

BRANDYWINE SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2022



BRANDYWINE SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2022

BACKGROUND

Performance audits are used to evaluate the efficiency and effectiveness of an organization's operations. The objective of this performance audit is to provide management, the Brandywine School District Board of Education and the State of Delaware with information to improve performance, public accountability, and transparency.

The purpose of this performance audit is to determine whether the District's operations over the collection and spending of local school district property tax funds complied with relevant laws and regulations. Our performance audit addressed the following areas:

- The tax rate setting process
- Payments for services and supplies
- Employee compensation and payroll processing

The Auditor of Accounts is mandated by 29 Del. C., §2906(f) to perform annual audits of local school district tax funds. Under Delaware Code, school districts may levy and collect taxes for school purposes upon the assessed value of all taxable real estate in the district.

KEY INFORMATION AND FINDINGS

Performance audit testing of the rate-setting process revealed the District's management and Board of Education analyzed expected spending and set the FY 2022 tax rates to provide adequate revenues, as summarized here.

- The District's FY 2022 current expense tax rate was set by referendum in 2019.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$10,236,385 as of June 30, 2022 complied with the State of Delaware requirements.

BRANDYWINE SCHOOL DISTRICT QUICK FACTS

K-12 Schools

15

Special Schools

2

Students Served

10,400

Employees

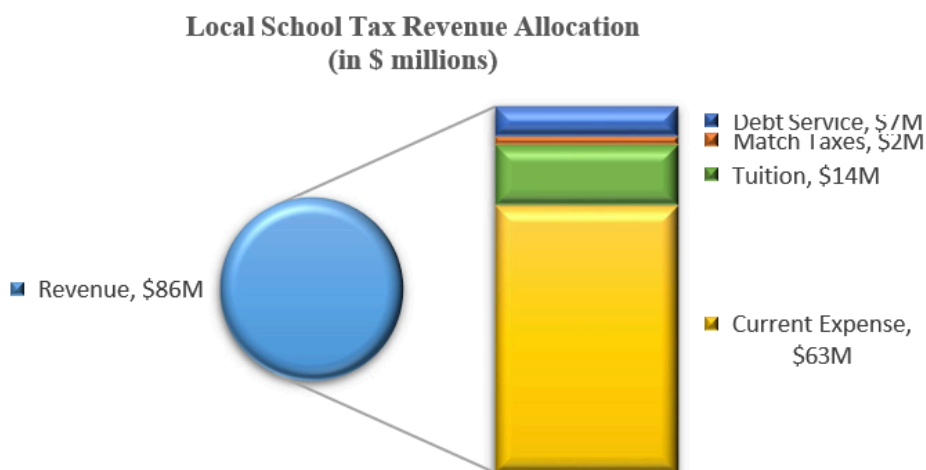
1,000



BRANDYWINE SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2022

KEY INFORMATION AND FINDINGS CONTINUED

The District allocates the local property tax funds received by their intended purpose (current expense, debt service, tuition, and match taxes). We found that the allocation was consistent with the tax rates approved by the Board of Education. The four components of local school tax revenue allocations are summarized below:



Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud. Performance audit testing of the District's expenditures did not uncover fraud, waste or abuse. The audit relied on various sources of information and methods to obtain an understanding of and assess Local Funds' processes for the School District, including inquiry, document reviews, risk assessment, and identification and performance assessment of key controls.

Testing identified the following conditions that are reported as findings:

- District payroll policies do not properly segregate responsibilities of the payroll function.
- District payroll policies do not require appropriate review and approval of payroll changes.
- District policies requiring the use of purchase orders were not consistently followed.
- District purchases of professional services, supplies and equipment, and repairs service did not follow state procurement laws.

The potential exposure to the State of the weaknesses in payroll internal controls, described above, is that they increase the risk of error and fraud occurring, and not being detected, in the payroll process. The potential exposure to the State of the weaknesses in the purchasing internal controls is that they increase the risk that the District would make purchases without first obtaining the best prices and terms.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022

BRANDYWINE SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2022

	<u>Page No.</u>
Independent Auditor's Report	1
Performance Audit Overview	2
Background	2
District Specific Summary	5
Audit Objectives	5
Audit Scope	6
Audit Methodology and Results	6
Schedule of Findings and Recommendations	14
Conclusion	23
Corrective Action Plan	24



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Independent Auditor's Report

Lincoln Hohler, Superintendent
Brandywine School District
1311 Brandywine Boulevard
Wilmington, Delaware 19809

Dear Mr. Hohler:

We present the attached report which provides the results of our performance audit of the Brandywine 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, 2022. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Brandywine School District's Local Funds under OAOA Contract Number 22-CPA01_SDLOCALFUNDS.

The Office of Auditor of Accounts is authorized under 29 Del. C., §2906(f) to perform post-audits of local school district tax funds' budget and expenditures. The Brandywine 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 Brandywine 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(o), 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.

April 12, 2024
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Jill Floore - Chief Financial Officer

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT
JUNE 30, 2022

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 Delaware 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., Ch. 19 for nonvocational districts and by 14 Del. C., Ch. 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 summarized as follows.

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 former 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.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - 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 Section 401, *Major Capital Improvement Program*, are projects costing \$1,000,000 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 fund 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 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 grant, and opportunity fund.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

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 DOE memo issued in December 1998.

Minor Capital Improvements - Per Delaware Administrative Code 405, *Minor Capital Improvement Program*, minor capital pertains to projects costing less than \$1,000,000, 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 - In accordance with 14 Del. C., §1902(b), the State of Delaware FY 2022 Operating Budget Epilogue sec. 357 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 State of Delaware 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 State of Delaware 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 2022 Operating Budget Epilogue sec. 366 authorizes school districts to assess a local match for costs relating to the Student Success Block Grant appropriations, which are intended for reading assistance in grades K-4.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Opportunity Fund - The State of Delaware FY 2022 Operating Budget Epilogue sec. 363 authorizes school districts to assess a local match for costs associated with Opportunity Fund appropriations intended to enhance services and provide additional supports to English Learner and low-income students, as well as be used for mental health services and/or for additional reading supports for grades K-5. Per a June 2019 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 Brandywine School District, located in New Castle County, operates PK-12 schools with over 10,400 students. The Brandywine School District employs over 1,000 employees to educate and support its students. Brandywine has one early education center, nine elementary schools, three middle schools, and three traditional comprehensive high schools. In addition, the District provides vocational training and opportunities through the SITE Program (Skills for Independence, Transition, and Employment) for 18-21 year-old students with special needs. The Brandywine School District Board of Education is the governing body of the District. The School Board includes seven elected members who serve four-year terms. For the purposes of this report, Brandywine School District is referred to as the “School District” or “District.”

AUDIT OBJECTIVES

The objectives established for the performance audit of the 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.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT OBJECTIVES - CONTINUED

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, 2021 through June 30, 2022. We sampled and examined transactions from the populations of expenditures and receipts of Local Funds for the period from July 1, 2021 through June 30, 2022. In sampling these transactions, we relied on documentation provided by the District, the DOE and the State of Delaware's financial accounting and human resources systems.

AUDIT METHODOLOGY AND RESULTS

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

- A. Planning Phase: The audit relied on various sources of information and methods to properly plan the audit and to obtain an understanding of and assess Local Funds' processes for the School District, including the following:
 - 1. Reviewed the applicable sections of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *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 Board of Education's meeting minutes 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.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- 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 risk-based approach to assess the design and operation of internal 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 were properly documented, authorized and properly recorded; that products and services were received, and that the transaction complied with State and District requirements.
 - 2. To assess the design and operation of procurement internal controls, we analyzed disbursements to vendors made from the District's State, Local and Federal Funds' (excluding purchases made using State-wide contracts, those entered into by the Office of Management and Budget's, Government Support Services Division.) Our analysis included all District funding (local, State, and federal) because the procurement requirements apply regardless of funding source. We analyzed procurements as follows:
 - a. Cumulative expenditures by purchase order, to test whether the cumulative amounts may have exceeded the applicable procurement thresholds.
 - b. Vendors receiving payments under multiple purchase orders to test whether multiple purchase orders for similar products or services may have exceeded the applicable procurement thresholds.
 - c. Vendors receiving direct claim payments (purchases without purchase orders) to test whether multiple payments for similar products or services may have exceeded the applicable procurement thresholds.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- d. Payments made via Purchasing Cards to test whether single payments (or multiple payments for similar products or services) may have exceeded the applicable procurement thresholds.
- e. Payments to Single Payment Suppliers (suppliers that are paid only once) to test whether payments may have exceeded the applicable procurement thresholds.

In addition, we selected the following types of vendor transactions for testing:

- a. A random sample of vendor transactions with cumulative purchase amounts meeting or exceeding the State and District procurement thresholds.
 - b. A judgmental sample of unusual or higher risk vendor transactions.
3. To assess the design and operation of payroll internal controls, we sampled and tested transactions from a population of current year payroll change events, affecting local funds' payroll expenditures for the following:
- a. Employees' annual salary increases agreed to published and approved salary tables.
 - b. Changes to payroll, other than annual salary increases, agreed to supporting documentation and were properly approved.
 - c. Management's reconciliation, review, and approval of bi-weekly payrolls.
4. To assess the design and operation of internal controls over the approval and calculation of real estate taxes, including tuition tax:
- 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, as applicable.
 - c. Verified local tax fund receipts were properly recorded to the related tax appropriation based on the official tax warrant.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

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 - Except as detailed in the *Schedule of Findings and Recommendations*, we found the design of the key internal controls over payroll, non-payroll, and debt expenditures of Local Funds were in accordance with the requirements during the period from July 1, 2021 through June 30, 2022.

Non-Payroll Expenditures - 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 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 the First State Financials (FSF), the Delaware State accounting system, except as noted in Finding Number 3 in the *Schedule of Findings and Recommendations*.

Procurement - To assess the District's compliance with State and District procurement requirements, we analyzed the District's total FY 2022 disbursement population and, using a risk-based approach, we selected the following samples:

- A haphazardly selected sample of the lesser of 25 or 10% of vendors (19 were selected) with cumulative expenditures exceeding the \$10,000 procurement threshold per the *BAM* (this is the lowest threshold that requires competitive purchasing).
- A judgmentally selected sample of five vendors with multiple purchase orders.
- A haphazardly selected sample of eight vendors with direct claim payments, cumulatively, exceeding the \$10,000 procurement threshold.
- A judgmentally selected sample of the one procurement card purchase exceeding the \$10,000 procurement threshold per the *BAM*.
- There were no single-payment supplier purchases made by the District that exceeded \$10,000; therefore, a sample was not selected.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Procurement - Continued

We examined documentation for each of the vendor transactions selected and found the purchasing process for 16 vendors was not in compliance with State and District procurement requirements. Purchases from six of these vendors were at least partly funded with tuition tax funds. Refer to Finding Number 4 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

Payroll Expenditures - To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 40 Local Funds pay rate changes processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that pay rate changes were supported; however, certain of the changes tested were not properly approved in accordance with the requirements. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

To test the employees' annual increases, we selected a random sample of 10 annual step increases and agreed each employee's salary in the State's payroll system, Payroll and Human Resource Statewide Technology (PHRST), to the District's approved FY 2022 salary schedules.

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.

Debt Service 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 statewide 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.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

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 - We obtained the New Castle County School District Reports of Local Property Tax Collections for FY 2022. Brandywine School District is one of four districts that comprise the New Castle County School District. We recalculated the DOE distribution of receipts of the New Castle County School Tax to the four New Castle County School Districts. We also recalculated the DOE distribution of receipts of the Brandywine School District Tax. We determined that the DOE accurately distributed the receipts 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 warrant for FY 2022 and concluded the following:

- The District's current expense rate was supported by a referendum passed in May 2016. The New Castle County School District shared current expense rate was agreed to historical reports provided by the Department of Education and to the District's FY 2022 budget.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Student Success Block Grant. We found the District's local match tax revenues were consistent with the prior year and were determined to be immaterial to total Local Fund revenues.
- We compared debt service collections based on the debt service rate to principal and interest schedules for FY 2022 and FY 2023 and determined that the rate was sufficient to cover debt services expenditures in FY 2022 and provide the District with a reserve equal to 59% of FY 2023 debt payments as summarized below. District Debt service reserves held as of June 30, 2022, were within the range set by the State of Delaware Attorney General.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

July 1, 2021 Debt Service Reserve Balance	\$ 3,978,136
FY 2022 Debt Service Activity	
Receipts	7,464,545
Expenditures	<u>(7,284,723)</u>
June 30, 2022 Debt Service Reserve Balance	<u>\$ 4,157,958</u>
Budgeted FY 2023 Debt Service	<u>\$ 7,031,425</u>
Reserve to Expected Future Payments Ratio	<u>59%</u>

- We accumulated information from the following sources to meet this audit objective: The FY 2022 Debt Service Tax Collections and FY 2022 Debt Service Reserves were obtained from the June 30, 2022 Daily Validity Report (Document Direct Report DGL060), which is a daily report on the status of appropriations. The FY 2022 and FY 2023 Debt Service Principal and Interest were obtained from debt service schedules presented in the District's FY 2022 Final Budget and FY 2023 Preliminary Budget, respectively.
- We compared actual tuition tax expenditures and funds transferred out to special programs and other districts to both actual revenues and budgeted expenditures and determined that the rate appeared to be sufficient to meet the District's obligations. Actual expenditures and revenues were obtained from the June 30, 2022 Daily Validity Report and budgeted expenditures from the District's FY 2022 Final Budget.

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 found that the District did not conform to its own purchase order policy requiring an approved official purchase order for certain purchases of goods and services. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified, and related recommendations.

BRANDYWINE SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 4 - Continued

Results - Continued

We also examined the District's compliance with State and District procurement requirements in conjunction with procedures performed over nontuition Local Funds. We found purchases from six vendors did not comply with State and District purchasing and procurement requirements. Refer to Finding Number 4 in the *Schedule of Findings and Recommendations* for 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. We found deficiencies in the design and operation of payroll internal controls. Results are reported in Objective 1. Refer to Findings Number 1 and 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2022

Finding Number 1 - Lack of Segregation of Duties in Human Resources Responsibilities for Payroll Functions

Condition: We found the design of the District’s payroll controls assigns certain incompatible functions to the same employees.

We found the District’s Payroll and Benefits staff are responsible for entering new employees into PHRST, updating employee salary information in PHRST, and processing payroll. The updating of employee information and the processing of payroll in PHRST are incompatible responsibilities that should be segregated.

Criteria: Chapter 14 *Payroll Compliance*, Section 14.2.1 *Controls*, of the *BAM* states that “Organization should ensure an appropriate segregation of duties and monitoring throughout the payroll process.”

Cause: The PHRST system’s Human Resource, Payroll, and Benefits Administration modules are available to all Payroll and Benefits staff in edit mode.

Effect: The existence of incompatible functions without mitigating controls puts the District’s payroll at risk of error or fraud occurring without detection.

Recommendation: We recommend the District review and update payroll functions to ensure proper segregation of duties or implement mitigating internal controls.

View of Responsible District Officials and Planned Corrective Actions: Refer to the Corrective Action Plan section.

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 2 - Lack of Proper Review and Approval of Changes to Employee Payroll

Condition: We found the following deficiencies in the design and operation of the District's payroll controls:

The District's controls over the authorization of payroll changes processed in PHRST are not operating as designed by the District's internal control policies. Of the 40 transactions tested, we found four transactions affecting employee salary and wages that were processed by the Payroll and Benefits staff in PHRST but were not reviewed and approved by the Chief Financial Officer (CFO), Superintendent or the Board of Education (BOE). The following summarizes the four transactions:

- Three transactions were teacher pay increases for education levels. The Human Resource Department forwards certifications from the DOE's credentialing division to the Payroll and Benefits staff for processing in PHRST. Evidence of CFO's, Superintendent's or the BOE's review and approval of processing of these transactions in PHRST was not memorialized.
- The Annual increase for a paraprofessional was calculated by Payroll and Benefits staff and recorded on a paysheet. The paysheet is reviewed by a different Payroll and Benefits staff member before processing in PHRST. Evidence of the CFO's, Superintendent's or the BOE's review and approval of processing of this transaction in PHRST was not memorialized.

Additionally, we found CFO, Superintendent or the Board of Education (BOE) approval of thirty-two transactions affecting employee salary and wages was not explicitly memorialized prior to processing by the Payroll and Benefits staff in PHRST.

Context: The Manager of Finance and the Business Office Specialist, under the Supervision of the CFO, review all personnel transactions processed in PHRST as part of the bi-weekly review before payroll is released for payment. This review includes comparing the transactions in PHRST to documentation received from the Human Resources Department supporting the payroll transactions. During the audit, we obtained sufficient evidence to determine that the review is occurring, but our procedures indicated that the review and approval of the Finance Department of the individual transactions affecting salary and wages is not memorialized in a consistent and formalized manner to enable audit or appropriate monitoring by management.

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 2 - Lack of Proper Review and Approval of Changes to Employee Payroll - Continued

Criteria: The District's internal control policies require the following:

- The District's Financial Procedure Manual, as of November 1, 2021, requires "Personnel transactions approved by the Director of Human Resources and/or the Brandywine School District Board of Education are forwarded to the Payroll and Benefits Department for Processing in the PHRST system."
- The District's internal control policies, as documented on the District's FY 2022 Payroll Internal Control Plan Questionnaire requires that salaries and wage rates are approved by the CFO, Superintendent or the BOE.

Cause: The Finance Department's review and approval of the individual transactions affecting employee salary and wages during the bi-weekly payroll review process is not memorialized.

Effect: By not properly approving changes to employee payroll, the District increases its risk that erroneous or fraudulent information may be entered into PHRST. By not documenting the approval of pay changes, the subsequent review and audit of those changes is prevented.

Recommendation: We recommend the District review its bi-weekly payroll internal control processes and implement procedures to formally document the review and approval of individual transactions affecting employee pay and maintain the authorizing documentation in individual employee files.

View of Responsible District Officials and Planned Corrective Actions: Refer to the Corrective Action Plan section.

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 3 - Lack of Purchase Orders for Vendors

Condition: We found the District did not comply with its policy requiring an approved, official purchase order prior to creating a vendor order. As summarized below, we found the District did not comply with its policy in the expenditure of the following Local Tax funded appropriations: Tuition, Match Taxes (Technology & MCI), and Current Expense.

	Vendor Count	Purchase Order	No Purchase Order	Total Purchases
Purchase Order(s) for all Purchases	393	\$ 10,915,299	\$ -	\$ 10,915,299
Purchase Order(s) for some Purchases	223	6,301,199	1,788,679	8,089,878
No Purchase Order	353	-	2,745,045	2,745,045
	<u>969</u>	<u>\$ 17,216,498</u>	<u>\$ 4,533,724</u>	<u>\$ 21,750,222</u>

Criteria: The Brandywine Financial Procedure Manual’s purchasing policies required the following during FY 2022:

- The manual, adopted on October 10, 2018, which was in effect until October 31, 2021, requires “*All purchases to a vendor for more than \$5,000 require an approved official purchase order prior to creating an order. An approved official purchase order is required for purchases made to any vendor whose cumulative total for a fiscal year will be more than \$5,000.*”
- The manual, adopted on November 1, 2021, which was in effect through June 30, 2022, requires “*Purchases must not be made to any vendor prior to an official approved purchase order.*”

Cause: The District applied certain exceptions to the Financial Procedure Manual for specific types of transactions. These exceptions were not documented or formally adopted by the District.

Effect: By not requiring purchase orders for purchases of goods and services, the District was not in compliance with the policies contained within its Financial Procedure Manual.

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 3 - Lack of Purchase Orders for Vendors - Continued

Recommendation: We recommend the District implement the following:

- Strengthen its controls over the review and approval of purchases to ensure that approved purchase orders are in place.
- Document and formally adopt exceptions to policies in the Financial Procedure Manual.

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

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 4 - Purchases Did Not Comply with State Purchasing and Procurement Requirements

Condition: We found the District's purchasing decisions for 14 of 32 vendors selected for testing did not comply with the State's and District's procurement requirements as summarized in the following chart:

District's Procurement Action Type of Purchase	Required Procurement Action		
	Three Written Quotes	Formal Bid or RFP	Documented Use of Other Agency Contract
Open Market Purchase			
Professional Services	-	4	-
Materials	4	-	-
Undocumented use of Another Agency's Contract			
Materials	-	-	4
Professional Services	-	-	2
	<u>4</u>	<u>4</u>	<u>6</u>

The District's open market Public Works procurements did not include the prevailing wage rate requirements or performance bonding in the contract public works services.

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C. Ch. 69. The Brandywine Financial Procedure Manual indicates that the District adheres to existing bid laws of the State of Delaware.

The following requirements are applicable to professional services purchases:

- 29 Del. C., §6902(21) defines "Professional Services" as services which generally require specialized education, training or knowledge and involve intellectual skills.

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 4 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Criteria - Continued:

- Chapter 5 *Procurement*, Section 5.3.3 *Professional Services Thresholds* required the following:

Procurement Requirement	Through August 31, 2021	Effective September 1, 2021
Open Market Purchase	Less than \$50,000	Less than \$100,000
Formal Bid	\$50,000 and Over	\$100,000 and Over

- Chapter 5 *Procurement*, Section 5.2.6 *Contract Documentation* of the *BAM* requires that “Each Organization must retain in their files all pertinent documents and correspondence relating to the contract bid process, in order that these supporting documents may be available for audit or review by a State official at all times.”

The following requirements are applicable to the materials purchases:

- 29 Del. C., §6902(18) defines “Materiel” as materials, equipment, tools, supplies, or any other personal property.
- Chapter 5 *Procurement*, Section 5.3.1 *Material and Non-Professional Services Thresholds* required the following:

Procurement Requirement	Through August 31, 2021	Effective September 1, 2021
Open Market Purchase	Less than \$10,000	Less than \$10,000
3 Written Quotes	\$10,000 - \$24,999.99	\$10,000 - \$49,999.99
Formal Bid	\$25,000 and Over	\$50,000 and Over

- Chapter 5 *Procurement*, Section 5.2.6 *Contract Documentation* of the *BAM* requires that “Each Organization must retain in their files all pertinent documents and correspondence relating to the contract bid process, in order that these supporting documents may be available for audit or review by a State official at all times.”

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 4 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Criteria - Continued:

The following requirements are applicable to the public works purchases:

- The purchases are considered public works per the following:
 - 29 Del. C., §6902(23) “Public funds” means funds of the State, of any agency within the State, of any public school district, of or from the United States government or of or from any department or representative body thereof; and
 - 29 Del. C., §6902(24) “Public works contract” *means construction, reconstruction, demolition, alteration and repair work and maintenance work paid for, in whole or in part, with public funds.*
- In accordance with the thresholds set by the Contracting and Purchasing Advisory Council (CPAC) per 29 Del. C., §6913(d)(4), the purchases were subject to the requirements of 29 Del. C., §6962 *Large Public Works Contract Procedures* as follows:

<u>Procurement Requirement</u>	<u>Through August 31, 2021</u>	<u>Effective September 1, 2021</u>
Open Market Purchase	Less than \$50,000	Less than \$50,000
3 Written Quotes	\$50,000 - \$99,999.99	\$50,000 - \$149,999.99
Formal Bid	\$100,000 and Over	\$150,000 and Over

- In accordance 29 Del. C., §6960 *Prevailing Wage Requirements*, a provision for prevailing wage requirements is required for every contract or aggregate of contracts in excess of \$45,000 for repairs. The purchases met this threshold.

Other Agency Contracts - 29 Del. C., §6904(e) allows State of Delaware agencies to use each other’s contracts. The following excerpt of 29 Del. C., §6904(e) details the requirements applicable to this arrangement:

“If no state contract exists for a certain good or service, covered agencies may procure that certain good or service under another agency’s contract so long as the arrangement is agreeable to all parties. Agencies, other than covered agencies, may also procure such goods or services under another agency’s contract when the arrangement is agreeable to all parties.”

BRANDYWINE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 4 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Cause: The District did not procure the goods and services in accordance with the requirements.

Effect: The District did not adhere to State and District purchasing and procurement requirements.

Recommendation: We recommend that the District implement the following:

- Procedures to document its decisions when procuring services under another agency's contract.
- Procedures to properly evaluate purchases for compliance with formal procurement requirements, specifically, purchases for similar services from the same vendor should be combined and evaluated against the procurement thresholds and other requirements in total.

View of Responsible District Officials and Planned Corrective Actions: Refer to the Corrective Action Plan section.

BRANDYWINE SCHOOL DISTRICT
CONCLUSION
JUNE 30, 2022

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

Objective 1 - Except for Findings 1 through 4, as the following exceptions detailed in the *Schedule of Findings and Recommendations*, 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.

Objective 4 - The School's District's tuition tax funds were calculated and spent in accordance with the requirements, with the exception of deficiencies in the design and operation of the District's internal controls over payroll and the noncompliance with the District's own purchase order policy and State purchasing policy as reported in Objective 1.

**BRANDYWINE SCHOOL DISTRICT**

1311 Brandywine Boulevard
Wilmington, DE 19809-2306

302-793-5000
brandywineschools.org

LINCOLN HOHLER
Superintendent

JOHN A. SKROBOT, III
President, Board of Education

JASON HELLER
Vice President, Board of Education

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

April 11, 2024

Thank you for your work with the Brandywine School District and Audit engagement of FY22 Local Funds. Please find the following District responses to the Draft Report.

Finding #1

The district segregates the responsibilities for entering new employees and payroll input by function and staff member. However, due to the limitation of the PHRST state payroll system, employees have the same access levels and it is not possible to turn the access on and off without significant delays. This is not feasible for timely payroll entry. During high-volume input or absences, it may be necessary for cross-over functions among a staff of three people. When cross-over occurs outside of a staff member's assigned function (HR entry or payroll), all entries are reviewed and initialed by a different staff member completing the review. The district will continue this process and memorialize it in the payroll internal control procedures.

Finding #2

The district disputes this finding. Neither the Board of Education nor the Superintendent supervise or review payroll transactions. The District's Financial Procedures Manual does not reference the Superintendent in any way related to payroll and references the Board only in terms of personnel transactions "approved by the Director of Human Resources and/or the Brandywine School District Board of Education". Actions voted by the Board of Education, as documented by board minutes, consist of hiring, retirement, change in work assignment, termination, and any changes to salary schedules. Once approved by board action, personnel information is provided to the payroll department for processing and the CFO has the overall responsibility for ensuring accurate processing. The payroll entry and CFO/supervisor review are occurring as the audit indicates and the district agrees it was not memorialized by initials and has implemented procedures to memorialize this review.

Finding #3

During the FY21 audit review, a similar finding was noted with a district response on August 30, 2022. FY22 was already closed and the timing did not allow any changes. As stated in the FY21 response, "we do recognize that the district's own internal procedure was outdated and needed to be increased above the previous \$5,000 threshold. We also recognize that though it has been our practice to allow for exceptions when approved by the Chief Financial Officer, that was not specifically stated in our internal control procedures." Further, the district put in place corrective action and "both a threshold increase and a written statement related to the allowability of exceptions has been added to the district's procedure manual that is consistent with existing practices".

Finding #4

The district acknowledges the use of "piggybacking" or use of other agency contracts. Similar to finding #3, at the conclusion of the FY21 audit, FY22 was already closed and the timing of findings did not allow for any corrective action to occur during FY22. Previously, the "piggybacking" agreements between districts were not formally maintained in writing. Consistent with the FY21 district response, the district "will ensure moving forward that all the necessary documentation is attached".

A second concern is regarding the aggregation of open market purchases. Purchasing decisions are made at the operating unit level. While individual budget managers are trained to aggregate their purchases for compliance within thresholds, the district will implement procedures to track aggregate open market purchases across operating units.

In regards to Public Works purchases not being aggregated for evaluation of the purchasing decision, which would include prevailing wage and performance bond requirements, we believe that state code, and the BAM, specifically Chapter 5 Procurement, Section 5.3.2 are unclear. The language used in Title 29, chapter 69 §6961(a) regarding public works states that the more "streamlined" small purchase procedure can be used for a contract whose "annual probable cost is less than or equal to the threshold amount..." In the case of the projects identified, contracts with Earle Downing for paving, these were specific, small, and unrelated projects. We did not believe the cost, in aggregate, would be above the threshold, nor does the code specify what would require these to be aggregated into one project. In addition, based on the nature of the repairs being done, it would have been difficult to develop bid specs for the individual, unique projects. Because the scope of work is not identified as part of a routine maintenance program, we would have had to engage the services of a design firm to develop specs on a full gamut of hypothetical repairs. We believe the time and overhead of this work would have driven up the cost and didn't believe it was required based on the definition of public works projects available. Going forward, we will reach out to GSS and other state agencies to discuss how they interpret procurement language regarding public works so that we can review and, as appropriate, develop improved procedures.

The district acknowledged the aggregate threshold was exceeded for 4 professional services contracts for combined therapies in the FY21 audit and RFPs were initiated in 2022 and awarded to begin Fiscal Year 2023.

Please don't hesitate to contact me you have any further questions.



Jill M. Floore
Chief Financial Officer