

# CAPITAL SCHOOL DISTRICT

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LOCAL FUNDS PERFORMANCE AUDIT  
FISCAL YEAR ENDED JUNE 30, 2022



# CAPITAL 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 2019.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$5,577,259 as of June 30, 2022 complied with the State of Delaware requirements.

### CAPITAL SCHOOL DISTRICT QUICK FACTS

K-12 Schools

10

Special Schools

2

Students Served

6,300

Employees

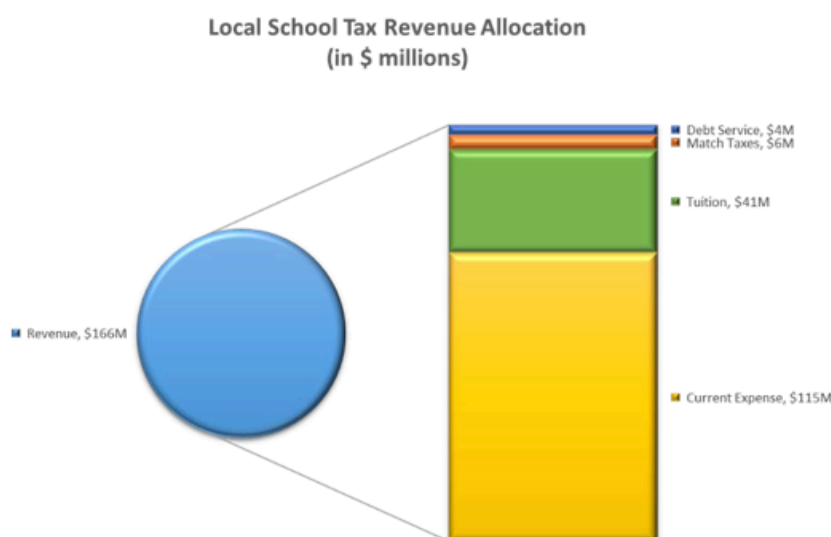
800



# CAPITAL 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 lacked proper review and approval.
- District did not maintain evidence of payroll period review.
- District did not maintain support for employee payroll changes and incorrectly applied collective bargaining stipend.
- District purchases of professional services, sports 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.

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

**JUNE 30, 2022**

**CAPTIAL SCHOOL DISTRICT**  
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**JUNE 30, 2022**

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*Independent Auditor's Report*

Dr. Vilicia Cade, Superintendent  
Capital School District  
198 Commerce Way  
Dover, Delaware 19904

Dear Dr. Cade:

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

February 27, 2024  
Wilmington, Delaware

cc: Lydia E. York - State Auditor  
Adewunmi Kuforiji - Chief Financial Officer/Business Manger

**CAPITAL 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 between 20% and 40% of the total cost per 29 Del. C., §7503(b) with the remaining balance financed by the State

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

**BACKGROUND - CONTINUED**

*Laws and Regulations - Continued*

Debt Service - Continued - of Delaware. The project must be approved by the Delaware DOE and bond issuances are authorized via voter referendum. Per 14 Del. C., §2116 and §2118(a), with a passing referendum, districts are authorized to levy a debt service tax sufficient to cover the local share of annual principal and interest payments plus 10% for expected delinquencies.

Vocational schools do not require a referendum to increase their debt service rate. Per 29 Del. C., §7503(b), the bond authorization act in which the project is included authorizes the vocational district to levy taxes sufficient to cover the local share of principal and interest bond payments.

The District is required to maintain 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 authorized appropriations for education technology and authorized school districts to indefinitely



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

**BACKGROUND - CONTINUED**

*Laws and Regulations - Continued*

Match - Continued

*Technology - Continued* - 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.

**CAPITAL 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 Capital School District, located in Kent County, operates K-12 schools with over 6,300 students. The Capital School District employs over 800 employees to educate and support its students. The Capital School District has seven elementary schools, two middle schools (three starting September 2023), and one traditional comprehensive high school. In addition, the District is home to the Kent County Community School and the Kent County Secondary Intensive Learning Center. The Capital School District Board of Education is the governing body of the District. The School Board includes five elected members who serve four-year terms. For the purposes of this report, Capital 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.

**CAPITAL 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.

**CAPITAL 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 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.
  - 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.

**CAPITAL 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*** - 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 was in accordance with the requirements during the period from July 1, 2021 through June 30, 2022.

**CAPITAL 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 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.

*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 2 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 five vendors with multiple purchase orders.
- A haphazardly selected sample of 10 vendors with direct claim payments, cumulatively, exceeding the \$10,000 threshold.
- There were no procurement card purchases made by the District that exceeded \$10,000; therefore, a sample of these transactions was not selected.
- A judgmentally selected sample of one single-payment vendor's purchases exceeding the \$10,000 procurement threshold per the *BAM*.

We examined documentation for each of the transactions selected and found the purchasing process for goods and services purchased from six vendors throughout the fiscal year was not in compliance with State and District procurement requirements. Purchases from five of the vendors were 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.

**CAPITAL 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 twenty-seven transactions were not properly approved in accordance with District policies. We also found that certain transactions were not supported with documentation maintained in the employee file. Refer to Findings Number 1 and 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 employees 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 selected a random sample of four bi-weekly payroll cycles to review evidence of the payroll reconciliation and approval process. We determined that authorized personnel at the District did not maintain evidence of a review of bi-weekly payroll expenditures. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

*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 at level by the State of Delaware Department of Finance, it is outside of the scope of this performance audit, and we did not assess the design or operation of internal controls over debt service expenditures.

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

*Results* - We obtained the Kent 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.

**CAPITAL 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 April 2019.
- The District assesses a local match tax for the following: Minor Capital Improvement, Technology, Reading and Math Resource Teachers, Extra Time, and 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 tax 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 70% 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.

July 1, 2021 Debt Service Reserve Balance	\$ 5,605,854
FY 2022 Debt Service Activity	
Receipts	7,226,424
Expenditures	<u>(7,255,020)</u>
June 30, 2022 Debt Service Reserve Balance	<u>\$ 5,577,258</u>
Budgeted FY 2023 Debt Service	<u>\$ 8,020,475</u>
Reserve to Expected Future Payments Ratio	<u>70%</u>

Per Kent County, Delaware (County) Code Part II, General Legislation, Ch. 105, Districts within the County that are impacted by construction, receive funds from surcharges on the proposed construction valuation of issued building permits. The funds are restricted by the County to fund the District's local share of capital improvements. The amounts presented above for Debt Service Reserves do not include the balance of unexpended surcharges received from the County. Additionally, FY 2022 actual and FY 2023 budgeted debt service is not adjusted for transfers of funds from the unexpended surcharges appropriation to the local debt service appropriation. In FY 2022, there were no transfers of funds between the appropriations.



**CAPITAL 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 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 was not sufficient to meet the District's obligations; however, the District covered the shortfall with transfers from other, unexpended local budget lines. 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 seven 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 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 Number 1, 2 and 3 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.

**CAPITAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**JUNE 30, 2022**

***Finding Number 1 - 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 in which the District's policies were designed. Of the 40 transactions tested, 27 transactions did not have evidence that the Director of Human Resources reviewed and approved the payroll transaction prior to their processing into PHRST. We found the following:

- Fifteen of the transactions tested had an *Employee Recommendation For Hire/Request For Approval To Begin Employment* form that shows it being sent to the Director of Human Resources, after being prepared by an administrative employee. There is no memorialization that the Director of Human Resources reviewed and approved the payroll transaction.
- Two transactions had DOE letter supporting the employee's education increase, but no support showing a review process from the District.
- Ten transactions tested had no support showing evidence that notice of the payroll changes had been sent to the Director of Human Resources for review had been reviewed and approved prior to being processed in PHRST.

The District also does not have a process in place to properly review human resources and payroll transactions after the transaction has been processed into PHRST, to ensure that payroll was entered properly into the system.

The district also does not memorialize the review of the bi-weekly payroll registers. The District indicated that the CFO reviews the bi-weekly payroll reports; however, this process is not memorialized to provide evidence that it had been performed and therefore, could not be tested.

**Criteria:** Chapter 5 *Payroll Compliance*, Section 14.2.1 *Controls* of the *BAM* requires that: "Organizations are required to maintain and enforce effective internal controls to monitor Payroll related transactions. These internal controls must be documented in a Payroll Internal Controls Plan. Controls must include, but are not limited to, the review and approval of all wage payments..." In addition, the PICP-Q indicates the HR Director and CFO are responsible for reviewing payroll changes.

**Cause:** Review and approval of payroll transactions was not performed or, if performed, evidence of the performance was not documented due to failure to follow the District's payroll policies and the *BAM*.

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

***Finding Number 1 - Lack of Proper Review and Approval of Changes to Employee Payroll - Continued***

**Effect:** By not properly approving changes to employee payroll, the District increases its risk that erroneous or fraudulent information is entered into PHRST. Without proper review or memorialization of review, after entry into PHRST, the risk increases that erroneous or fraudulent information entered will not be detected.

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

- Review its preparation and review processes over payroll changes to ensure that changes are properly reviewed prior to processing as required by the Payroll Internal Control Plan Questionnaire (PICP-Q).
- Formal document review and approval procedures for payroll changes.
- Review its procedures to review entries after entry to PHRST and adopt procedures to memorialize that review.

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

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

***Finding Number 2 - Supporting Documents for Changes to Employee Pay Were Not Maintained***

***Condition:*** Of the 40 transactions selected for testing, we found the following:

- Documentation to support hire of a substitute teacher was not maintained in the employee file for one transaction.
- Documentation to support adjustments to a substitute teacher's increase in hourly pay was not maintained in the employee file for one transaction.
- Documentation to support adjustments in an occupational therapists' salary was not maintained in the employee file.
- Documentation to support a teacher's longevity stipend was not maintained in the employee file.

***Criteria:*** State of Delaware School District General Retention Schedules - Accounting and Financial Records Series No. GSF-080 requires Personnel Action Requests and related contracts to be retained for 50 years.

***Cause:*** The conditions were caused by failure to maintain documentary evidence of employee salary changes in each employee's file.

***Effect:*** By not maintaining supporting documentation for changes affecting employee pay, the District increases its risk that erroneous or fraudulent information may be entered into PHRST. Without formal documentation memorializing the annual pay for unique positions, the District increases its risks of unauthorized or incorrect pay.

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

***Finding Number 2 - Supporting Documents for Changes to Employee Pay Were Not Maintained and Employee Local Salary Stipends Did Not Agree to the Collective Bargaining Agreement - Continued***

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

- Procedures to maintain pertinent documentation related to employee salary decisions.
- Creation of a formal manual for payroll internal control to meet the *BAM* requirements.

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

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

***Finding Number 3 - Lack of Segregation of Duties in Human Resources Responsibilities for Payroll Functions***

**Condition:** We found the design of the District's payroll controls assign certain incompatible functions to the same employees.

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

The conditions identified in Findings 1 and 2 indicate the District has not implemented any mitigating internal controls to appropriately reduce the risk of error or fraud.

**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 Human Resources staff in edit mode. Payroll and Human Resources have the same update access in PHRST because the District has a single team of Specialists for these functions.

**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 and human resource 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.

**CAPITAL 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:** The District policy requires purchase orders for all purchases over \$5,000. We found that the District had 92 vendor relationships that exceed \$10,000, without purchase orders. In addition, we found that the District's purchasing decisions for goods and services from six vendors did not comply with the State's and District's procurement requirements.

- We found that the District cumulatively purchased \$74,735 of pool repair services from one vendor during FY 2022 without completing the required procurement actions. The cumulative total of the purchases exceeded the \$50,000 public works threshold, in effect at the time of purchase, requiring the district to obtain three written quotes. The district obtained one written quote and did not document its difficulties, reported to us during the audit, in obtaining other vendors' price quotes.
- We found that the District cumulatively purchased \$252,088 of professional services from two vendors in FY 2022. The purchases from both vendors exceeded the \$100,000 professional services threshold in FY 2022, requiring the District to go through a formal bid process. The District could not provide documentation to support that the District and the two vendors had agreed to extend the initial contracts that were entered into through a formal bid process in 2019.
- We found that the District had a contract for professional health care services from a vendor, with cumulative spending of \$210,000 during FY 2022. The District "piggybacked" this contract on another District's contract with the same vendor. However, the District did not maintain documentation of the agreement between the involved parties as required by 29 Del. C., §6904(e).
- We found that the District purchased \$89,569 of sports equipment and uniforms, in multiple purchases, from one vendor during FY 2022. The purchases exceeded the \$50,000 material and non-professional services threshold, requiring a formal bid.
- We found that the District purchased repair services, in multiple purchases, from one vendor, in the amount of \$183,642 in total, without following the required procurement processes. The cumulative total of this purchase exceeded the \$150,000 public works formal bid threshold, in effect at the time of the purchases. Since the District did not enter into a formal contract with these vendors, these purchases also did not follow prevailing wage requirements or performance bonding requirements.

**CAPITAL 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:** School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C., Ch. 69. The District's *Policy # 300-03 - Purchasing*, revised as of September 1, 2021, indicates that the District adheres to procurement thresholds for formal bidding set by the Contracting and Purchasing Advisory Council (CPAC), which are defined in the *BAM*.

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.
- As of September 1, 2021, Chapter 5 *Procurement*, Section 5.3.3 *Professional Services Thresholds* of the *BAM* requires a formal request for proposal (RFP) for professional service purchases that are \$100,000 and over on a contract-by-contract basis.
- 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 states “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 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*.
- Prior to 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 \$100,000 and over on a contract basis be procured through a formal bid. Section 5.5. *Public Works Contracts* of the *BAM* states that contracts greater than \$100,000 are large public works contracts in accordance with 29 Del. C., §6962. These are the thresholds set by the CPAC.
- 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 between \$50,000 and \$149,999 on a contract basis require three written quotes.



**CAPITAL 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**

- 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 public works contract above met this threshold.

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

**Effect:** Because the District did not adhere to State and District purchasing and procurement requirements, it may not have gotten the best prices or terms for the purchases we examined. In addition, the public works contracts in excess of \$45,000 did not contain prevailing wage requirements as required by the Delaware Code.

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

Procedures to properly evaluate purchases for compliance with formal procurement requirements. Procedures to contemporaneously document its procurement decisions to document its compliance with the Delaware Code, the *BAM* and the District's internal policies.

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

**CAPITAL 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 the exceptions detailed in Findings 1 through 4 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** - Except for the exceptions detailed in Findings 2 and 3 in the *Schedule of Findings and Recommendations*, the School's District's tuition tax funds were calculated and spent in accordance with the requirements.

**Board of Education**

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Dr. Chanda Jackson, Vice-President  
Sean P. M. Christiansen  
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**Capital School District's Management Response to the FY 22 Local Funds Audit****Finding Number 1 – Lack of Proper Review and Approval of Changes to Employee Payroll.**

We fortunately have not had any payroll risks due to our use of controls to avoid fraudulent activity. To that end, payroll transactions are reviewed on a biweekly basis by payroll staff to ensure that the right people are being paid and that the amounts are correct. The reviews of pay confirm and funding reports are filed in the secured file room for Payroll/Human Resources. The Chief Financial Officer (CFO) also confirms payroll on or near paydays to ensure that the payroll transactions are correct. Additionally, we have created documents requiring approval from the Director of Human Resources and when necessary, the CFO, to memorialize the posting of positions, hiring of staff and the funding associated with the positions to make sure that appropriate wages are paid all employees.

**Finding Number 2 – Supporting Documents for Changes to Employee Pay Were Not Maintained and Employee Local Salary Stipends Did Not Agree to the Collective Bargaining Agreement**

Since substitutes are not permanent employees a recommendation for hire is not generated. Substitutes are hired via applications that they submit for positions. The application is placed in the individuals file folder and stored in a locked room. Updates to substitute pay rates may occur based on proof of education (college transcript). Transcripts are then placed in the substitute's file. A process is being put in place for HR to note the date of transcript receipt & pay change.

**Finding Number 3 – Lack of Segregation of Duties in Human Resources Responsibilities for Payroll Functions**

Despite our best and continuing efforts to adequately staff all departments, we do not have enough employees to staff the Human Resource Office to maintain the level of separation recommended. The staff members act as backups for each other. Duties have been divided between the staff - half support payroll and the other half support human resources and benefits. Occasionally, usually onboarding staff for the next school year, all staff work to get new staff loaded in PHRST. After that, duties are distributed between payroll and human resources and benefits.

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

The professional services contracts over threshold was \$249,885. The one vendor's services were procured through the RFP process. The vendor changed the company name and later changed it back. Since COVID, the District has had vacancies that necessitated contracting for vendors that can provide services to our students, especially ones with special populations.

Regarding the pool repair, we requested quotes for the pool project but received only one proposal. We can resupply that information if needed.

There are singular purchases such as the repair services identified that are made across multiple buildings and occurred as emergencies, which do not meet bidding threshold. Cumulatively those purchases then appear as over purchase threshold. District endeavors to purchase goods and services using state contracts, however, there are times when vendors are unable to supply the goods and services needed at the moment.