receipt of Local Funds were designed and operated in accordance with the requirements.

***Objective 3*** - The School District's real estate taxes were approved and calculated in accordance with the requirements with the exception that the District's debt service reserves as of June 30, 2021, did not comply with the maximum set by the State of Delaware Attorney General Opinion.

***Objective 4*** - The School's District's Tuition Tax funds were calculated and spent in accordance with the requirements.

## **MANAGEMENT RESPONSE**



# Cape Henlopen School District

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These responses are provided in connection with the findings from the Local Funds Performance Audit for the year ending June 30, 2021.

## ***Finding Number 1 - Minor Capital Disbursements Lacked Proper Approval in FSF***

**Condition:** Of the 40 non-tuition local tax funds disbursement samples that we tested for compliance with the requirements, seven disbursements totaling \$23,972 from appropriation 91151 MCI - Local (Minor Capital Improvement - Local) were not approved by the State of Delaware Department of Education (DOE) Capital Projects Management. These disbursements were funded on a 60% State/40% local basis as authorized by the Delaware Code.

**Recommendation:** We recommend that District implement procedures to ensure that purchase orders, change orders, and direct claim vouchers that are disbursed from minor capital funds are routed to the DOE for approval after the business manager's approval at the District.

**Response:** The District acknowledges the finding and will implement process to improve compliance with this requirement.

## ***Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements***

**Condition:** Of the five purchase orders that we tested for compliance with the requirements, one did not comply with the State's procurement requirement. The District procured \$62,500 of Apple device management software from JAMF Software during FY 2021. We found the following: This procurement exceeded \$50,000 professional services threshold for a formal Request For Proposal (RFP). The District did not issue an RFP for these services.

The District considered the purchase a sole source purchase under section 29 Del. §6925(a) of the Code, which exempts textbooks and related instructional materials from procurement. This procurement does not appear to be textbooks or instructional materials. The District's procurement file did not include a written determination for the sole source procurement.

**Recommendation:** We recommend that the District implement the following:

- Request DOE to define the scope of "Textbooks and related instructional materials" to help the District correctly apply Delaware Code 29 Del. C. Ch. 69 § 6925.
- Update its procurement policy to include a definition of "Textbooks and related instructional materials."
- Procedures to properly evaluate purchases and document its decisions when relying on the "sole source" exemption from the policy.

**Response:** The District acknowledges the finding and will implement process to improve compliance with this requirement.

***Finding Number 3 - Debt Service Reserve is in Excess of 110% of Future Fiscal Year Payments***

**Recommendation:** We recommend the District utilize expected debt service expenditures to set debt service tax rates. We also recommend that the District consider the effect of other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes (PILOT) will have on debt service reserves and make efficient use of its reserves to avoid future tax increases.

**Response:** The District acknowledges the finding and will implement process to improve compliance with this requirement.

Oliver Gumbs  
Signature

Director of Business Operations  
Title

6/7/22  
Date