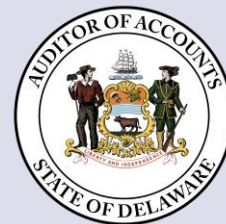


CAPITAL SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FOR YEAR ENDED JUNE 30, 2021

Report Summary

Capital School District Local Funds Performance Audit For Year Ended June 30, 2021



What Was Performed?

A performance audit of the design and operation of Capital 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.

What Was Found?

Based on the work performed, the following finding was identified:

- **Match Tax Receipts/Extra Time Expended on Advance Placement Courses:** The District did not use Match Tax – Extra Time funds (\$10,700) with the intended, restricted purposes.
- **Local Salary Not in Agreement to Education/Experience Verifications and Documentation & Local Hourly Wages Not Properly Approved:** Two out of forty employee local fund salaries were not noncompliant as follows:
 - One employee's annual pay was on the local salary scale for certified paraprofessionals but did not hold an active state paraprofessional permit during the fiscal year.
 - One employee's hourly wage rate did not have supporting documentation.

The Capital 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 OAOA_Comms@delaware.gov.

CAPITAL SCHOOL DISTRICT
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JUNE 30, 2021

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Independent Auditors' Report

Dr. Vilicia Cade, Superintendent
Capital School District
198 Commerce Way
Dover, Delaware 19904

Dear Dr. Cade:

We present the attached report which provides the results of our performance audit of the Capital 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 Capital School District' 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. Capital 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 Capital School District, the Delaware Department of Education, and 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, Office of the Controller General, General Assembly, Office of the Attorney General and Office of Management and Budget.

Belfint, Lyons & Shuman, P.A.

October 24, 2022
Wilmington, Delaware

cc: Dennis Greenhouse- State Auditor
Adewunmi Kuforiji, Chief Financial Officer/Business Manager

CAPITAL 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.

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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

BACKGROUND - CONTINUED

Debt Service - Continued

The District is required to maintain its 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 in December 1998.

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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

BACKGROUND - CONTINUED

Match - Continued

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.

DISTRICT SPECIFIC SUMMARY

The Capital School District, located in Kent County, operates K-12 schools with over 6,000 students. The Capital School District employs over 800 employees to educate and support its students. The Capital School District has seven elementary schools, two middle schools, and one traditional comprehensive high school. In addition, the District is home to the Kent County Community School and the Kent County Secondary Intensive Learning Center. The Capital School District Board of Education is the governing body of the District. The School Board includes five elected members who serve five-year terms. For the purposes of this report, Capital School District is referred to as the "District".

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

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*, 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.

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 *Budget and Accounting Policy Manual (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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

AUDIT METHODOLOGY AND RESULTS - CONTINUED

5. Performed risk assessment procedures such as:
 - a. Obtained and documented an understanding of the 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 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.
 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.

CAPITAL 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 non-payroll expenditures of Local Funds, we selected a random sample of 40 disbursement transactions (excluding transactions from tuition Local Funds tested in Objective 4). Except as detailed in Finding Number 1, 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 one expenditure from the Match Tax - Extra Time appropriations did not meet the restricted purposes of the funds.

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

We also examined a sample of the five largest purchase orders against local funds. We found two of the purchase orders did not comply with state purchasing and procurement requirements and that one of these purchases was funded with Tuition Local Funds.

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

To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 40 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 found one instance in which the local portion of the employee's annual pay did not correspond with the employee's education level. This employee's pay was funded with Tuition Local Funds in FY 2021. We also found one instance in which the hourly rate for the employee was not supported by contemporaneous documentation.

Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

We agreed hourly pay or extra pay received by the employees to approved timecards without exception.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

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 Kent 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.

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 April 2019.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Opportunity Fund, and Student Success Block Grants. 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 FY 2022 and determined that the rate was sufficient to cover debt service expenditures in FY 2021 and provide the District with a reserve of 77.74% of FY 2022 debt payments as summarized below. District debt service reserves held as of June 30, 2021, were within the range set by the State of Delaware Attorney General.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

	FY 2021 Tax Collections	FY 2021 Principal and Interest
	<u>\$ 7,159,304</u>	<u>\$ 6,408,238</u>
Debt Service Reserves at June 30, 2021	FY 2022 Debt Service Principal and Interest	Reserve to Expected Future Payments
<u>\$ 5,605,854</u>	<u>\$ 7,211,028</u>	<u>77.74%</u>

Per Kent County, Delaware (County) Code Part II, General Legislation, Ch. 105, Districts within the County that are impacted by construction receive funds from surcharges on the proposed construction valuation of issued building permits. The funds are restricted by the County to fund the District's local share of capital improvements. The amounts presented above for Debt Service Reserves do not include the balance of unexpended surcharges received from the County. Additionally, FY 2021 actual and FY 2022 budgeted debt service are not adjusted for transfers of funds from the unexpended surcharges appropriation to the local debt service appropriation. In FY 21, there were no transfers of funds between the appropriations.

The sources of the information we accumulated to meet this audit objective are as follows: The FY 2021 Debt Service Collections and 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 appropriations. The FY 2021 and FY 2022 Debt Service Principal and Interest were obtained from debt service schedules presented in the District's FY 2021 Final Budget and FY 2022 Preliminary Budget, respectively.

- 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. We compared actual transfers out to special programs per the general ledger and actual expenditures per *Budget to Actual* reports for FY 2021. At the end of FY 2020 and FY 2021, the District held \$834,339 and \$86,665, respectively, in tuition tax reserves. To meet tuition related obligations in the months prior to the receipt of anticipated tax revenue in October, the District transfers funds from other nonrestricted local fund appropriations and subsequently returns the funds upon receipt of the current fiscal year's taxes. The District also calculates its tuition programs' share of state funding received by the District and transfers this amount

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued - from unrestricted local current expense appropriations. The District performs this transfer for budget tracking purposes and subsequently records state and local tuition-based expenditures to its local tuition tax appropriations. Below is a summary of the District's FY 2021 tuition-based activity.

FY 2020 Reserve	\$ 834,339
FY 2021 Tuition Tax Receipts	5,740,785
FY 2021 Tuition Billing Received from Other Districts	965,066
Transfer to Tuition Tax Appropriations:	
Other Non Restricted Appropriations	1,000,000
Current Expense Appropriation	<u>2,069,923</u>
 Total Tuition Funds Available in FY 2021	 <u><u>\$ 10,610,113</u></u>
 FY 2021 Transfers to Other Special Programs and Other Districts	 \$ 1,434,963
FY 2021 District Expenditures and Encumbrances	7,992,715
Transfer to Non Tuition Tax Appropriations:	
Return Transfer to Other Non Restricted Appropriations	1,000,000
Transfer for Contingencies per District Budget	<u>95,770</u>
 Total Expenditure and Transfer Activity	 <u><u>\$ 10,523,448</u></u>

The FY 2021 Revenues and Expenditures and FY 2020 and FY 2021 reserves were obtained from the June 30, 2021, Daily Validity Report (Document Direct Report DGL060). The intra-district and inter-district transfers 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.

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

Results - We examined a random sample of 25 disbursement transactions from tuition tax funds and determined that the purchases complied with both 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 purchase orders for purchases made with tuition tax funds in conjunction with the procedures performed over non-tuition tax expenditures and found that one purchase order did not comply with State purchasing and procurement requirements. Results are reported in Objective 1.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2021

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 4 - Continued

Results - Continued

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

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

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2021

Finding Number 1 - Extra Time Match Tax Receipts were Expended on Advanced Placement Courses

Condition: The District disbursed \$10,700 from the Match Tax - Extra Time appropriation, intended to be used for extra instruction for low achieving students, for administrative fees and registration fees for English Composition II and Early Childhood Education courses taken by Advanced Placement students dually enrolled in the District and at Wilmington University.

Criteria: The District is authorized by the State of Delaware Operating Budget to assess Local Match Taxes for Extra Time. As defined in the Background section of the report, Extra Time Match Taxes are restricted to expenditures intended to provide extra instructional time for students in grades K-12 to improve their performance in Mathematics, Science, English Language Arts, and Social Studies.

Cause: The District did not properly evaluate the purchase's compliance with the requirements of the Match Tax.

Effect: The District did not use the funds in accordance with the intended, restricted purposes and, as a result, is not in compliance with the requirements of the statute.

Recommendation: We recommend the District implement procedures to ensure that purchases meet the restricted purposes of the Match Tax funds per the statute.

View of Responsible District Officials and Planned Corrective Actions: See Management Response section.

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

Condition: Of the five purchase orders tested for compliance with the requirements, two did not comply with State purchasing and procurement requirements. We found the following:

- The District purchased \$75,027 in lawn maintenance and irrigation repair services from one vendor, under multiple purchase orders, using State and Local Funds. Cumulatively, the purchases exceeded the \$50,000 public works threshold requiring three letter bids. The District did not obtain three letter bids before making the purchases nor did it have a written contract with the vendor documenting necessary State requirements and risk mitigation clauses.
- The District expended \$90,689 in State MCI and Local MCI Funds and Tuition Local Funds to replace the roof on the pool at the Kent County Community School (KCCS). The purchase met the \$50,000 public works threshold, requiring three letter bids. Although the District complied with the purchasing process and obtained three letter bids, it did not have a written contract with the vendor documenting necessary State requirements and risk mitigation clauses.

CAPITAL 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 purchasing and procurement requirements of the *BAM* and 29 Del. C., c. 69 *State Procurement*.

- The purchases are considered public works per 29 Del. C., §6902(22) and §6902(23), which state “Public funds” means funds of the State, of any agency within the State, of any public school district, of or from the United States government or of or from any department or representative body thereof and “Public works contract” means construction, reconstruction, demolition, alteration and repair work and maintenance work paid for, in whole or in part, with public funds, respectively.
- In accordance with 29 Del. C., §6913(d)(4), the purchases were subject to the thresholds for formal bidding set by the Contracting and Purchasing Advisory Council (CPAC).
- Chapter 5 *Procurement*, Section 5.3.2 *Public Works Thresholds* of the *BAM* requires that purchases related to public works projects that are between \$50,000 and \$99,999 on a contract basis for FY 2021 are procured after obtaining three letter bids. These are the thresholds set by the CPAC. The purchases met this threshold.
- In accordance with 29 Del. C., §6960, a provision for prevailing wage requirements is required for every contract or aggregate of contracts in excess of \$45,000 for repairs. The purchases met this threshold.
- There are numerous State requirements contained in 29 Del. C., c. 69 *State Procurement* and risk mitigation clauses that should be documented in writing for most contracts.

Cause: The District applied the State procurement thresholds to the individual lawn irrigation repair and lawn maintenance services purchased throughout the fiscal year rather than to the aggregate expected services. The vendor performed similar services for the District in previous fiscal years. This resulted in the District not obtaining three letter bids before making the purchase as required by the *BAM*.

Capital School District Board of Education Policy #300-04 *Execution of Contracts*, as of May 10, 2012, in effect for FY 2021, does not require the District to execute signed contracts for public works purchases below \$100,000. Both purchases were below this threshold and resulted in the District not executing written contracts with the vendors.

Effect: The District did not adhere to State purchasing and procurement requirements with respect to purchasing thresholds set by the CPAC and was not in compliance with State requirements for contract provisions. By not executing written contracts with the vendors, the District increased its risk of the liability that could arise because of a disagreement due to undocumented terms and conditions.

CAPITAL 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

Recommendation: We recommend the District implement the following:

- Procedures to properly evaluate purchases for compliance with State purchasing and procurement requirements.
- Review its internal control policies related to the execution of contracts for compliance with State purchasing and procurement requirements.
- Procedures for the execution of contracts for all purchases and procedures for the inclusion of State contract requirements and other risk mitigation clauses in written agreements.

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

Finding Number 3 - Local Salary Did Not Agree to Employee Education and Experience Verifications and Local Hourly Wage Rates Were Not Properly Approved

Condition: Of the 40 employee local fund salaries we tested for compliance with the requirements, we found the following:

- One employee's annual pay was placed on the District's local salary scale for certified paraprofessionals, but the employee did not hold an active state paraprofessional permit during the fiscal year.
- The hourly wage rates for a support staff in the District's Technology Department was not approved by the Human Resource Director and Chief Financial Officer and was not supported with a written offer of appointment.

Criteria: Local Boards of Education are authorized by 14 Del. C., §1304 to pay salaries from local funds in addition to state supported salary schedules.

The following requirements are applicable to the Paraeducator Permit:

- Article XVI, Section 16:1 of the Agreement between the Capital School District Board of Education and the Capital Paraprofessionals Association for July 1, 2020 through June 30, 2023, sets the local supplement rates for paraprofessionals employed with the District. The District's local supplement rates differ for school paraprofessionals and instructional paraprofessionals and certified paraprofessionals.

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2021

Finding Number 3 - Local Salary Did Not Agree to Employee Education and Experience Verifications and Local Hourly Wage Rates Were Not Properly Approved - Continued

Criteria - Continued

- The Paraeducator Certification is a permit issued by the Delaware DOE that “verifies an individual is qualified to serve as a Title I, Instructional or Service Paraeducator.” Candidates for the Instructional Paraeducator Permit must submit one of the following to the DOE:
 - “Completion of at least two (2) years of study in general or educational studies at an institute of higher education (consisting of 60 credit hours of a ‘C’ or better); or
 - Receipt of an associates degree or higher; or
 - Completion of a high school diploma or its recognized equivalent, and a passing score on a rigorous assessment of knowledge and/or the ability to assist in, the instruction in reading, writing, and mathematics (e.g. ParaPro assessment with a qualifying score of 459 or higher or other approved alternative).”

The following requirement is applicable to the documentation of salaries and wages:

- The District’s internal control policies require that salaries and wage rates are approved by the Human Resource Director and Chief Financial Officer.
- Capital School District Board of Education Policy 500-01 *Recruitment, Selection and Hiring of Personnel* requires that employees are extended a written offer of appointment detailing the terms and conditions of the offer.

Cause: The employee passed the paraprofessional praxis assessment in May 2018 but did not apply to the DOE for the Paraeducator Permit and, as a result, did not hold the permit in FY 2021. The employee’s Paraeducator Permit was issued by the DOE during the course of our audit, in May 2022, and is effective for the period September 1, 2021 through August 31, 2026.

The hourly wage rates for the Technology Department’s support staff are not memorialized in a local salary supplement scale or within a bargaining unit agreement. The Technology Supervisor determined the hourly rate for the employee, but documentation memorializing the Human Resource Director’s and Chief Financial Officer’s approval of the wage rate was not maintained.

Effect: The District expended more tuition local funds than necessary during FY 2021. Without formal documentation memorializing the review and approval of hourly pay, the District increases its risks that employees receive unauthorized pay.

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2021

Finding Number 3 - Local Salary Did Not Agree to Employee Education and Experience Verifications and Formal Documentation of Local Hourly Pay Was Not Maintained - Continued

Recommendation: We recommend the District implement the following:

- Procedures to formally document casual pay and the approval of such pay by District Management in instances where the casual pay is not included in local pay scales or bargain unit contracts.
- Strengthen its review procedures over the onboarding process to ensure that employees hold relevant certifications that influence pay.

View of Responsible District Officials and Planned Corrective Actions: See Management Response section.

CAPITAL 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 the following: one disbursement which did not meet the restricted purposes of the Match Taxes, one instance of employee hourly payrate that was not supported with contemporaneous documentation, and one purchase order 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.

Objective 4 - The School District's tuition tax funds were calculated and spent in accordance with the requirements, with the exception of one employee's pay that did not agree to education and experience verifications and one purchase order that did not comply with State purchasing and procurement requirements.

Board of Education

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Capital School District's Management Response to the FY 21 Local Funds Audit**Finding Number 1 – Extra Time Match Tax Receipts were Expended on Advanced Placement Courses**

Specialized funds transactions will be reviewed closely by program staff as well as the Chief Financial Officer to ensure accurate charges per funding requirements.

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

- Lawn Maintenance and Irrigation repair services - The District does not believe that the work are one and the same. There were 2 distinct types of work done.
 - Lawn Maintenance/Fertilization of fields – Some of prior year's work were not billed until FY 21. Also, the District intended to utilize staff to accomplish the work around fertilization of fields, but staff turnover during the year resulted in using the vendor. Moving forward the District will obtain 3 quotes per the updated procurement requirements.
 - Irrigation repairs are not related to fertilization of fields and require a different set of expertise. The work done was below procurement thresholds.
- The roof work was bid following established State procurement process. For this type of procurement, there was no need for a contract. The State issued Purchase Order is considered a contract and was appropriately sufficient.

Finding Number 3 – Local Salary Did Not Agree to Employee Education and Experience Verifications and Local Hourly Wage Rates Were Not Properly Approved.

- The paraeducator in question met the qualifications for a Paraeducator permit during all relevant time periods. Internal controls have been put into place to ensure that employees file for and obtain certification credentials in a timely manner. For example, the District has hired an individual within its Human Resource Office whose primary job duties include auditing certification credentials of all employees and ensuring that new employees file for certifications promptly.
- With regards to Office of Technology employees, the District is currently conducting a market survey and may be taking to the Board of Education a revised scale in the near future. Included will be the hourly rate

for our casual seasonal employees. Further, the District's Chief Technology Officer will include the hourly rate on Request to Hire forms in the future.