

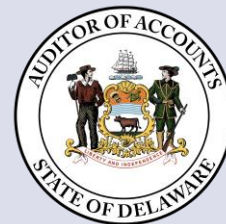
DELMAR SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FOR YEAR ENDED JUNE 30, 2021

Report Summary

Delmar School District

Local Funds Performance Audit For Year Ended June 30, 2021



What Was Performed?

A performance audit of the design and operation of Delmar 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 findings were identified:

- **Lack of Proper Approvals in State Accounting System:** Forty non-tuition local tax fund disbursement transactions were tested, one disbursement transaction for minor capital, totaling \$758.00, lacked proper approval by the State of Delaware DOE's Capital Projects Management.
- **Documented Approval of Supplemental Local Salaries Not Maintained in Employee Files:** Forty employee Local Fund salaries were tested for compliance, two employee files lacked proper documentation of approved supplemental local salaries of \$2600.00 and \$200.00, respectively.

The Delmar 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.

DELMAR SCHOOL DISTRICT
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JUNE 30, 2021

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Certified Public Accountants

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Independent Auditors' Report

Mrs. Charity Phillips, Superintendent
Delmar School District
200 N. 8th Street
Delmar, Delaware 19940

Dear Mrs. Phillips:

We present the attached report which provides the results of our performance audit of the Delmar 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 Delmar 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. Delmar 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 Delmar 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.

October 28, 2022
Wilmington, Delaware

cc: Dennis Greenhouse - State Auditor
Monet Smith - Chief Operating Officer

DELMAR 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.

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

BACKGROUND - CONTINUED

Debt Service - Continued

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 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.

DELMAR 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 or 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 Delmar School District, located in Sussex County, operates 5th through 12th grade schools with over 1,300 students. The Delmar School District employs over 190 employees to educate and support its students. Delmar has one middle school and one traditional comprehensive high school. The Delmar 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, Delmar School District is referred to as the “District.”

DELMAR 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 (BAM)*, School District Accounting Policies, and the School 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 School District, the DOE, and the State of Delaware's financial accounting and human resources systems.

DELMAR 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.

DELMAR 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 – Except as detailed in Findings #1 and #2, 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, 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 purchases 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 Delaware State accounting system. We found the District did not obtain required DOE approval for a Minor Capital purchase.

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 and determined that the District complied with both State and District procurement requirements and the purchase orders were properly approved as evidenced by approvals on supporting contracts as well as in FSF.

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 two employees' local salary supplements were not supported by contemporaneous documentation maintained in the District's payroll records.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Refer to Finding Number 2 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.

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.

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 2015.
- The District assesses a local match tax for the following: Minor Capital, Technology, Math Resource Teachers, and Extra Time. We found the District's match tax rates were consistent with relevant legislation and guidance.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- 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 services expenditures in FY 2021 and provide the District with a reserve equal to 81.19% of FY 22 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.

	FY 2021 Debt Service Tax Collections	FY 2021 Debt Service Principal and Interest
	<u>\$ 113,193</u>	<u>\$ 113,707</u>
Debt Service Reserves at June 30, 2021	FY 2022 Debt Service Principal and Interest	Reserve to Expected Future Payments
<u>\$ 74,319</u>	<u>\$ 91,543</u>	<u>81.19%</u>

The FY 2021 Debt Service Collections and FY 21 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- 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. The rate also created an approximately \$430,000 reserve at the end fiscal year 2021. We compared actual transfers out to special programs per the general ledger and actual expenditures per *Budget to Actual* reports for FY 2021. We found that the reserve is sufficient to cover approximately seven months of expected tuition-based costs for the District as summarized in the following comparison:

Transfers Out to Special Programs and Other Districts	\$ 654,518
Private Placements and In-District Expenditures	<u>121,196</u>
Total FY 2021 Transfers and Expenditures	<u><u>\$ 775,714</u></u>
Total Reserves at June 30, 2021	<u><u>\$ 429,387</u></u>
Approximate Number of Months of Expenditures Covered by Reserves	<u>7</u>

The FY 2021 Transfers Out to Special Programs and Other Districts were obtained from the YTD Cumulative Budgetary Report (Document Direct Report DGL011) and the FY 2021 District Expenditures and FY 2021 Reserves were obtained from the June 30, 2021 Daily Validity Report (Document Direct Report DGL060).

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 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 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.

DELMAR 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 disbursements that we tested for compliance with the requirements, one disbursement for \$758 from appropriation 91151 MCI - Local (Minor Capital Improvement - Local) was not approved by the State of Delaware DOE's Capital Projects Management. The purchase was funded on a 60% State and 40% local basis as authorized by the Delaware Code.

Criteria: The *BAM* Chapter 6 *Approvals*, Section 6.6.5 *Capital Improvements*, requires DOE Capital Projects Management to approve all Minor Capital Improvement purchase orders, change orders, and direct claim vouchers coded to School Minor Capital or Bond Accounts.

Cause: The District obtained the DOE's approval on the initial purchase order created in FSF for the purchase, but subsequently incurred additional costs. The additional costs were not approved by the DOE. The DOE 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 voucher workflow for Minor Capital Improvement - Local to the DOE for approval.

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

Recommendation: We recommend that the District implement procedures to ensure that all Minor Capital Improvement purchase orders, change orders, and direct claim vouchers are routed to the DOE after the District's approval for payment.

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

Finding Number 2 - Contemporaneous Documentation of the Approval of Supplements to Local Salaries was not Maintained in Employee Files

Condition: For the 40 employee Local Fund salaries we tested for compliance with the requirements, we found the following:

- Two instances where contemporaneous documentation of the approval of supplements to employee's local salary was not maintained in employee files:
 - An annual supplement of \$2,600 for maintaining the District's technology inventory included in the employee's bi-weekly regular pay and,
 - An annual supplement of \$200 for custodial responsibilities, paid semi-annually, in the employee's extra pay.

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

Finding Number 2 - Contemporaneous Documentation of the Approval of Supplements to Local Salaries was not Maintained in Employee Files - Continued

Criteria: The *BAM* sections 14.2.1 and 14.2.2 require that pay is properly approved by authorized personnel and that approvals are documented.

Cause: Both supplements took effect prior to the current administration. However, *BAM* internal control policies in effect for FY 2021 required evidence of District management's approval of the supplements. Below are causes of the specific findings identified in the condition above.

- Although the technology inventory stipend is included on a FY 2021 pay calculation document, as well as prior year pay calculations, maintained in the employee's file, contemporaneous documentation of management's approval of the supplement was not maintained.
- The custodians' local annual salary is based on the District's *Local Salary Scale for Custodians*, which is approved by the Board of Education. The custodial scale in effect for FY 2021 does not include an additional \$200 annual supplement. Management informed us that the supplement was approved the Board of Education prior to FY 2021, but evidence of the Board's approval was not maintained.

Effect: The District is not in compliance with its payroll internal control policies.

Recommendation: We recommend the District implement the following:

- Procedures to memorialize District Management's approval of supplemental local pay, especially in instances where additional local supplements are not included in employee contracts, local salary scales and collective bargaining agreements.

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

DELMAR 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 one expenditure for which the District did not obtain additional DOE approvals in FSF and with the exception of two instances where contemporaneous documentation of the approval of supplements to employee's local salary was not maintained in employee files.

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's District's Tuition Tax funds were calculated and spent in accordance with the requirements.



DELMAR SCHOOL DISTRICT

Delaware's True "Neighborhood School!"

200 North Eighth Street • Delmar, Delaware 19940
Phone (302) 846-9544 • Fax (302) 846-2793

October 28, 2022

Belfin Lyons & Shuman, P.A.
1011 Centre Road, Suite 310
Wilmington, DE 19805

Re: District Response to FY2021 Local Funds Performance Audit

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

The District received an invoice from Hot Springs Enterprises Inc. DBA Stanley for Duck Work Cleaning. A purchase order was prepared and approved in advance for this work in the estimated amount of \$4,266.00 with the required DOE Ad Hoc approval manually added to the workflow in FSF. The final invoice exceeded the amount of the purchase order, and the additional costs were paid via direct claim. DOE was not manually added to the workflow in FSF for the direct claim portion of the invoice and we agree with this finding. The approval process included an AP_Manager, AP_Internal_Accounting, AP_Business_Manager, and AP_Finance. Despite the three levels of district approval, and one state level approval, the missing manual Ad Hoc entry was not identified. The district is committed to diligently looking for this approval level in workflow to ensure it is entered on all required purchase orders and vouchers.

Finding Number 2 - Contemporaneous Documentation of the Approval of Supplements to Local Salaries was not Maintained in Employee Files

A \$100 salary supplement for custodial and secretarial personnel was documented in payroll report DPR007 at least back to the paycycle end date of 11/1/2003. The \$100 per pay Inventory Control stipend was documented on the applicable personnel file at least back to FY2008 – 2009 and is documented in payroll report DPR007 at least back to the paycycle end date of 6/09/2007. No board minutes referencing these supplemental payments were found in either of the applicable personnel files. District staff searched through approximately a decade of hard copy board minutes and was not able to find any minutes that referenced these supplemental payments. A phone call was placed to a former HR Specialist who confirmed the supplements were board approved. Considering the supplements date back either 15 or 19 years, it is not feasible to manually review that many board minutes without additional personnel expenses or a significant disruption to the district's operations. To the district's knowledge, this has not been a prior audit finding over the course of all of these years. To ensure proper documentation of these payments moving forward, the Delmar Board of Education approved the \$100 bi-annual salary supplement for custodial and secretarial personnel at the October 18, 2022 meeting. We will ensure compliance regarding the inventory stipend after internal evaluation and analysis. The district is not acknowledging that board minutes do not exist, but is acknowledging we were unsuccessful in locating them in the hard copy minutes that were researched.

The Delmar School District does not discriminate in its employment practices, educational programs, services, or activities based upon race, creed, color, religion, national origin, sex, sexual orientation, domicile, marital status, age, disability, genetic information, veteran status, or any legally protected characteristics and provides equal access to the Boy Scouts and other designed youth groups. Inquiries should be directed to the District Superintendent, 200 N. Eighth Street, Delmar, DE 19940. Phone (302)846-9544.

El distrito escolar de Delmar no discrimina en sus prácticas de empleo, programas educativos, servicios o actividades basadas en raza, credo, color, religion, origen nacional, sexo, orientación sexual, domicilio, estado civil, edad, discapacidad, información genética, estado veterano o cualquiera legalmente protegidos características y proporciona un acceso equitativo a los Boy Scouts y otros grupos de jóvenes designados. Consultas deben dirigirse a la Superintendente de Distrito, 200 N. Octava Calle, Delmar, DE 19940. Teléfono (302)846-9544.