

COLONIAL SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2022



COLONIAL 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 Colonial 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 2017.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$3,093,776 as of June 30, 2022 complied with the State of Delaware requirements.

COLONIAL SCHOOL DISTRICT QUICK FACTS

K-12 Schools

12

Special Schools

3

Students Served

9,100

Employees

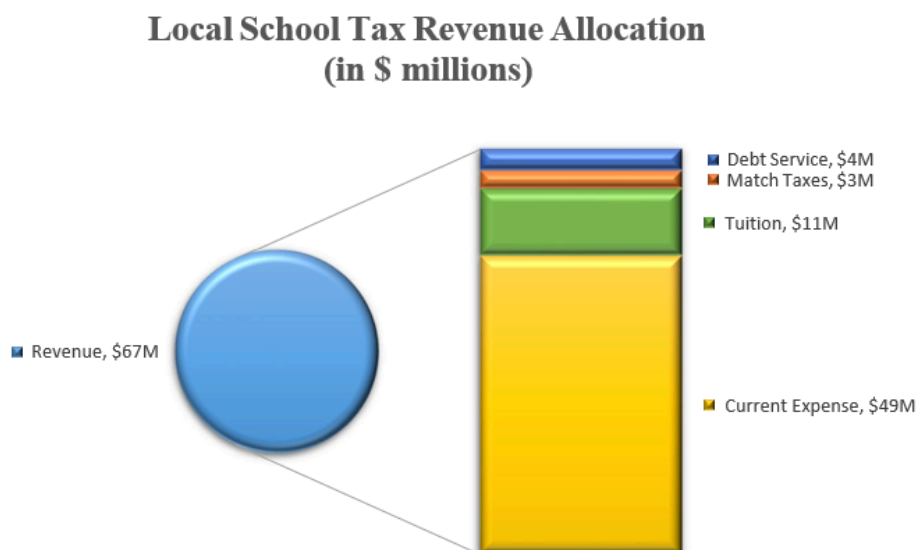
1,200



COLONIAL 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 require appropriate review and approval of payroll changes.
- Documentation supporting District changes to employee pay was not maintained.
- District Tuition Tax transfers for transportation services lacked supporting documentation.
- District purchasing decisions for supplies were not documented as required by 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 and transfer internal controls, including not maintaining supporting documentation, is that they increase the risk that the District would make purchases without first obtaining the best prices and terms.

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

JUNE 30, 2022

COLONIAL SCHOOL DISTRICT
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JUNE 30, 2022

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Independent Auditors' Report

Jeffrey D. Menzer, Ed. D
Superintendent
Colonial School District
318 East Basin Road
New Castle, Delaware 19720

Dear Dr. Menzer:

We present the attached report which provides the results of our performance audit of the Colonial 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 Colonial 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 Colonial 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 Colonial 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 20, 2024
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Emily Falcon - Chief Financial Officer

COLONIAL 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

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

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

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

The District is required to maintain 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

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Technology - Continued - authorized appropriations for education technology and authorized school districts to indefinitely levy up to one half of the rate required to meet the district's match. Technology match taxes are currently set by a DOE memo issued in December 1998.

Minor Capital Improvements - Per Delaware Administrative Code 405, *Minor Capital Improvement Program*, minor capital pertains to projects costing less than \$1,000,000, intended to keep assets in their original condition. The maximum local share for minor capital expenditures is 40% per 29 Del. C., §7528(b). The State of Delaware provides the remaining balance up to a maximum dollar amount which is included in the Delaware Capital Budget annually.

Extra Time and Reading Resource and Math Resource Teachers - In accordance with 14 Del. C., §1902(b), the State of Delaware FY 2022 Operating Budget Epilogue Sec. 357 authorizes school districts to levy a local match for Extra Time as well as Reading Resource Teachers and Mathematics Resource Teachers which were originally established by the following:

- Per the State of Delaware FY 2008 Operating Budget Epilogue, the extra time appropriation is intended for additional instruction for low achieving students and school districts were encouraged to match on a 70% state and 30% local basis.
- Per the State of Delaware FY 2010 Operating Budget Epilogue, the reading and math resource teacher appropriations are intended to fund state salaries for resource teachers in each school and districts were encouraged to match on a 70% state and 30% local basis.

Student Success Block Grant - The State of Delaware FY 2022 Operating Budget Epilogue sec. 366 authorizes school districts to assess a local match for costs relating to the Student Success Block Grant appropriations, which are intended for reading assistance in grades K-4.

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

COLONIAL 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 Colonial School District, located in New Castle County, operates Pre-K-12 schools with over 9,100 students. The Colonial School District employs over 1,200 employees to educate and support its students. The Colonial School District has eight elementary schools, three middle schools, and one traditional comprehensive high school. In addition, the District is home to the John G. Leach School, the Wallin School and the Colonial Early Education Program at the Colwyck Center. The Colonial 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, Colonial 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.

COLONIAL 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

B. Performance Assessment: Based on the information gathered, we developed the following risk-based approach to assess the design and operation of internal controls over Local Funds with respect to the audit objectives.

1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and Local Tuition Tax funds to determine that transactions were properly documented, authorized and properly recorded; that products and services were received, and that the transactions complied with State and District requirements.
2. To assess the design and operation of procurement internal controls, we analyzed disbursements to vendors made from the District's State, Local and Federal Funds' (excluding purchases made using State-wide contracts, those entered into by the Office of Management and Budget's, Government Support Services Division). Our analysis included all District funding (local, State, and federal) because the procurement requirements apply regardless of funding source. We analyzed procurements as follows:
 - a. Cumulative expenditures by purchase order, to test whether the cumulative amounts may have exceeded the applicable procurement thresholds.
 - b. Vendors receiving payments under multiple purchase orders to test whether multiple purchase orders for similar products or services may have exceeded the applicable procurement thresholds.
 - c. Vendors receiving direct claim payments (purchases without purchase orders) to test whether multiple payments for similar products or services may have exceeded the applicable procurement thresholds.
 - d. Payments made via Purchasing Cards to test whether single payments (or multiple payments for similar products or services) may have exceeded the applicable procurement thresholds.
 - e. Payments to Single Payment Suppliers (suppliers that are paid only once) to test whether payments may have exceeded the applicable procurement thresholds.

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

- a. A random sample of vendor transactions with cumulative purchase amounts meeting or exceeding the State and District procurement thresholds.
- b. A judgmental sample of unusual or higher risk vendor transactions.

COLONIAL 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 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.

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 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.

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

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Non-Payroll Expenditures - Continued - purchases complied with both 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 ten purchase orders, each 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 six vendors with direct claim payments, each cumulatively, exceeding the \$10,000 procurement threshold.
- There were no procurement-card or single-payment supplier purchases made by the District that exceeded \$10,000; therefore, a sample of these transactions was not selected.

We examined documentation for each of the transactions selected and found the purchasing process for goods purchased from one vendor during the fiscal year was not in compliance with State and District procurement requirements. The purchase was funded with tuition tax funds. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

Payroll Expenditures - To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 40 Local Funds pay rate changes processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that 29 of 40 transactions selected for testing 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Payroll Expenditures - Continued - To test the employees' annual increases, we selected a random sample of ten 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.

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

Results - The District is one of four districts that comprise the New Castle County School District. We obtained the New Castle County Reports of Local Property Tax Collections and recalculated the DOE distribution of receipts to the four New Castle County School Districts. We also recalculated the DOE distribution of receipts of the Colonial School District Tax that the DOE accurately distributed the District's receipts based on the official warrants and code requirement.

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 2017. The New Castle County District shared current expense rate was agreed to historical reports provided by the Department of Education.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- The District assesses a local match tax for the following: Minor Capital Improvement, 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 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 service expenditures in FY 2022 and provide the District with a reserve equal to 86% of FY 2023 debt service 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	\$ 3,327,686
FY 2022 Debt Service Activity	
Receipts	3,931,260
Expenditures	<u>(4,165,170)</u>
June 30, 2022 Debt Service Reserve Balance	<u>\$ 3,093,776</u>
Budgeted FY 2023 Debt Service	<u>\$ 3,597,556</u>
Reserve to Expected Future Payments Ratio	<u>86%</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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - We examined a random sample of 25 disbursement transactions and one individually significant transaction from tuition tax funds and found that although the transactions were properly approved by the District, as evidenced by approval on invoices and receipts as well as approvals in in FSF, supporting calculations for the individually significant transaction, which was an intra-governmental voucher, was not maintained. Refer to Finding Number 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. We found purchases from one vendor did not comply with State and District purchasing and procurement requirements. Results are reported in Objective 1. 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 and Findings Number 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.

COLONIAL 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 deficiency in the design of payroll internal controls.

The District's forms are designed to memorialize appropriate preparation, review and approval of changes to employee information by the Human Resources Department and the Superintendent's Office prior to processing the transactions in PHRST. The District indicated that management ended the practice after erroneously concluding that the memorialization of appropriate preparation, review and approval internal controls was unnecessary.

As a result, we found the following deficiencies in the operation of the District's internal controls over payroll in a sample of 40 payroll transactions:

- 19 payroll transactions were not appropriately reviewed and approved by the Human Resource Department. Of these 19 payroll transactions, two were specialist annual increases that were calculated in an Excel workbook maintained by the Payroll Manager and reviewed by the CFO verbally. This review and approval was not memorialized nor were the changes not submitted to the Human Resources Department for review and approval prior to processing in PHRST.
- 11 hiring transactions were not appropriately reviewed and approved by the Human Resource Department or the Superintendent's Office.

The District indicated all employee payroll changes in PHRST are verified by the District's Payroll Manager; however, this is not memorialized and could not be tested. The District confirmed this verification process relies on unapproved forms and documents prepared by the Human Resources Department.

Criteria: Appropriate documentation is necessary to evidence the operation of and for the enforcement of internal controls.

Chapter 14 *Payroll Compliance*, Section 14.2.1 *Controls* of the *BAM* requires the following:

“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...”

Cause: District policy and practice did not require documentation of payroll transactions' review and approval.

Effect: By not properly documenting the approval of employee payroll changes, the District increases its risk that erroneous or fraudulent information is entered into PHRST and not detected.

COLONIAL 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

Recommendation: We recommend the District implement the following:

- Formally document review and approval procedures for payroll changes.
- Review its preparation and review processes over payroll changes to ensure that changes are properly reviewed prior to processing.
- Memorialize, in writing, review and approval of specialist pay calculations and payroll changes.
- Review its procedures to subsequently review payroll change entries in PHRST and procedures to memorialize the review.

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

COLONIAL 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 payroll transactions selected for testing, we found nine transactions which lacked sufficient supporting documentation as follows:

- Documentation to support adjustments to scheduled hours for hourly transportation employees was not maintained in the employee file for two transactions.
- Documentation to support additional years of experience for new employees was not maintained in the employee file for two transactions.
- Documentation to support crediting an employee with an additional year of experience for graduating from a pre-service program was not maintained in the employee file for one transaction.
- Documentation to support the annual salary for two substitute teachers and for a teacher's residency program stipend.
- Documentation to support a student teacher's participation in the residency program was not maintained in the employee file for one transaction.

Criteria: The District's policy requires the Human Resources department to prepare contemporaneous documentation to support employee payroll transactions.

Cause: As detailed in Finding Number 1, the District's process for review and approval of payroll transactions is not clearly defined or effectively operated. The District's lack of appropriate effective internal controls over payroll transactions hinders the preparation and retention of sufficient supporting evidence for payroll transactions.

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 and not be detected. Without adequate supporting documentation, it cannot be determined if those changes in the selected transactions were accurate. Without formal documentation memorializing the annual pay for unique positions, the District increases its risks of unauthorized or incorrect pay.

Recommendation: We recommend the District implement the following:

- Procedures to maintain supporting documentation for each employee payroll transaction.

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

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

Recommendation: - Continued

- Formal documentation of management's approval of annual pay for unique employees whose annual pay is not determined by a District salary scale or bargaining agreement. Develop and formally document District policies and procedures for the initial determination and changes to unique pay.

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

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

Finding Number 3 - Supporting Documentation Was Not Maintained for an Intra-Governmental Disbursement

Condition: We found that supporting documentation was not maintained for a significant disbursement from tuition tax funds selected for testing. The District did not retain supporting documentation for a \$921,570 transfer of tuition tax funds from the John G. Leach School to the District to reimburse for the cost of transportation services.

Context: The District's Transportation Department executes transportation contracts with DOE-approved vendors. The District's Business Office is responsible for paying the vendors. At fiscal year end, the District's Transportation Office determines the amount attributed to transportation for the John G. Leach School and the District Business Office executes an intra-governmental voucher to bill the John G. Leach school for the services.

Criteria: Chapter 7 *Purchasing and Disbursements*, Section 7.21 *Documentation* of the *BAM*, states that "Organizations are responsible for maintaining supporting documentation for their transactions. Organizations are encouraged to attach (scan) supporting documents to all transactions in the State's financial management and accounting system, or Organizations may retain supporting hardcopy documents in compliance with the Document Retention schedules set forth by the Delaware Public Archives."

Cause: The District did not maintain evidence to support the amount transferred from the John G. Leach School for transportation services during the fiscal year.

Effect: The District's lack of appropriate supporting documentation increases the risk that the transfer was not made in the correct amount. This, in turn, increases the risk that tuition tax rates would be calculated incorrectly, in violation of the requirements.

Recommendation: We recommend that the District review its procedures over intra-governmental vouchers to ensure that supporting documentation is maintained as required by *BAM* and for audit purposes.

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

COLONIAL 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 one of the 16 vendors selected for testing did not comply with the State’s and District’s procurement requirements. We found the District purchased \$13,179 of wall dividers from one vendor under one purchase order during FY 2022. The purchase was funded with tuition tax funds. The purchase exceeded the \$10,000 - \$49,999 material and non-professional services threshold in effect, at the time of purchase, requiring the District to obtain three quotes.

The District does not require the purchasing department or building to maintain evidence of its purchasing decisions.

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C. Ch. 69. The following requirements are applicable to the materiel and non-professional services purchase:

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

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

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

Cause: The District indicated that purchasing decisions are made based upon research performed by the purchasing department or building. The District does not require the retention of the documentation for three written quotes after a selection is made by the purchasing department.

Effect: By not adhering to the State procurement requirements, the District may not have received the best price and terms for these purchases.

COLONIAL 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

Recommendation: We recommend that the District implement procedures to document the purchasing process, purchasing analyses performed by the District and its purchasing decisions as a result of the analyses.

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

COLONIAL 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 deficiencies detailed in *Findings Number 1, 2 and 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 deficiencies detailed in *Finding Number 3* in the *Schedule of Findings and Recommendations*, the School District's tuition tax funds were calculated and spent in accordance with the requirements.

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Finding Number 1 – Lack of Proper Review and Approval of Changes to Employee Payroll

As soon as it was discovered that our Human Resource Office had changed its process to eliminate Administrator review and approval, this issue was brought to the Director and the process was immediately changed back to reinstate the necessary review and approval. We will continue to review all of our other processes to better memorialize and document certain verification functions.

Finding Number 2 - Supporting Documents for Changes to Employee Pay were not Maintained

The Human Resource Office is in the process of reviewing our procedures regarding the maintenance of documents with a payroll impact to strengthen our internal controls and minimize errors.

Finding Number 3 – Supporting Documentation Was Not Maintained for an Intra-Governmental Disbursement

Documentation of the cost in question was provided from the Transportation office to the Business Office via email. Upon review of the cost, the business office sought clarification and subsequently made an adjustment to the amount provided without documenting that adjustment. Going forward, we will adjust our process to ensure that any modifications are documented for review.

Finding Number 4 - Purchases Did not comply with State Purchasing and Procurement Requirements

Our purchasing managers are aware of the procurement thresholds but even more relevant for them is maximizing their budgets to ensure that they are meeting as many needs as possible during the year. They are always reviewing multiple vendors to ensure competitive prices. We will reinforce the importance of maintaining documentation of these reviews for items above the threshold.

Emily Falcon

Signature

Chief Operating & Financial Officer

Title

02/20/2024

Date