

CHRISTINA SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2022



CHRISTINA 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 Christina 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 2020.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures
- The District's debt service reserve of \$3,591,404 as of June 30, 2022 complied with the State of Delaware requirements.

CHRISTINA SCHOOL DISTRICT QUICK FACTS

K-12 Schools

22

Special Schools

8

Students Served

14,000

Employees

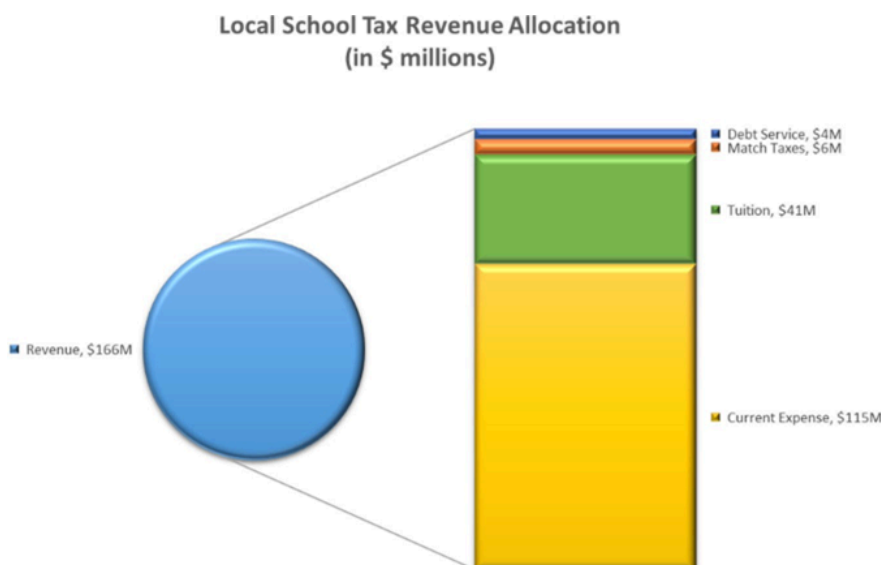
3,300



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

KEY INFORMATION AND FINDINGS CONTINUED

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



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

Testing identified the following conditions that are reported as findings:

- District payroll policies do not properly segregate responsibilities of the payroll function.
- District payroll policies do not require appropriate review and approval of payroll changes.
- District policies requiring the use of purchase orders were not consistently followed.
- District purchases of professional services, 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.

CHRISTINA SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2022

CHRISTINA 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	6
Audit Methodology and Results	6
Schedule of Findings and Recommendations	14
Conclusion	22
Corrective Action Plan	23



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Independent Auditors' Report

Dan Shelton, Ed. D
Superintendent
Christina School District
600 N. Lombard Street
Wilmington, Delaware 19801

Dear Dr. Shelton:

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

October 13, 2023
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Robert Vacca - Chief Financial Officer

CHRISTINA 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.

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Debt service tax rates are levied to cover the local share of the principal and interest payments on bonds funding major capital projects which, per Delaware Administrative Code Section 401, *Major Capital Improvement Program*, are projects costing \$1,000,000 or more. The local share of major capital projects is between 20% and 40% of the total cost per 29 Del. C., §7503(b) with the remaining balance financed by the State of Delaware. The project must be approved by the DOE and bond issuances are authorized via voter referendum. Per 14 Del. C., §2116 and §2118(a), with a passing referendum, districts are authorized to levy a debt service tax 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.

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Math - Continued

Technology - These funds are intended to support the purchase and replacement of technology, technology maintenance through personnel or services, professional learning, or other technology needs intended to improve the school district. The FY 1999 Bond and Capital Improvements Act authorized appropriations for education technology and authorized school districts to indefinitely levy up to one half of the rate required to meet the district's match. Technology match taxes are currently set by a Delaware DOE memo issued 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 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 FY 2008 Operating Budget Epilogue, the extra time appropriation is intended for additional instruction for low achieving students and school districts were encouraged to match on a 70% state and 30% local basis.
- Per the FY 2010 Operating Budget Epilogue, the reading and math resource teacher appropriations are intended to fund state salaries for resource teachers in each school and districts were encouraged to match on a 70% state and 30% local basis.

Student Success Block Grant - The 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.

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Opportunity Fund - The FY 2022 Operating Budget Epilogue Sec. 363 authorizes school districts to assess a local match for costs associated with Opportunity Fund appropriations intended to enhance services and provide additional supports to English Learner and low-income students, as well as be used for mental health services and/or for additional reading supports for grades K-5. Per a June 2019 DOE Memo, schools are allowed to match on a 70% state and 30% local basis.

Capitation - Districts may also levy a school capitation tax on all persons 18 years of age and older, determined by the board, provided that such school capitation tax is approved by the voters of the district in the same manner as required for the levy of taxes on the assessed value of real estate, per 14 Del. C., §1912.

DISTRICT SPECIFIC SUMMARY

The Christina School District, located in New Castle County, operates K-12 schools with over 14,000 students. The Christina School District employs over 3,300 employees to educate and support its students. Christina has 2 early education centers, 14 elementary schools, 2 elementary/middle schools, 3 middle schools, and 3 traditional comprehensive high schools. In addition, the District is home to the Brennen School/Delaware Autism Program, Christina REACH Program, Delaware School for the Deaf, Douglass School, Middle School Honors Academy at Christiana High School, Montessori Academies at Christina, Networks School for Employability Skills, and Sarah Pyle Academy. The Christina School District Board of Education is the governing body of the District. The School Board includes seven elected members who serve four-year terms. For the purposes of this report, Christina School District is referred to as the “School District” or “District.”

AUDIT OBJECTIVES

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

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

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

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

AUDIT OBJECTIVES - CONTINUED

Objective 3: School District real estate taxes were approved and calculated in accordance with the requirements.

Objective 4: School District tuition tax funds are calculated and spent in accordance with the requirements.

AUDIT SCOPE

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

AUDIT METHODOLOGY AND RESULTS

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

- A. Planning Phase: The audit relied on various sources of information and methods to properly plan the audit and to obtain an understanding of and assess Local Funds' processes for the School District, including the following:
 - 1. Reviewed the applicable sections of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *BAM*, School District Accounting Policies, and the School District Budget to gain an understanding of the legal and policy requirements governing Local Funds.
 - 2. Inquired about whether there were any findings and recommendations in reports resulting from previous audits that relate to the objectives of this audit and whether the recommendations have been implemented.
 - 3. Reviewed the Board of Education's meeting minutes for the audit period.
 - 4. Identified and reviewed contracts, agreements, and other important documents.
 - 5. Performed risk assessment procedures such as:
 - a. Obtained and documented an understanding of the School District and its environment and identified risks.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- b. Completed engagement team discussions, including discussions about the possibility of error or fraud involving Local Funds.
 - c. Made inquiries of management and others about risks (including fraud risks, related-party transactions, unusual transactions, and compliance with laws, regulations, contracts, and grant agreements).
 - d. Obtained and documented an understanding of the School District's internal control system over Local Funds by performing walkthroughs.
- 6. Identified key internal controls over the District's Local Funds for testing.
- B. Performance Assessment: Based on the information gathered, we developed the following risk-based approach to assess the design and operation of internal controls over Local Funds with respect to the audit objectives.
 - 1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and Local Tuition Tax funds to determine that transactions were properly documented, authorized and properly recorded; that products and services were received; and that 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 the 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

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

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

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - 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 the risk of error or fraud occurring and not being detected. Refer to Findings #1 and #2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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 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 deficiencies and related recommendations, where the District did not conform to its own purchase order policy, requiring an approved, official purchase order for purchases of all goods and service.

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 25 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 eight vendors with direct claim payments, cumulatively, exceeding the \$10,000 threshold.
- A judgmentally selected sample of three procurement card purchases exceeding the \$10,000 procurement threshold per the *BAM*.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

- There were no single-payment supplier purchases made by the District that exceeded \$10,000; therefore, a sample 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 during the fiscal year was not in compliance with State and District procurement requirements. Refer to Finding #4 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

Payroll Expenditures - To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 40 Local Funds pay rate changes out of a population of 1266 Local Funds pay rate changes, other than annual salary increases. Our examination of the transactions determined that changes were supported; however, the 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. 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - Christina School District is one of four districts that comprise the New Castle County School District. We recalculated the DOE distribution of receipts to the four New Castle County School Districts and determined that the DOE accurately distributed the receipts based on the official warrants and code requirements.

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 June 2020. The New Castle County School District shared current expense rate was agreed to historical reports provided by the DOE.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Student Success Block Grant, and Opportunity Fund. We found the District's local match tax revenues were consistent with the prior year and were determined to be immaterial to total Local Fund revenues.
- We compared debt service collections based on the debt service rate to principal and interest schedules for FY 2022 and FY 2023 and determined that the rate was sufficient to cover debt services expenditures in FY 2022 and provide the District with a reserve equal to 78% 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

July 1, 2021 Debt Service Reserve Balance	\$ 3,911,647
FY 2022 Debt Service Activity	
Receipts	4,370,852
Expenditures	<u>(4,691,095)</u>
June 30, 2022 Debt Service Reserve Balance	<u>\$ 3,591,404</u>
Budgeted FY 2023 Debt Service	<u>\$ 4,585,679</u>
Reserve to Expected Future Payments Ratio	<u>78%</u>

We accumulated information from the following sources to meet this audit objective:

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

Objective 4 - School District tuition tax funds are calculated and spent in accordance with the requirements.

Results - We examined a random sample of 25 disbursement transactions from tuition tax funds and determined that the purchases both complied with State and District requirements and that the transactions were properly approved by the District as evidenced by approval on invoices and receipts as well as in FSF. We found that the District did not conform to its own purchase order policy requiring an approved official purchase order for purchases of all goods and services.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 4 - Continued

Results - Continued

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

We also examined the District's compliance with State and District procurement requirements in conjunction with procedures performed over nontuition Local Funds. Results are reported in Objective 1.

We examined payroll expenditures made from tuition tax funds in conjunction with the procedures performed over nontuition payroll expenditures. We found deficiencies in the design and operation of payroll internal controls. Results are reported in Objective 1.

Refer to Findings #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.

CHRISTINA 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 Team is responsible for entering new employees into PHRST, updating employee salary information in PHRST, and processing payroll. The update of employee information and payroll processing in PHRST are incompatible responsibilities that should be segregated.

Criteria: The District's Payroll Internal Control Policy, as of July 15, 2020, requires the following:

"Responsibilities associated with financial transactions within PHRST payroll system are segregated and assigned by the Supervisor of Payroll & Benefits..."

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

Effect: The existence of incompatible functions without mitigating controls puts the District's payroll at risk of error or fraud occurring and not being detected.

Recommendation: We recommend the District review and update Human Resources and Payroll functions to ensure proper segregation of duties. Consider transferring the responsibility for the update of employee information in PHRST 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.

CHRISTINA 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, 34 transactions were required to have Personnel Action Form (PAF) reviewed and approved by the Human Resource Supervisor prior to being submitted to the Payroll and Benefits Team for processing. We found the following:

- Six transactions did not have changes memorialized on PAFs as required by District policies for salaried employees.
- Fourteen transactions were recorded on PAFs and ten transactions were recorded on Human Resource Correction Request Forms that were authorized only by Human Resource (HR) Staff as source documents for data entry into PHRST. Evidence of the HR Supervisor's review and approval was not memorialized on the PAFs or Human Resource Correction Request Forms.
- Four transactions were changes to administrator pay. Annual increases in administrator pay are calculated in an Excel workbook maintained by the Payroll Supervisor and reviewed by the Administration verbally. This review and approval were not memorialized, and the changes were not memorialized on PAFs as required by District policies for salaried employees.

The District does not have controls in place to review and approve changes entered in PHRST. Although the Payroll Supervisor performs subsequent overall reconciliations of payroll on a regular basis to mitigate the risk of fraudulent and erroneous entries, the Supervisor does not actively, and contemporaneously review and approve changes in PHRST.

Criteria: The District's Payroll Internal Control Policy, as of July 15, 2020, requires the following:

- "All financial documents processed in PHRST payroll system require an HR Supervisor's approval."
- "The HR Supervisor authorizes all hires and subsequent changes in employment status including employee pay and benefits changes by completing a PAF and submitting it to the Payroll and Benefits department for data entry into PHRST" for salaried employees.

CHRISTINA 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:

- The HR Supervisor records changes to employee pay in an Excel workbook, indicating their review and approval. The workbook is utilized by staff to complete the PAFs, but the completed PAFs are not reviewed by the HR Supervisor.
- 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 is 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 reviewed prior to submission to Payroll for processing.
- Procedures to subsequently review entries in PHRST.
- Memorialize, in writing, review and approval of administrator pay calculations.

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

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

Finding Number 3 - Lack of Purchase Orders for Vendors

Condition: During FY 2022, the District expended a total of \$33,701,956 on non-payroll related purchases, exclusive of inter- and intra-governmental vouchers, from the following Local Tax funded appropriations: Tuition, Match Tax - Extra Time, Match Tax - MCIs and Current Expense. We found \$32,704,650 was disbursed to 205 individual vendors whose cumulative purchases during FY 2022 were more than \$10,000. These vendors met the District's policy criteria requiring an approved, official purchase order for the vendor.

As summarized in the following chart, of the 205 vendors with cumulative purchases in excess of \$10,000 in FY 2022, 77 vendors had approved purchase order(s) in FSF, 116 vendors had approved purchase order(s) for a portion of the purchases made during the fiscal year, and 12 vendors did not have an approved purchase order in FSF.

	Vendor Count	Purchase Order	No Purchase Order	Total Purchases
Purchase Order(s) for all Purchases	77	\$ 14,595,894	\$ -	\$ 14,595,894
Purchase Order(s) for some Purchases	116	1,431,449	15,634,734	17,066,183
No Purchase Order	12	-	1,042,573	1,042,573
	205	\$ 16,027,343	\$ 16,677,307	\$ 32,704,650

Criteria: The District's purchasing policy, *BUS - P250 Purchasing (Purchase Orders)*, revised on February 22, 2017, states "all goods and services must be ordered via purchase order process."

Cause: The District's purchasing policy and payment policy conflict with each other. The District's Policy *BUS - P350 Policy for a Manual Voucher* allows payment vouchers to be prepared and processed for purchases without a purchase order while *BUS - P250 Purchasing (Purchase Orders)* requires purchase orders for all goods and services.

Effect: By not requiring purchase orders for purchases of goods and services, the District was not in compliance with its purchasing policy.

Recommendation: We recommend the District implement the following:

- Strengthen its controls over the review and approval of purchases to ensure that approved purchase orders are in place.
- Consider implementing thresholds for purchases of goods and services that require purchase orders.
- Document and formally adopt exceptions to purchasing policies.

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

CHRISTINA 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 vendors did not comply with the State's and District's procurement requirements.

- We found the District renewed its agreement to purchase professional services for its alternative school programs during FY 2022 from one vendor in May 2021 with an expected spend of \$237,500. The District piggybacked on another District's contract with the same vendor but did not maintain documentation of the agreement between the involved parties.
- We found that the District purchased \$114,202 of sports equipment from two vendors within the same family of companies during FY 2022. The District piggybacked on another district's contracts with the vendors that had expired on August 19, 2021. The purchases exceeded the \$50,000 material and non-professional services threshold, requiring a formal bid.
- We found the District entered into three contracts with one vendor for HVAC repair services in the amounts of \$34,155, \$45,000, and \$20,600. The contracts were effective July 1, 2021, July 1, 2021, and August 1, 2021, respectively. The District also purchased services from the same vendor outside of these contracts. The cumulative total of the purchases exceeded the \$100,000 public works threshold for a formal bid, in effect at the time of purchases. The District did not complete the required procurement actions to obtain competitive pricing. The contracts also did not include prevailing wage requirements or performance bonding requirements.
- We found the District entered into a contract effective July 1, 2021 with one vendor for athletic field maintenance and repairs in the amount of \$45,000 and the contract was subsequently increased to \$90,000 in January 2022. Cumulatively, the contract exceeded the \$50,000 public works threshold requiring the district to obtain three written quotes. The contract did not include prevailing wage requirements.

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C., Ch. 69. The District's policy *BUS P130 Procurement*, 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.

CHRISTINA 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

- Prior to 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 \$50,000 and over on a contract-by-contract basis.
- 29 Del. C., §6904(e) states:
“If no state contract exists for a certain good or service, covered agencies may procure that certain good or service under another agency’s contract so long as the arrangement is agreeable to all parties. Agencies, other than covered agencies, may also procure such goods or services under another agency’s contract when the arrangement is agreeable to all parties.”
- Chapter 5 *Procurement*, Section 5.2.6 *Contract Documentation* of the *BAM* requires that “Each Organization must retain in their files all pertinent documents and correspondence relating to the contract bid process, in order that these supporting documents may be available for audit or review by a State official at all times.”

The following requirements are applicable to the materials purchases:

- 29 Del. C., §6902(18) defines “Materiel” as materials, equipment, tools, supplies, or any other personal property.
- Prior to September 1, 2021, Chapter 5 *Procurement*, Section 5.3.1 *Material and Non-Professional Services Thresholds* of the *BAM*, requires three written quotes for purchases between \$10,000 and \$24,999 based on yearly cumulative limits.
- As of September 1, 2021, Chapter 5 *Procurement*, Section 5.3.1 *Material and Non-Professional Services Thresholds* of the *BAM*, requires formal bid procedures for purchases of \$50,000 and over based on yearly cumulative limits.
- 29 Del. C., §6904(e) states:
“If no state contract exists for a certain good or service, covered agencies may procure that certain good or service under another agency’s contract so long as the arrangement is agreeable to all parties. Agencies, other than covered agencies, may also procure such goods or services under another agency’s contract when the arrangement is agreeable to all parties.”

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

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

Criteria: Continued

The following requirements are applicable to the public works purchases:

- The purchases are considered public works per 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 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 are 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.
- 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.

Cause: The District did not procure the services in accordance with the *BAM* requirements. The District did not maintain documentation of the agreements between the parties to piggyback on the professional services contract and utilized the other district’s materials contract without first confirming the contract was still in effect for FY 2022.

The District did not procure the public works services in accordance with the *BAM* requirements because it inaccurately categorized the purchases as professional services purchases thus applying professional service purchasing thresholds to the contracts. The District did not consider the cumulative total of the contracts and did not subject the purchases to procurement requirements to obtain three letter bids.

CHRISTINA 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

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

Recommendation: We recommend that the District implement the following:

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

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

CHRISTINA 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 following exceptions detailed in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements:

- *Finding 1 - Segregation of Human Resources Responsibilities for Payroll Functions* - District internal controls over payroll do not properly segregate incompatible functions.
- *Finding 2 - Lack of Proper Review and Approval of Changes to Employee Payroll* - Updates to the District's payroll records were completed without properly authorized supporting documentation required by the District's payroll policies and procedures.
- *Finding 3 - Lack of Purchase Orders for Vendors* - The District did not require purchase orders for all applicable purchases as required by District Policy.
- *Finding 4 - Purchases Did Not Comply with State Purchasing and Procurement Requirements* - The District did not complete certain purchases in accordance with State and District procurement requirements.

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

Objective 3 - The School District's real estate taxes were approved and calculated in accordance with the requirements.

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

DAN SHELTON, ED.D.
Superintendent

Robert Vacca
Chief Financial Officer

Belfint Lyons & Shuman, P.A.
1011 Centre Road, Suite 310
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Re: Management Response

On September 28, 2023 we met with you to complete our FY 2022 Local Funds Audit Exit Conference. In this meeting you reviewed your observations, findings and recommendations developed from your audit. For ease of reference we have organized our responses in the same order of your report listing our **Audit Responses by Recommendation** followed by **Responses by Observation**.

Audit Response – Recommendation 1

The State Payroll Compliance Group (PCG) suggests a separation of PHRST user duties in order to ensure the highest quality of work performed while reducing the risk of fraud. They suggest a different user should enter human resource data from the user(s) entering payroll and benefits data into PHRST.

In an ideal application setting, all modules of PHRST - human resources, payroll and benefits administration – can be entered simultaneously up to the day before payday. That would allow for such a separation of user input. This is not the case in the State of Delaware’s version of PeopleSoft - PHRST. Overnight processing must occur between human resource and payroll data entry. That overnight process prevents simultaneous data entry between two critical modules of PHRST. The application then closes at noon the Monday before payday in order for the state to begin processing pay calculations, confirmations and the direct deposit ACH file.

These factors, along with the linear process of entering HR data a day prior to PR or BA abbreviates the data entry window in each pay cycle. This application design causes the need for payroll departments across the state to compromise the separation of duties in PHRST for deadline driven production priorities. All users can be required to perform all functions in order to ensure no employee impact.

Having said that, it is still an overarching policy to separate duties whenever possible and always during off-peak processing periods. It is only during deadline pressured periods or department absences where PHRST users may perform multiple sets of duties.

We see the failure to complete an employee entry into PHRST a far greater concern than the risk of error or the risk of fraud. Post processing data extracts from PHRST are run by the payroll supervisor to ensure accuracy of data entry and to prevent the risk of fraud. These reports have been in use for over 15 years with no fraud experienced and all human errors captured and corrected through adjustments to the employee record. The very nature of manual processing allows for human error even in the most ideal setting. We feel we have a proven method to mitigate that risk along with the risk when combining user duties.

Audit Response – Recommendation 2

This recommendation assumes that an HR Supervisor's approval must come in the form of a signature on a report.

We believe we establish HR Supervisor approval upon the initiation of the change record entered directly into the DSC HR Staff Tracking Application. This process design builds the HR authorization into the first step in the personnel action change process. HR Supervisors are the only users authorized to create the electronic record in HR Staff Tracking.

The subsequent paper form (PAF) created by HR staff is a method to submit the details of the request to Payroll Staff for processing. A parallel review by the Payroll Supervisor, the HR Director and the CFO ensures accuracy and corrections to human error that may have occurred. Data extracts from PHRST and HR Staff Tracker are regularly drawn and processed to compare and reconcile employee details between these two systems. Since this audit was performed a Funding Data Specialist has been hired reporting directly to the CFO dedicated to reconciling HR Staff Tracker, PHRST and FSF data at the employee record level. This raises the level of operational awareness and expedites data correction when discovered.

Audit Response – Recommendation 3

The State of Delaware Budget and Accounting Manual (BAM) 7.2.1 indicates; Federal and Local School Districts have the option of using POs to encumber available federal funds or local school district funds. Federal and local school district funds used for the purchase of capital assets must be encumbered.

While our procedure for purchasing goods and services is more stringent than the State of Delaware Budget and Accounting Policy Manual (BAM), we are still obligated to ensure we are following the BAM. The BAM indicates, "POs may not be presented simultaneously with Vouchers. POs must be approved and dispatched prior to the start of services or order of goods." Applying a purchase order to an invoice that indicates the goods and services were provided before the PO was approved and dispatched is considered after the fact.

To ensure we are not in violation of this procedure, we follow BAM 7.3 which states certain purchases may be made as Direct Claims, without the use of POs. Direct Claim purchases are subject to all the State's purchasing and procurement policies, protocols, and guidelines, and all transactions require proper approvals for processing. While Organizations are encouraged to encumber funds, the following transaction types do not require a formal encumbrance of funds as a prerequisite to affecting a purchase or processing payment documents:

BAM 7.3.28

- 28. School district payments out of local funds (not including the purchase of capital assets)
- 29. Student private placement expenses, including tuition and transportation
- 30. Private carrier school, homeless, medical or athletic transportation
- 31. School bus contractors' payments

Christina School District will enhance our procedures to include the use of BAM 7.3 when a purchase is required to be processed as a direct claim. This additional procedure has been added to our procedures for Purchase Orders and Manual Vouchers.

Audit Response – Recommendation 4

Christina School District reviews the State of Delaware's Bids and Contracts website to identify if another agency has procured services we are interested in obtaining. To document our decision process we will implement a form that will be included in the vendor file.

Christina School District makes every effort to ensure we are operating within the guidelines of the Budget and Accounting Manual. It is difficult to analyze every purchase order by vendor daily. Therefore, we have implemented a mitigating control to help us identify when multiple agencies are procuring the same or similar service from the same vendor. We will run monthly reports to analyze spending amount by vendors. This process will help us ensure we are in compliance with State of Delaware Budget and Accounting Manual procurement requirements.

Closing Comment

Christina welcomes and appreciates the opportunity to learn and share best practices through our relationships with other state agencies and auditors. We found your work to be thorough, deliberate and thoughtful and your approach very professional.

Best Regards



Robert A. Vacca