

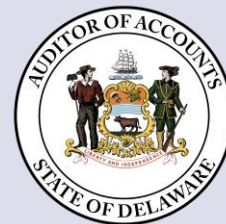
# RED CLAY SCHOOL DISTRICT

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LOCAL FUNDS PERFORMANCE AUDIT  
FOR YEAR ENDED JUNE 30, 2021

# Report Summary

## Red Clay School District Local Funds Performance Audit For Year Ended June 30, 2021



### What Was Performed?

A performance audit of the design and operation of Red Clay 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:

- **Local Pay Documentation Not Maintained:** One of forty employee Local Fund salaries tested did not have documentation of the Board of Education's approval of an executive secretary salary \$6,330 stipend.
- **Debt Service Reserves Not in Range Set by Attorney General & Debt Service Tax Rates did not include Delinquencies in Collections Provisions:** The debt service reserve of \$3,590,752, as of June 30, 2021, was not sufficient to meet scheduled debt service payments totaling \$4,336,517. The district's debt service rate calculation does not include a provision for delinquencies in the collection of current year real estate taxes.
- **Purchases Non-Compliant with the State and District Purchasing/Procurement Requirements:** One of twenty-five tuition disbursements tested did not comply. The district extended a \$87,963 contract in FY21 for equipment and software licenses (to track school bus arrivals and departures) without obtaining the Board of Education's approval as required by District policy.

The Red Clay 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](mailto:OAOA_Comms@delaware.gov).

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
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**JUNE 30, 2021**

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*Independent Auditors' Report*

Dorrell Green, Superintendent  
Red Clay Consolidated School District  
1502 Spruce Avenue  
Wilmington, Delaware 19805

Dear Superintendent Green:

We present the attached report which provides the results of our performance audit of the Red Clay Consolidated 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 Red Clay Consolidated 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. Red Clay Consolidated 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 Red Clay Consolidated 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.*

November 28, 2022  
Wilmington, Delaware

cc: Dennis Greenhouse - State Auditor  
Ted Ammann - Assistant Superintendent for District Operations

**RED CLAY CONSOLIDATED 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.

Brandywine, Christina, Colonial and Red Clay Consolidated School Districts share an additional current expense rate for the New Castle County School District, which remains a school district for tax purposes only. These four districts were created pursuant to a 1981 federal court order to reorganize the New Castle County School District per 14 Del. C., §1028(k). The shared current expense rate is the rate that was in effect in 1981, and the collections are pooled and distributed by the DOE to the four districts based on unit counts in accordance with 14 Del. C., §1925.

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**BACKGROUND - CONTINUED**

**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.

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**BACKGROUND - CONTINUED**

***Match - Continued***

Technology - Continued - 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.

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.

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**DISTRICT SPECIFIC SUMMARY**

The Red Clay Consolidated School District, located in New Castle County, operates Pre-K through 12 schools with over 16,000 students. The District employs nearly 3,000 employees to educate and support its students. The District has one early education center, 14 elementary schools, one elementary/middle school, four middle schools, three middle/high schools and two traditional comprehensive high schools. In addition, the District operates the Meadowood Program, First State School, the Charter School of Wilmington, the Delaware Military Academy, and the James H. Groves Adult High School. The Red Clay Consolidated School District Board of Education is the governing body of the District. The School Board includes seven elected members who serve five-year terms. For the purposes of this report, Red Clay Consolidated School District is referred to as the "District."

**AUDIT OBJECTIVES**

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

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



**RED CLAY CONSOLIDATED 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*, *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.

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

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

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

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

To assess the operation of the internal controls over non-payroll expenditures of Local Funds, we selected a random sample of 40 disbursement transactions (excluding transactions from tuition Local Funds tested in Objective 4). 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 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 and tuition 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 annual pay for the employee was not supported with contemporaneous documentation.

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

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

**RED CLAY CONSOLIDATED 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, and found that the District's reserve at the end of FY 2021 was not sufficient to fund its expected debt service payments due in the first four months of FY 2022. Results are reported in Objective 3. 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.

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

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

**Results** - Red Clay Consolidated School District is one of four districts that comprise the New Castle County School District. We recalculated the DOE's distribution of receipts to the four New Castle County School Districts and determined that the DOE accurately distributed the receipts based on the official warrants and code requirements. We found the District properly transferred match tax collections into the corresponding appropriations, upon receipt, based on its match tax calculations.

***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 February 2015. The New Castle County School District shared current expense rate was agreed to support provided by the DOE and to the District's FY 2021 budget.

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3 - Continued***

*Results - Continued*

- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Student Success Block Grant, and Opportunity Fund. We found the District's match tax rates were consistent with relevant legislation and guidance.
- We compared debt service collections based on the debt service rate to principal and interest schedules for FY 2021 and FY 2022, as summarized in the following chart. We determined that the rate was sufficient to cover debt service expenditures in FY 2021. Although the rate provided the District with a reserve equal to 46.06% of FY 2022 debt payments, as summarized below, which is below the maximum set by the State of Delaware Attorney General, we found the reserve of \$3,590,752 at the end of FY 2021 was not sufficient to fund scheduled debt service payments totaling \$4,336,517 due in the first four months of FY 2022. We found the District's debt service reserve, as of June 30, 2021, was less than the four months debt service reserve recommended by the State of Delaware Attorney General.

We found that the District's debt service rate calculation assumes no delinquencies in collection rates and was not in compliance with 14 Del. C. §2118(a), which states "the district shall fix the rate of taxation plus 10 percent for delinquencies."

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

	FY 2021 Debt Service Tax Collections	FY 2021 Debt Service Principal and Interest
	\$ 6,298,044	\$ 8,018,212
Debt Service Reserves at June 30, 2021	FY 2022 Debt Service Principal and Interest	Reserve to Expected Future Payments
\$ 3,590,752	\$ 7,796,275	46.06%

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3 - Continued***

**Results - Continued**

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, including transfers to other districts, to the tuition tax rate and determined that the rate appeared to be consistent with the District's anticipated need as specified by the requirements. As summarized in the following chart, we found the District had a tuition Local Fund reserve of approximately \$20.91 million as of June 30, 2021. The District's tuition reserve is sufficient to cover approximately eleven months of expected tuition-based costs.

District Special Program Expenditures	\$ 11,822,080
Transfers Out to Other Districts	1,712,771
Red Clay ILC and Meadowood Program FY 2021 Expenditures	<u>10,252,344</u>
 Total FY 2021 Transfers and Expenditures *	 <u><u>\$ 23,787,195</u></u>
 Tuition Reserve Balance as of June 30, 2021	 \$ 13,906,088
Red Clay ILC and Meadowood Program Tuition Reserve Balance as of June 30, 2021	<u>7,004,472</u>
 Tuition Reserve Balance as of June 30, 2021	 <u><u>\$ 20,910,560</u></u>

Approximate Number of Months of Expenditures Covered by Reserves	11
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*\* FY 2021 Expenditures includes expenses funded by other School Districts that send students to the Red Clay Intensive Learning Center (ILC) and Meadowood Programs. During FY 2021, the District, Red Clay ILC and Meadowood received \$1,836,361.01 from other Districts. The District transferred \$10,144,000 to Red Clay ILC and Meadowood Program for District students enrolled in the programs.*

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 District Special Program, Red Clay ILC, and Meadowood Program expenditures were obtained from the June 30, 2021, Daily Validity Report (Document Direct Report DGL060).

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2021**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***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 except as detailed in Finding Number 3 the purchases 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 found one purchase that was not approved by the Red Clay Consolidated School District Board of Education (BOE) as required by the District's purchasing requirements.

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

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.

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**JUNE 30, 2021**

***Finding Number 1 - Formal Documentation of Local Pay was Not Maintained***

**Condition:** Of the 40 employee Local Fund salaries we tested for compliance with the requirements, we found one instance where contemporaneous documentation of the BOE's approval of an executive secretary salary stipend of \$6,330 was not maintained in the employee file. This stipend was also not included on the District local salary scales.

**Criteria:** Red Clay Consolidated School District Board of Education Operations Policy No. 2002, *Board Policies and Duties*, issued August 19, 1981, and revised January 21, 2009, establishes that "the Board shall be responsible for establishing salaries and salary schedules and other terms and conditions for employment."

The BOE approves local salary scales for the District annually and agrees to the terms, including salaries, of collective bargaining unit agreements.

**Cause:** The District did not memorialize the BOE's approval of the stipend in the employee's file.

**Effect:** The District is not in compliance with its policies.

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

- Procedures to maintain pertinent documentation related to employee salary decisions.
- Formally document the BOE's approval of annual pay for unique employees such as the executive secretaries whose annual pay is not determined by a District salary scale or bargaining unit agreement. Develop and formally document District policies and procedures for the initial determination of, and changes in, stipends and other unique pays.

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

***Finding Number 2 - Debt Service Reserves Were Not Within the Range Set by the State of Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections***

**Condition:** The District's debt service reserve of \$3,590,752, as of June 30, 2021, was not sufficient to meet scheduled debt service payments totaling \$4,336,517, due in the first four months of FY 2022. The District's debt service rate calculation does not include a provision for delinquencies in the collection of current year real estate taxes.

**Criteria:** The authority of school districts to issue bonds is governed by 14 Del. C., c. 21.

- Per 14 Del. C. §2108, "The amounts of principal payable and the dates on which such payments are due shall be noted on the bond form. The dates on which the interest is due shall also be noted on the bond form."

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2021**

***Finding Number 2 - Debt Service Reserves Were Not Within the Range Set by the State Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections - Continued***

**Criteria - Continued:**

- Per 14 Del. C. §2116, “The authority to issue bonds shall be construed to be authority to provide funds for the payment of the interest and annual payments on such bonds, which without further authority shall be provided for by an additional tax levy on the property subject to taxation for county purposes in the district issuing such bonds...”
- Per 14 Del. C. §2118:
  - “(a) Based on the total value of all taxable property as shown on the county assessment list and on the amount to be raised, the board of the district shall fix the rate of taxation plus 10 percent for delinquencies.
  - (d) All money so collected shall be paid to the State Treasurer and shall be deposited by the State Treasurer in a separate account in the depository for other school moneys to the credit of the district.
  - (e) The Secretary of Finance is hereby authorized and directed to draw warrants or drafts on such fund in the amount of the principal of and interest on such bonds or other obligations as the same shall become due and payable, and to deposit such money, so drawn, to the credit of the General Fund of the State.”
- 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.

**Cause:** The District’s debt service rate setting process for FY 2021 was not sufficient to meet the requirements set by Delaware Code and the State of Delaware Attorney General’s recommendation.

**Effect:** The District was not in compliance with the requirements and increased its risk that it would not have sufficient funds to meet debt obligations due according to the bond agreement.

**Recommendation:** We recommend that the District review its debt service rate setting process for compliance with the requirements and that the District implement procedures to ensure that the debt service appropriation is fully funded to meet debt obligations, due according to the bond agreement.



**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2021**

***Finding Number 2 - Debt Service Reserves Were Not Within the Range Set by the State Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections - Continued***

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

***Finding Number 3 - Purchase Did Not Comply with District Purchasing Policies***

**Condition:** Of the twenty-five tuition disbursements tested for compliance with the requirements, one did not comply with the District's purchasing policy. We found that the District extended a contract in the amount of \$87,936 in FY 2021 for equipment and software licenses to track school bus arrivals and departures without obtaining the BOE's approval as required by District policy.

**Criteria:** The District's *Internal Control Review* document dated July 1, 2020 requires the BOE's approval for all bids and contracts greater than \$50,000.

**Cause:** The vendor did not return necessary contract extension documentation to the Data Service Center contract administration team in a timely manner, which would have subsequently been submitted to the BOE for approval. The District's Finance Department renewed the contract with the vendor but did not submit the extension to the BOE for approval.

**Effect:** The District did not comply with its purchasing policy.

**Recommendation:** We recommend that the District implement review procedures to ensure that all purchases made by the District comply with its purchasing policies and are approved by the BOE when required.

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

**RED CLAY CONSOLIDATED 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 employee's annual salary that was not documented in accordance with District policy.

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

***Objective 3*** - The School District's real estate taxes were approved and calculated in accordance with the requirements with the exception of the debt service rate setting process, which was not in compliance with the requirements.

***Objective 4*** - The School's District's tuition tax funds were calculated and spent in accordance with the requirements with the exception of one purchase that was not properly approved per District purchasing requirements.



**RED CLAY CONSOLIDATED  
SCHOOL DISTRICT**

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November 28, 2022

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**Red Clay Consolidated School District Audit Response**  
**Local Funds Performance Audit dated June 30, 2021**

**Finding #1**

The district agrees with this finding. The employee in question is one of 7 positions that are exempt from the secretarial pay scale as memorialized in the collective bargaining unit which is approved by our Board of Education. The stipend provided to 5 of these employees has been standard practice. The employee in question was hired and approved by the board to be one of these exempt positions in 2012 and has received the same stipend as other positions since that time. The audit correctly identifies that in one particular case, the board approved this employee to fill the role, but the customary stipend was omitted from the recommendation.

The district will update our standard employee requisition procedures ensure the stipends are included in the board approval going forward.

**Finding #2a**

The district disagrees with this finding. The Attorney General Opinion 89-1017 from 1989 acknowledged that, "Whether the district chooses to maintain "excess funds" in its debt service account is a matter left **solely** to its discretion and is governed by the political process" [Bold print added for emphasis]. The opinion does not establish a requirement of at least four months of payments. In the opinion, DPI's position was that a reserve is desirable and made a recommendation based on circumstances in 1989.

The Board of Education takes the approval of the debt service rate very seriously and does so only after thorough review of the rationale by district management. The district sets this rate to ensure it can meet its requirement to pay bond payments that have been authorized by referendum and with careful analysis of cash flows. The Treasury Office makes the payments on our behalf and our debt service rate is set so as to fund the payments as they are recaptured by the Office of Management and Budget.

The district will continue to review the Treasury Department's debt repayment schedule and set the tax rate to have sufficient funds available when OMB recaptures the payments they have made on our behalf.

#### Finding #2b

The district agrees that tax delinquencies can affect revenues available for obligations. The district currently accounts for the possibility of delinquent tax receipts in Current Expense revenue.

The district will take in to account the possibility tax delinquencies in Debt Service revenues and will continue to set the debt service rate in order to meet its obligations relating to bond agreements.

#### Finding #3

The district agrees with this finding. During the pandemic and associated response and efforts to maintain continuity of service, the district found that the routine extension of contracts sometimes took longer than planned. As a result of this the district extended a contract related to the safety and security of student transportation prior to the formal approval being shared with the BOE. This extension was ultimately memorialized and provided to the BOE (August 18, 2021).

The district will consider including language related to unforeseen conditions and states of emergency in its internal control documents similar to language in 29 Del. C. §69.