

RED CLAY CONSOLIDATED SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2022



RED CLAY CONSOLIDATED 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 Red Clay Consolidated 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 2015.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$2,504,048 as of June 30, 2022 did not comply with the State of Delaware requirements.

RED CLAY CONSOLIDATED SCHOOL DISTRICT QUICK FACTS

K-12 Schools

25

Special Schools

3

Students Served

16,000

Employees

3,000

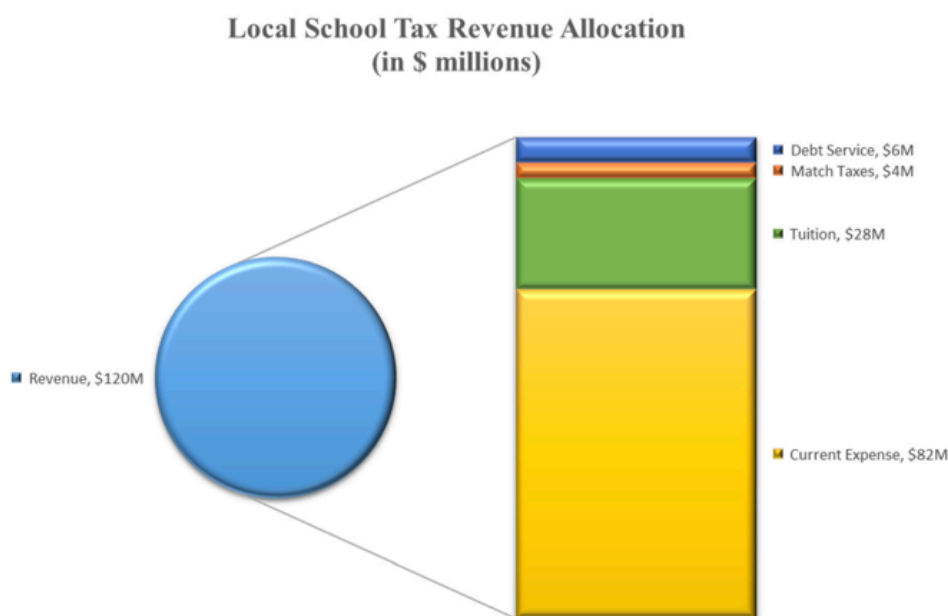


RED CLAY CONSOLIDATED SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT

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 internal control policies do not properly segregate incompatible functions.
- District payroll policies do not require appropriate review and approval of payroll changes.
- District purchases of supplies, equipment and repairs services did not follow state procurement laws.
- District debt service reserve balances that did not comply with State of Delaware requirements and were insufficient to fund debt service when due during the fiscal year.

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. The potential exposure to the State of the weaknesses in the controls over debt service reserve balances is that they increase the risk that the District would not have sufficient funds in the reserve on debt service due dates.

**RED CLAY CONSOLIDATED
SCHOOL DISTRICT**

**LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2022

RED CLAY CONSOLIDATED SCHOOL DISTRICT
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Independent Auditors' Report

Dorrell Green
Superintendent
Red Clay Consolidated School District
1502 Spruce Avenue
Wilmington, Delaware 19805

Dear Superintendent Green:

We present the attached report which provides the results of our performance audit of the Red Clay Consolidated 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 Red Clay Consolidated 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 Red Clay Consolidated 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 Red Clay Consolidated 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.

December 15, 2023
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Ted Ammann - Assistant Superintendent for District Operations

RED CLAY CONSOLIDATED 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - Continued

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - Continued

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 grants and opportunity funds.

Technology - These funds are intended to support the purchase and replacement of technology, technology maintenance through personnel or services, professional learning, or other technology needs intended to improve the school district. The FY 1999 Bond and Capital Improvements Act authorized appropriations for education technology and authorized school districts to indefinitely levy up to one half of the rate required to meet the district's match. Technology match taxes are currently set by a DOE memo issued in December 1998.

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

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

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

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.

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 Red Clay Consolidated School District, located in New Castle County, operates Pre-K through 12 schools with over 16,000 students. The District employs nearly 3,000 employees to educate and support its students. The District has one early education center, 14 elementary schools, one elementary/middle school, four middle schools, three middle/high schools and two traditional comprehensive high schools. In addition, the District operates the Meadowood Program, First State School, and the James H. Groves Adult High School. The Red Clay Consolidated 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, Red Clay Consolidated School District is referred to as the "School District" or "District."

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

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.

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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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.
- B. Performance Assessment: Based on the information gathered, we developed the following risk-based approach to assess the design and operation of internal controls over Local Funds with respect to the audit objectives.
1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and Local Tuition Tax funds to determine that transactions were properly documented, authorized and properly recorded; that products and services were received, and that the transaction complied with State and District requirements.
 2. To assess the design and operation of procurement internal controls, we analyzed disbursements to vendors made from the District's State, Local and Federal Funds' (excluding purchases made using State-wide contracts, those entered into by the Office of Management and Budget's, Government Support Services Division), Our analysis included all District funding (local, state and federal) because the procurement requirements apply regardless of funding source. We analyzed procurements as follows:

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- 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.
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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

4. To assess the design and operation of internal controls over the approval and calculation of real estate taxes, including tuition tax:
 - a. Compared taxes levied per official tax warrants to supporting rate calculations, budgets, and amounts authorized by referendum, relevant legislation (including tax revenue reserve limits) and District approval.
 - b. Analyzed tax revenue reserves at the beginning and end of the fiscal year, as applicable.
 - c. Verified local tax fund receipts were properly recorded to the related tax appropriation based on the official tax warrant.

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

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

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 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 the 22 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Procurement - Continued

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

We examined documentation for each of the transactions selected and found the purchasing process for goods and services purchased from five vendors during the fiscal year was not in compliance with State and District procurement requirements. Refer to Finding Number 2 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 changes were supported; however, certain transactions did not have evidence of review and approval. Refer to Finding Number 1 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2022

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

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 and found that the District's reserve at the end of FY 2022 was not sufficient to fund its expected debt service payments due in the first four months of FY 2023. As described in the Objective 3 result, we found that the District did not have sufficient funds in its debt service appropriations to fund debt service payments on the due date. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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 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 Red Clay Consolidated School District Tax. We determined 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 February 2015. The New Castle County District shared current expense rate was agreed to historical reports provided by the DOE and to the District's FY 2022 budget.

RED CLAY CONSOLIDATED 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, Technology, Reading and Math Resource Teachers, 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, as summarized in the following chart. We determined that the rate was sufficient to cover FY 2022 debt service expenditures and provide the District with a reserve equal to 33% of FY 2023 debt payments, as summarized below. As further described Finding Number 3 in the *Schedule of Findings and Recommendations*, we found the following:
 - The District's debt service reserve, as of June 30, 2022, was less than the four months debt service reserve recommended by the State of Delaware Attorney General.
 - We found the District's debt service rate calculation assumes no delinquencies in collection rates and was not in compliance with 14 Del. C. §2118(a), which states "the district shall fix the rate of taxation plus 10 percent for delinquencies."

RED CLAY CONSOLIDATED 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	\$ 3,605,841
FY 2022 Debt Service Activity	
Receipts	6,341,612
Expenditures	(7,796,275)
Other Activity	
Charter School of Wilmington Payment*	<u>352,870</u>
June 30, 2022 Debt Service Reserve Balance	<u><u>\$ 2,504,048</u></u>
Budgeted First 4 Months FY 2023 Debt Service	<u><u>\$ 4,225,550</u></u>
Reserve to 4 Months of Payments Ratio**	<u><u>59%</u></u>
Budgeted FY 2023 Debt Service	<u><u>\$ 7,574,338</u></u>
Reserve to Expected Future Payments Ratio	<u><u>33%</u></u>

**Charter School of Wilmington portion of capital improvement costs for Wilmington Campus paid to the District.*

*** Minimum Debt Service Reserve should be 100% of the scheduled debt service for the first 4 months of the upcoming year.*

- 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 June 30, 2022 Daily Validity Report 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.

RED CLAY CONSOLIDATED 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 from tuition tax funds and 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 FSF.

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. Results are reported in Objective 1. Refer to Findings Number 1 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2022

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

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

- We found that during FY 2022, the District's controls requiring authorization of payroll changes prior to PHRST entry were not operating as specified by District policy. Of the 40 transactions tested, we found 16 transactions that lacked evidence of proper review and approval prior to being processed by Human Resource staff in PHRST. We found the 16 payroll transactions were comprised of 9 annual pay increases and 7 increases for additional Education and Certifications.

Of the 40 transactions tested, 23 hiring and promotion transactions were properly recorded on employee requisition forms and approved by Human Resources and Finance, but 16 did not memorialize approved salary information. We found the employees' salaries were supported by other supporting documentation provided by the District.

- The District's written payroll procedures do not define review and approval procedures for changes to salaries and wages that are not recorded on the District's requisition forms.

Criteria: Chapter 14 *Payroll Compliance*, Section 14.2.1 Controls, of the *BAM* requires the following: "Organizations are required 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: The conditions above were caused by the following:

- Salary information was not recorded on the employee requisition forms.
- Review and approval of payroll transactions was not performed or documented (documentation was not available to determine if the required review was performed) due to weaknesses in the District's payroll policies.

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

RED CLAY CONSOLIDATED 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:

- Review its preparation and review processes over payroll changes to ensure that all changes are properly approved prior to processing.
- Implement review and approval procedures for payroll changes that are not recorded on employee requisition forms.
- Procedures to record approved salary information for approval on the employee requisition forms.
- Formally document review and approval procedures for payroll changes.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements

Condition: We found that the district's purchasing decisions for 5 of 33 vendors selected for testing did not comply with the State's and District's procurement requirements as summarized in the following chart:

District's Procurement Action Type of Purchase	Required Procurement Action		
	Three Written Quotes	Formal Bid or RFP	Sole Source
Open Market Purchase			
Materials	1	1	-
Public Works	2	-	-
Undocumented Sole Source Purchase			
Materials	-	-	1
	3	1	1

We also found the District's open market Public Works procurements which exceeded \$45,000 did not include the prevailing wage rate requirements.

The chart above includes Purchase Order #524882 which is the execution of Change Order #80 to a contract originally entered on April 24, 2009. The original contract was for the installation of classroom projectors. Change order #80 included, among other tasks, the demolition of 63 projector installations and the installation of 70 IFPs (interactive flat-panel display) at various District locations. The work included on change order 80 appears to be the same locations included in the original scope of services approved in FY 2009 (the installation of projectors in 2009 and their replacement with IFPs, thirteen years later).

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C. Ch. 69. The Red Clay Consolidated School District Internal Control Review document indicates that the District follows the bid laws of the State of Delaware.

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

- 29 Del. C., §6902(18) defines "Materiel" as materials, equipment, tools, supplies, or any other personal property.
- * 29 Del. C. §6507 and BAM 5.2.3 direct that "Contracts and agreements should coincide with the State's fiscal year, whenever possible. The fiscal year begins each year on July 1, and concludes on the following June 30."

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Criteria: Continued

- *BAM Chapter 5 Procurement, Section 5.3.1 Materiel and Non-Professional Services Thresholds* required the following:

<u>Procurement Requirement</u>	<u>Through August 31, 2021</u>	<u>Effective September 1, 2021</u>
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

The following requirements are applicable to the public works purchases:

- The purchases are considered public works per the following:
 - 29 Del. C., §6902(23) “Public funds” means funds of the State, of any agency within the State, of any public school district, of or from the United States government or of or from any department or representative body thereof.
 - 29 Del. C., §6902(24) “Public works contract” means construction, reconstruction, demolition, alteration and repair work and maintenance work paid for, in whole or in part, with public funds.
- *BAM Chapter 5 Procurement, Section 5.3.2 Public Works Thresholds* required the following:

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

- 29 Del. C., §6960 *Prevailing Wage Requirements*, requires that every contract or aggregate of contracts in excess of \$45,000 for repairs includes a provision for prevailing wage requirements.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Cause: The District did not correctly apply the requirements to purchasing decisions as follows:

- Public Works purchases were not aggregated for evaluation of the purchasing decision.
- A change order was executed against a thirteen year-old purchase order instead of performing a separate procurement action.
- Required sole source documentation was not prepared for a sole source purchase.

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

Recommendation: We recommend that the District implement procedures to properly evaluate purchases for compliance with formal procurement requirements, specifically, purchases for similar material and services from the same vendor should be combined and evaluated against the procurement requirements in total; purchase orders should be closed out after one year or, at the completion of the original project, and new procurements processes begun; approved exceptions from the requirements should be adequately documented.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 3 - Debt Service Reserves Were Not Within the Range Set by the State of Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections

Condition: The District's internal controls do not ensure the Debt Service appropriation balance is sufficient to fund debt service on the due date. We found the following:

- The District's debt service appropriation balance was insufficient to fund debt service when due during FY 2022. On September 1, 2021, the District's debt service payment of \$1,686,349 was due to the State; however, the District's debt service appropriation had a balance of \$1,091,225. The District did not have sufficient funding available until September 23, 2021. The State of Delaware's Secretary of Finance drew the debt service on October 5, 2021.
- The District's debt service reserve of \$2,504,048, as of June 30, 2022, was not sufficient to meet scheduled debt service payments totaling \$4,225,549, due in the first four months of FY 2022. We found the Secretary of Finance did not draw debt service due September 1, 2022 until June 2023.

The District's internal controls over the calculation of the debt service tax rate did not identify the following:

- The District's calculation did not include a provision for delinquencies in the collection of current year real estate taxes.
- The District did not plan for the timely funding of debt service payments due in the first four months of the fiscal year.

Criteria: The authority of school districts to issue bonds is governed by 14 Del. C., c. 21.

- §2108, ...*The amounts of principal payable and the dates on which such payments are due shall be noted on the bond form. The dates on which the interest is due shall also be noted on the bond form.*
- §2116, *The authority to issue bonds shall be construed to be authority to provide funds for the payment of the interest and annual payments on such bonds, which without further authority shall be provided for by an additional tax levy on the property subject to taxation for county purposes in the district issuing such bonds...*
- §2118:
 - *(a) Based on the total value of all taxable property as shown on the county assessment list and on the amount to be raised, the board of the district shall fix the rate of taxation plus 10 percent for delinquencies.*

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2022

Finding Number 3 - Debt Service Reserves Were Not Within the Range Set by the State of Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections - Continued

Criteria - Continued

- *(e) The Secretary of Finance is hereby authorized and directed to draw warrants or drafts on such fund in the amount of the principal of and interest on such bonds or other obligations as the same shall become due and payable, and to deposit such money, so drawn, to the credit of the General Fund of the State.*
- 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.

Cause: The District's debt service rate setting process for FY 2022 was not sufficient to meet the requirements set by Delaware Code and the State of Delaware Attorney General's recommendation. The District did not monitor the debt service appropriation to verify it was appropriately funded on debt service due dates.

Effect: The District was not in compliance with the requirements and did not sufficiently fund its debt service appropriation to meet debt obligations.

Recommendation: We recommend that the District review its debt service rate setting process for compliance with the requirements and that the District implement procedures to ensure that the debt service appropriation is fully funded to meet debt obligations.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
CONCLUSION
JUNE 30, 2022

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

Objective 1 - Except for Findings 1 and 2, detailed in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

Objective 3 - Except for Finding Number 3, detailed in the *Schedule of Findings and Recommendations*, the School District's real estate taxes were approved and calculated in accordance with the requirements.

Objective 4 - The School District's tuition tax funds were calculated and spent in accordance with the requirements.

DORRELL GREEN, Ed.D.
Superintendent

TED AMMANN, MBA, Ed.D.
Chief Operating Officer

December 15, 2023

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

View of Responsible District Officials and Corrective Action:

A large percentage of the district's funds are spent on employee payroll and as such, we acknowledge that the review and appropriate internal controls of these expenditures is critical. It is also important to note, that in the review of selected transactions, there were NO findings of incorrect salary calculations or payments.

We have already implemented some of the recommendations prior to the audit report and will continue to improve our internal processes to the extent that funding and the PHRST system allow.

We are also hopeful that the state's upcoming replacement to PHRST will be modernized and take advantage of technological improvements that will streamline critical internal control procedures. The current "week on-week off" limitation of PHRST requires a number of back office procedures to query and review data and limits the time available for appropriate review and approval.

Finding 2: Purchases did not comply with state purchasing and procurement Requirements

View of Responsible District Officials and Corrective Action:

Each identified concern will be addressed independently.

We acknowledge that in one case, a sole source procurement was to address specific needs of certain students with significant special needs. While the purchase was eligible for a "sole source" designation, the district omitted the document memorializing this exception. Going forward we will improve our processes to ensure sole source documentation is memorialized prior to processing the purchase order.

A second concern is regarding the aggregation of open market purchases. Purchasing decisions are made at the operating unit level. While individual budget managers are trained to

DORRELL GREEN, Ed.D.
Superintendent

TED AMMANN, MBA, Ed.D.
Chief Operating Officer

aggregate their purchases for compliance with thresholds, we will implement procedures to better aggregate open market purchases across operating units.

In regards to Public Works purchases not being aggregated for evaluation of the purchasing decision, we believe that state code, and the BAM, specifically Chapter 5 Procurement, Section 5.3.2 are unclear. The language used in Title 29, chapter 69 regarding public works states that the more “streamlined” small purchase procedure can be used for a contract whose “annual probable cost is less than or equal to the threshold amount...” We have demonstrated through contracts included in the sample (specifically the Power Plus contract) that when we believe the probable cost is above the threshold, we use the public works process which includes public bidding. In the case of the purchases identified these were specific, small, unplanned and unrelated projects. We did not believe the cost would in aggregate be above the threshold, nor does the code specify what would require these to be aggregated into one project. In addition, based on the nature of the repairs being done, it would have been difficult to develop specs for the individual, unique projects without significant additional time and money to address the safety issues. Because the scope of work is not identified as part of a routine maintenance program, we would have had to engage the services of a design firm to develop specs on a full gamut of hypothetical repairs. We believe the time and overhead of this work would have driven up the cost and didn’t believe it was required based on the definition of public works projects available to us. While not part of the sample of selected purchases, in the same year, there are additional examples where Red Clay used the public works formal bid process when we believe the cost of the project was going to be above the threshold. Our parking lot refurbishment program for example was done following the public works process identified in Title 29. These examples show that Red Clay is aware of and has followed the public works bid process when we believed it was required. We also used the “Small public works contract procedures” when we believed they were appropriate.

Going forward, we will reach out to GSS and other state agencies to discuss how they interpret procurement language regarding public works so that we can review and as appropriate develop improved procedures. Since the FY22 audit, the Office of Management and Budget (OMB) has significantly increased the thresholds for this type of project which will mitigate the added time and expense of this broader interpretation of existing code.

A final condition was the use of a public works contract originally bid in 2009. For a variety of reasons we have continued to use this contract for what we believe is the same scope of work and part of one project – the installation of interactive classroom monitors. We are not aware of any specific time limit for change orders to a contract. It is important to note that the materiel portion of this work was procured for each change order using current state contracts meaning

DORRELL GREEN, Ed.D.
Superintendent

TED AMMANN, MBA, Ed.D.
Chief Operating Officer

that the vast majority of the cost of the project was procured using state contracts. We agree that contracts should be evaluated and not be routinely extended through change order without thorough review and strong rationale. The work was scheduled to come to a close in 2020 but due to the pandemic, it is expected to be complete in February of 2024. It was determined prior to each change order that it was in the best interest of the district to continue with the existing contract. For the vast majority of our contracts we include a finite term, with a finite number of renewals if both the vendor and the district are in agreement. As part of the audit process, a powerpoint presentation from G.S.S. was shared. This powerpoint recommended a five year timeline for contracts and added that extensions are possible. We will follow-up with GSS and develop a policy for a standard timeline for public works projects and specific criteria for recommending to our board that a contract be renewed past that timeline.

Finding 3: Debt Service Reserves Were Not Within the Range Set by the State of Delaware Attorney General and Debt Service Tax Rates Did Not Include Provisions for Delinquencies in Collections

View of Responsible District Officials and Corrective Action:

This finding replicates a finding in our 2021 Local Funds Audit. We can only address this concern when our board sets the tax rate in July. The 2021 Local Funds Audit was completed after the setting of the debt service rate for FY22. Red Clay addressed this finding when recommending the debt service rate for FY23, the earliest date in which state code allowed us address the historical Attorney General opinions and relevant state code. Red Clay is confident that future local funds audits will recognize that we have put in place a responsible plan to address the finding.

We believe it is important to note that at no time in this audit year, or in previous audit years, was Red Clay unable to make a debt service payment if the state treasurer's office chose to collect payments in accordance with their schedule of payments.