



POLYTECH SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FOR YEAR ENDED JUNE 30, 2021

Report Summary

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



What Was Performed?

A performance audit of the design and operation of Polytech 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 three 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.

What Was Found?

It is my pleasure to report that no findings were found during this performance audit.

The Polytech 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.

POLYTECH SCHOOL DISTRICT
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Independent Auditors' Report

Amelia Hodges, Ed.D, Superintendent
Polytech School District
823 Walnut Shade Road
Woodside, Delaware 19980

Dear Dr. Hodges:

We are pleased to present the attached report which provides the results of our performance audit of the Polytech 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 Polytech School District 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. Polytech 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 Polytech 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 16, 2022

Wilmington, Delaware

cc: Kathleen McGuiness, RPh, CFE - Auditor of Accounts
Nicholas Johnson, Director of Operations

POLYTECH 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.

POLYTECH 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 no more 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.

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.

POLYTECH 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 Polytech School District serves Kent County and part of New Castle County. It operates grades 9 through 12 and also provides adult services. Polytech High School is a technical high school with about 1,200 students that offers specialty training in twenty technical programs. The Polytech School District Board of Education is the governing body. The School Board includes seven members, appointed by the Governor of the State of Delaware, who serve seven-year terms. For the purposes of this report, Polytech School District is referred to as the “District.”

POLYTECH 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.

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.

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.

POLYTECH 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 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 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:
 - a. 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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, we selected a random sample of 40 disbursement transactions. Our review of the selected transactions 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 First State Financials (FSF), the Delaware State accounting system. We also examined a sample of 5 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. For each employee, we determined that the employee's salary profile in the state's payroll system, Payroll and Human Resource Statewide Technology (PHRST), accurately reflected the employee's education and experience level by examining education and experience verifications performed by the District and by comparing the employees' salaries to the District's salary schedules. For most salaried employees in the District, pay is driven by the employee's education level and years of experience. We also agreed hourly pay or extra pay received by the employees to an approved timecard and to the District's salary schedules 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - Polytech School District serves Kent County and part of New Castle County. We recalculated the tax revenue from each county to confirm the correct amounts were received. We also observed transfers of receipts to the proper appropriations based on the official warrants 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 warrants for FY 2021 and concluded the following:

- The District assesses a Local Technology Match tax and current expense tax. We found the District's match tax and current expense 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 services expenditures in FY 2021 and provide the District with a reserve equal to approximately 53% of its 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.

FY 2021		FY 2021	
Debt Service		Debt Service	
Tax Collections		Principal and Interest	
\$	939,702	\$	964,323
FY 2022			
Debt Service Reserves	Debt Service	Reserve to Expected	
at June 30, 2021	Principal and Interest	Future Payments	
\$	498,057	\$	943,072
			53%

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.

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

There were no findings identified as a result of this performance audit of the Polytech School District's Local Funds.

POLYTECH 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.

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.