

CAPE HENLOPEN SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2022



CAPE HENLOPEN 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 Cape Henlopen 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 2018.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$9,408,883 as of June 30, 2022 did not comply with the State of Delaware requirements.

CAPE HENLOPEN SCHOOL DISTRICT QUICK FACTS

K-12 Schools

8

Special Schools

2

Students Served

6,000

Employees

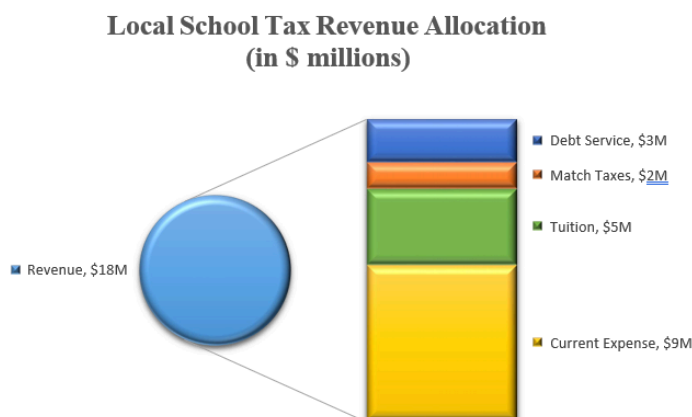
1,100



CAPE HENLOPEN 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 disbursement of minor capital improvement funds for pest control services lacked the required State of Delaware Department of Education Capital Projects Management approval.
- District purchases of non-professional services, supplies and equipment, and repairs services did not follow state procurement laws.
- District debt service rate setting processes resulted in an excessive debt service reserve at year end that did not comply with State of Delaware requirements.

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, including not obtaining required approvals, is that they increase the risk that the District would make purchases without first obtaining the best prices and terms. The District's debt service tax rate is not supported by scheduled debt service or other approved capital activities.

CAPE HENLOPEN SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2022

CAPE HENLOPEN SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2022

	<u>Page No.</u>
Independent Auditors' Report	1
Performance Audit Overview	2
Background	2
District Specific Summary	5
Audit Objectives	5
Audit Scope	5
Audit Methodology and Results	6
Schedule of Findings and Recommendations	13
Conclusion	22
Corrective Action Plan	23



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Independent Auditors' Report

Mr. Robert Fulton
Superintendent
Cape Henlopen School District
1270 Kings Highway
Lewes, Delaware 19958

Dear Mr. Fulton:

We present the attached report which provides the results of our performance audit of the Cape Henlopen 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 Cape Henlopen 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 Cape Henlopen 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 Cape Henlopen 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, Office of the Controller General, General Assembly, Office of the Attorney General and Office of Management and Budget.

Belfint, Lyons & Shuman, P.A.

January 9, 2024
Wilmington, Delaware

cc: Lydia York - State Auditor
Oliver Gumbs - Director of Business Operations

CAPE HENLOPEN 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.

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

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Continued - 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.

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

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Technology - Continued - 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.

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.

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

BACKGROUND - CONTINUED

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 Cape Henlopen School District, located in Sussex County, operates K-12 schools with over 6,000 students. The Cape Henlopen School District employs over 1,100 employees to educate and support its students. Cape Henlopen has 5 elementary schools, 2 middle schools, and 1 high school. In addition, the District is also home to the Sussex Consortium and the Little Vikings Learning Center. The Cape Henlopen 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, Cape Henlopen School District is referred to as the “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.

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.

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

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.
 - 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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 transactions 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.
 - 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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 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.

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 non-payroll and debt expenditures of Local Funds was in accordance with the requirements during the period from July 1, 2021 through June 30, 2022.

We found deficiencies in the design of certain internal controls over payroll expenditures that could result in error or fraud occurring and not being detected. Refer to Finding #1 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

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 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, except as noted in Finding #3 in the *Schedule of Findings and Recommendations*, where we reported a deficiency and related recommendation.

Procurement - To assess the District's compliance with both 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 four purchase orders 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 four vendors with multiple purchase orders.
- A haphazardly selected sample of eight vendors with direct claim payments, cumulatively, exceeding the \$10,000 threshold.
- There were no procurement card purchases or single payment supplier purchases made by the District that exceeded \$10,000; therefore, a sample of these transactions was not selected.

We examined documentation for each of the transactions selected and found the purchasing process for goods and services purchased from four vendors throughout the fiscal year was not in compliance with State and District procurement requirements. Purchases from one of these vendors were funded with tuition tax funds. Refer to Finding #4 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

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 changes were supported; however, certain transactions, were not properly approved in accordance with District policies. Refer to Finding #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 profile 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. Refer to Finding #5 in the *Schedule of Findings and Recommendations* for details of a deficiency identified and the related recommendation. 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.

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

Results - We obtained the Sussex County Reports of Local Property Tax Collections, recalculated the District's distribution of its receipts among the four categories of local taxes and determined that the District accurately distributed the receipts based on the official warrant and code requirements.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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 March 2018.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, and Opportunity Fund. 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 and existing reserves were in excess of the amounts required to cover debt service expenditures in FY 2022. The District's reserve at the end of FY 2022, which was equal to approximately 115% of FY 2023 debt service payments, as summarized below, exceeds the maximum of 110% of FY 2023 debt payments set by the State of Delaware Attorney General. Refer to Finding #5 in the *Schedule of Findings and Recommendations* for details of the deficiency identified and related recommendations.

July 1, 2021 Debt Service Reserve Balance	\$ 9,332,036
FY 2022 Debt Service Activity	
Receipts	9,834,719
Expenditures	(7,677,925)
Other Activity	
Market Pressure Relief Funding*	<u>(2,079,948)</u>
June 30, 2022 Debt Service Reserve Balance	<u>\$ 9,408,882</u>
Budgeted FY 2023 Debt Service	<u>\$ 8,153,729</u>
Reserve to Expected Future Payments Ratio	<u>115%</u>

**Disbursement of Market Pressure Relief Funding from Local Debt Service Taxes directed by the State of Delaware Bond Bill.*

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- 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. The FY 2022 Debt Service balance excludes \$2,039,974 of the District's local share of Market Pressure Funds per the FY 2020 Bond Bill, which authorized the District to match State funds with local funds raised in excess for debt service.
- 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 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 one vendor did not comply with State and District purchasing and procurement requirements. Refer to Finding #4 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. Refer to Findings #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.

CAPE HENLOPEN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2022

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

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

The 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.

The Payroll and Benefits staff update employee salary information in PHRST, based on employee records maintained in the District's internal database software FileMaker Pro. The Payroll and Benefits staff also have access to enter changes to the records maintained in the internal database.

Criteria: Chapter 14 *Payroll Compliance*, Section 14.2.1 *Controls*, of the *BAM* states that "Organizations 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 and the District's internal employee database software 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 and not being detected.

Recommendation: We recommend the District review and update Human Resources and Payroll functions to ensure proper segregation of duties. It should consider transferring the responsibility for the update of employee information in PHRST and in the District's internal employee database to the Human Resources Team to ensure proper segregation of duties.

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

CAPE HENLOPEN 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 prior to PHRST entry are not operating in the manner the District's policies were designed. Of the 40 transactions tested, six transactions were required to have employee action forms, known as Goldenrods, reviewed and approved by the Supervisor of Human Resources, Director of Business Operations and/or Assistant Superintendent prior to being submitted to the Payroll and Benefits staff for processing. We found the following:

- Four transactions were recorded on forms created in the District's internal database software Filemaker Pro, which were not reviewed and approved. The changes were not memorialized on a Goldenrod as required by District policies. Further, documentation of review and approval for any payroll changes memorialized in Filemaker Pro is not recorded or maintained by the District.
- Two transactions were changes to administrator pay. Annual increases in administrator pay are calculated in an Excel workbook prepared and maintained by the CFO. The Board communicated its approval and recommended changes to Administrator pay formula. The Administrator pay changes prepared by the CFO were not memorialized and approved on Goldenrods, as required by District policies.

The District does not have controls in place to review and approve changes entered in PHRST. Although the Payroll and Benefits staff perform a peer review of changes made in PHRST, District Management does not actively, and contemporaneously review and approve changes in PHRST.

Criteria: The District's internal control policies, as documented on the District's FY 2022 Payroll Internal Control Plan Questionnaire, require the following:

- Salaries and wage rates are approved by the Supervisor of Human Resources, Director of Business Operations and/or Assistant Superintendent.
- Salary and wage rate changes are recorded on the District's employee action form document known as a Goldenrod.
- Goldenrods are approved via signature by the Supervisor of Human Resources, Director of Business Operations and/or Assistant Superintendent prior to Payroll and Benefits staff making any changes in PHRST.

CAPE HENLOPEN 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

Cause: The conditions above were caused by the following:

- Certain changes to salaries and wages are not recorded on the District's Goldenrod forms but are recorded on forms maintained in the District's internal database software. The software does not have review and approval recording capabilities and the District does not require the prepared forms from the internal database system to be approved manually.
- The District does not review changes to employee pay in PHRST as changes are entered.

Effect: By not properly approving changes to employee payroll, the District increases its risk that erroneous or fraudulent information may be entered into PHRST.

Recommendation: We recommend the District implement the following:

- Review its preparation and review processes over payroll changes to ensure that changes are properly approved prior to submission to Payroll for processing.
- Create and document procedures for the review and approval of salary and wage changes maintained on forms other than the District's Goldenrod form.
- Review its preparation and review processes over entries in PHRST to ensure that entries are reviewed by District Management.

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

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

Finding Number 3 - Minor Capital Disbursement Lacked Proper Approval in FSF

Condition: Of the 40 non-tuition local tax funds disbursement samples that we tested for compliance with the requirements, one disbursement totaling \$2,565 from appropriation 91151 Minor Capital Improvement – Local was not approved by State of Delaware DOE Capital Projects Management. These disbursements were funded on a 60% state and 40% local basis, as authorized by the Delaware Code.

Criteria: The State of Delaware *BAM* Chapter 6 *Approvals*, Section 6.6.5 *Capital Improvements*, requires DOE Capital Projects Management to approve all Minor Capital Improvement purchase orders, change orders, and direct claim vouchers.

Cause: The DOE's approval is an ad-hoc approval that is manually inserted into the FSF approval workflow by the District. The FSF system does not automatically route workflow for vouchers for Minor Capital Improvement – Local to the DOE for approval.

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

Recommendation: We recommend the District implement procedures to ensure that purchase orders, change orders, and direct claim vouchers that are disbursed from minor capital funds are routed to the DOE for approval after the business manager's approval at the District.

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

CAPE HENLOPEN 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 that the district's purchasing decisions for goods and services from four of the vendors we examined did not comply with the State's and District's procurement requirements.

- We found the District entered into two contracts with one vendor for HVAC repair services in the amounts of \$22,150 and \$40,500, effective February 1, 2022. The District also purchased services from the vendor outside of these contracts. The cumulative total of the purchases exceeded the \$150,000 public works threshold, in effect at the time of purchase, for a formal bid. The District did not complete the required procurement actions. The District did not enter into a formal contract with the vendor that included prevailing wage requirements or performance bonding requirements.
- We found the District cumulatively purchased \$53,184 of desks from one vendor during FY 2022 without completing the required procurement actions. The cumulative total of the purchases exceeded the \$50,000 material and non-professional services threshold, in effect at the time of purchase, requiring a formal bid.
- We found the District purchased \$21,849 of trash bags from one vendor under one purchase order during FY 2022. The purchase was partly funded with local tuition tax funds. The purchase exceeded the \$10,000 through \$49,999 material and non-professional services threshold, in effect at the time of purchase, requiring the District to obtain three written quotes. The District did not maintain evidence of this purchasing decision.
- We found the District cumulatively purchased \$21,055 in general hardware repair services for Apple devices from one vendor during FY 2022. The purchase exceeded the \$10,000 through \$49,999 material and non-professional services threshold, in effect at the time of purchase, requiring the District to obtain three written quotes. The District did not maintain evidence of its purchasing decisions.

Criteria: The District is required to follow the procurement and purchasing requirements of the BAM and 29 Del. C. Ch. 69 State Procurement.

The following requirements are applicable to the materials and non-professional services purchases:

- 29 Del. C., §6902(18) defines "Materiel" as materials, equipment, tools, supplies, or any other personal property.
- As of September 1, 2021, Chapter 5 *Procurement*, Section 5.3.1 *Materiel and Non-Professional Purchase Services Thresholds* of the BAM, requires formal bid procedures for purchases of \$50,000 and over based on yearly cumulative limits.

CAPE HENLOPEN 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

- As of September 1, 2021, Chapter 5 *Procurement*, Section 5.3.1 *Materiel and Non-Professional Purchase Services Thresholds* of the BAM, requires three written quotes for purchases between \$10,000 and \$49,999 based on yearly cumulative limits.
- 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 public works purchases:

- The purchases are considered public works per 29 Del. C., §6902(23) and §6908(24), which state “Public funds” means funds of the State, of any agency within the State, of any public school district, of or from the United States government or of or from any department or representative body thereof and “Public works contract” means construction, reconstruction, demolition, alteration and repair work and maintenance work paid for, in whole or in part, with public funds, respectively.
- In accordance with 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 of September 1, 2021, Chapter 5 *Procurement*, Section 5.3.2 *Public Works Thresholds* of the BAM requires that purchases related to public works projects that are \$150,000 and over, per contract, are procured through a formal bid. Section 5.5, *Public Works Contracts* of the BAM states that contracts greater than \$150,000 are large public works contracts. These are the thresholds set by the CPAC.
- Per 29 Del. C., §6962, the purchases were subject to formal bidding procedures outlined in the section as well as formal contract and performance bond requirements.
- 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.

CAPE HENLOPEN 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 *BAM* requirements. The District reviews price, availability, and delivery time for previously used vendors but does not maintain contemporaneous documentation of its purchasing decisions.

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 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 requirements in total.
- Procedures to document purchasing analyses performed by the District and its purchasing decisions resulting from its analyses.

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

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

Finding Number 5 - Debt Service Reserve is in Excess of 110% of Future Fiscal Year Payments

Condition: We found the following conditions regarding the District debt service tax rate and reserve:

- The District's FY 2022 Tax Rate Proposal issued June 10, 2021 calculated a debt service tax rate of \$.2779 to fund budgeted FY 2022 debt service. The District recommended and the Board of Education adopted a debt service tax rate of \$.691.
- The District's FY 2022 debt service rate resulted in a debt service reserve at the end of FY 2022 equal to 115% of total debt service expenditures expected in FY 2023.
- The District's debt service tax rate-setting process did not consider the following significant debt service revenue sources: Other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes.
- The District's FY 2022 debt service tax rate calculation utilized FY 2021 scheduled debt service instead of FY 2022 debt service.

Criteria: The District is required to maintain a debt service reserve of at least four months and no greater 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.

Cause: The District's FY 2022 tax rate was levied at the maximum rate of \$0.691, which was approved by voter referendum in March 2016. However, this rate, existing reserves, and other debt service revenues resulted in receipts that exceeded the District's need to meet obligations and maintain acceptable reserves.

Effect: By using the maximum tax rate approved by the March 2016 referendum rather than calculated rates, the District had an excessive debt service reserve as of June 30, 2022.

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

Finding Number 5 - Debt Service Reserve is in Excess of 110% of Future Fiscal Year Payments - Continued

Recommendation: We recommend the District utilize expected debt service expenditures to set debt service tax rates. We also recommend that the District consider the effect of other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes (PILOT) will have on debt service reserves and make efficient use of its reserves to avoid excessive reserves in the future.

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

CAPE HENLOPEN 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 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 - Except for Finding 5, as detailed in the *Schedule of Findings and Recommendations*, the School District's real estate taxes were approved and calculated in accordance with the requirements.

Objective 4 - The Schools 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 payroll controls and the District's application of State procurement policy, as detailed in the *Schedule of Findings and Recommendations*, Findings 1 through 4.



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CAPE HENLOPEN SCHOOL DISTRICT ***1270 Henlopen School District*** ***Lewes, Delaware 19958***

DISTRICT RESPONSES TO FINDINGS

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

Recommendation: We recommend the District review and update Human Resources and Payroll functions to ensure proper segregation of duties. It should consider transferring the responsibility for the update of employee information in PHRST and in the District's internal employee database to the Human Resources Team to ensure proper segregation of duties.

Response: The District will review these responsibilities, however, due to the State of Delaware PHRST payroll process and system availability, the segregation of duties does not allow enough time to complete the bi-weekly payroll in a timely manner.

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

Recommendation: We recommend the District implement the following:

- Review its preparation and review processes over payroll changes to ensure that changes are properly approved prior to submission to Payroll for processing.
- Create and document procedures for the review and approval of salary and wage changes maintained on forms other than the District's Goldenrod form.
- Review its preparation and review processes over entries in PHRST to ensure that entries are reviewed by District Management.

Response: The District has created and hired a Finance Coordinator with the primary responsibility of overseeing the Payroll and Benefits activities. The District will update its draft HR and Payroll Benefits manual to include policies and procedures to meet the recommendations.

Finding Number 3 – Minor Capital Disbursements Lacked Proper Approval in FSF

Recommendation: We recommend the District implement procedures to ensure that purchase orders, change orders, and direct claim vouchers that are disbursed from minor capital funds are routed to the DOE for approval after the business manager's approval at the District.

Response: The District recognizes the finding and has updated its procedures to address the recommendation.

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

Recommendation: We recommend that the District implement the following:

- 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 requirements in total.
- Procedures to document purchasing analyses performed by the District and its purchasing decisions resulting from its analyses.

Response: The District agrees that the aggregate purchases exceeded thresholds. This is due to the unanticipated number of emergency repairs for HVAC services. The District will work with the other school districts and the State of Delaware - Government Support Services division to create a state-wide contract for commonly used services and/or equipment. The District will continue to review its internal policies related to review and approval to ensure compliance.

Finding Number 5 - Debt Service Reserve is in Excess of 110% of Future Fiscal Year Payments

Recommendation: We recommend the District utilize expected debt service expenditures to set debt service tax rates. We also recommend that the District consider the effect of other local fund receipts, such as interest income, Elderly Tax Relief and Education Fund allocations, and Payments in Lieu of Taxes (PILOT) will have on debt service reserves and make efficient use of its reserves to avoid excessive reserves in the future.

Response: The District acknowledges the finding and will implement process to improve compliance with this requirement.