

# CAPE HENlopen SCHOOL DISTRICT

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LOCAL FUNDS PERFORMANCE AUDIT  
FISCAL YEAR ENDED JUNE 30, 2023





# CAPE HENOPEN SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT

## REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

### BACKGROUND

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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 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.

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### KEY INFORMATION AND FINDINGS

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Performance audit testing of the rate-setting process revealed the District's management and Board of Education analyzed expected spending and set the FY 2023 tax rates to provide adequate revenues, as summarized here.

- The District's FY 2023 current expense tax rate was set by referendum in 2018.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$4,268,182 as of June 30, 2023 complied with the State of Delaware requirements.

#### Cape Henlopen School District Quick Facts

**K-12 Schools**

**8**

**Special Schools**

**2**

**Students Served**

**6,600**

**Employees**

**1,300**

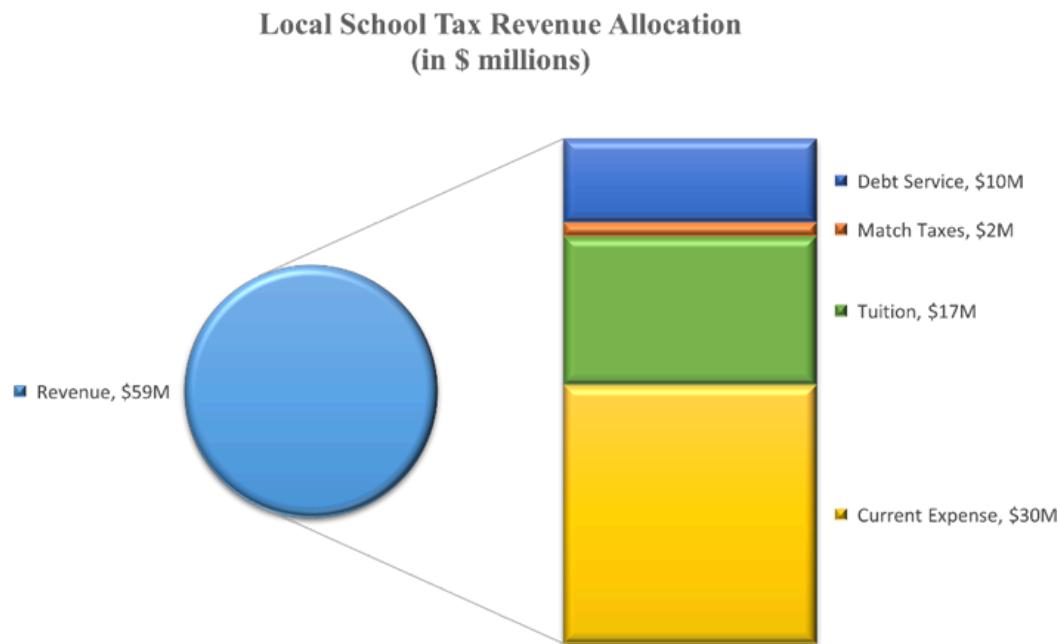


# CAPE HENOPEN SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

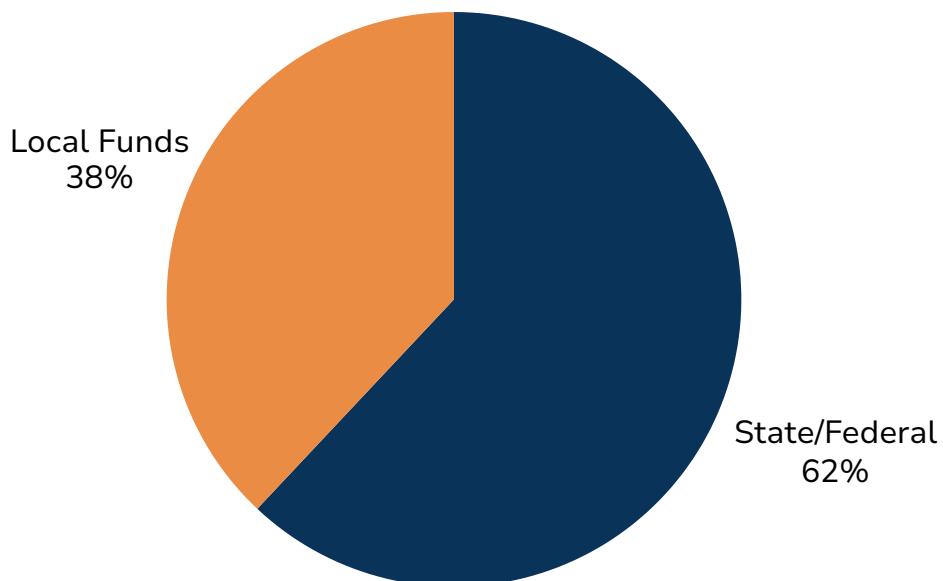
## KEY INFORMATION AND FINDINGS CONTINUED

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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:



### FY23 Revenue Sources





# CAPE HENOPEN SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

## KEY INFORMATION AND FINDINGS CONTINUED

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

Testing identified the following conditions that are reported as findings:

- District payroll policies do not properly segregate responsibilities of the payroll function.
- District payroll policies do not require appropriate review and approval of payroll changes.
- District purchases of non-professional services, supplies and equipment, and repairs services did not follow state procurement laws.

The potential exposure to the State of the weaknesses in payroll internal controls, described above, is that they increase the risk of error and fraud occurring, and not being detected, in the payroll process. The potential exposure to the State of the weaknesses in the purchasing internal controls, is that they increase the risk that the District would make purchases without first obtaining the best prices and terms.

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

**JUNE 30, 2023**

**CAPE HENlopen SCHOOL DISTRICT**  
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**JUNE 30, 2023**

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*Independent Auditor's Report*

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

Dear Mr. Fulton:

We present the attached report which provides the results of our performance audit of the Cape Henlopen School District's Local Funds' design and operation of internal controls and compliance with applicable State and District regulations and policies during the year ended June 30, 2023. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Cape Henlopen School District's Local Funds under OAOA Contract Number 22-CPA01\_SDLOCALFUND.

The Office of Auditor of Accounts is authorized under 29 Del. C., §2906(f) to perform post-audits of local school district tax funds' budget and expenditures. The Cape Henlopen School District's management is responsible for the design and operation of internal controls over Local Funds and compliance with the applicable Delaware Code sections.

We conducted this performance audit in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying *Schedule of Findings and Recommendations*. The District's response was not subject to the other auditing procedures applied in the performance audit.

This report is intended solely for the information and use of the Cape Henlopen School District, the Delaware Department of Education, and the Office of Auditor of Accounts, and is not intended to be, and should not be, used by anyone other than these specified parties. Under 29 Del. C. §10002(o), this report is a matter of public record, and its distribution is not limited. This report, as required by statute, will be provided to the Office of the Governor, Office of the Controller General, General Assembly, Office of the Attorney General and Office of Management and Budget.

*Belfint, Lyons & Shuman, P.A.*

June 12, 2025  
Wilmington, Delaware

cc: Lydia York, Esq., CPA - State Auditor  
Oliver Gumbs - Director of Finance

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT**  
**JUNE 30, 2023**

**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

***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.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**BACKGROUND - CONTINUED**

***Laws and Regulations - Continued***

**Debt Service - Continued**

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 reserves, 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, opportunity fund, and substitute teacher block grant. The following summarizes the significant match taxes authorized for the year ended June 30, 2023:

***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.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**BACKGROUND - CONTINUED**

***Laws and Regulations - Continued***

**Match - Continued**

*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.

*Enhanced Minor Capital Improvements* - The FY 2023 State of Delaware Capital Budget appropriated additional minor capital improvements funds to the school districts. The funds are not subject to the \$1,000,000 minor capital improvement restriction. An amendment to the FY 2023 State of Delaware Capital Budget authorizes districts to assess a local match on a 60% state and 40% local basis either in one fiscal year or over multiple fiscal years through fiscal year ending June 30, 2025. Districts must obligate their minor capital improvement funds prior to utilizing the enhanced minor capital improvement funds, except for the purpose of remediating lead contaminated drinking water infrastructure.

*Extra Time and Reading Resource and Math Resource Teachers* - In accordance with 14 Del. C., §1902(b), the FY 2023 Operating Budget Epilogue sec. 361 authorizes school districts to levy a local match for Extra Time as well as Reading Resource Teachers and Mathematics Resource Teachers which were originally established by the following:

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

*Student Success Block Grant* - The FY 2023 Operating Budget Epilogue sec. 370 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 through 4.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**BACKGROUND - CONTINUED**

***Laws and Regulations - Continued***

**Match - Continued**

*Opportunity Fund* - The FY 2023 Operating Budget Epilogue sec 367 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 through 5. Per a June 2019 DOE Memo, schools are allowed to match on a 70% state and 30% local basis.

*Substitute Teacher Block Grant* - The State of Delaware FY 2023 Operating Budget Epilogue Sec. 391 authorizes school districts to assess a local match for costs associated with the Substitute Teacher Block Grant appropriations, which are intended to fund salaries for full-time substitute teachers in high need elementary, middle and high schools, with populations of 50 percent or more low-income students.

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

**DISTRICT SPECIFIC SUMMARY**

The Cape Henlopen School District, located in Sussex County, operates K through 12 schools with approximately 6,600 students. The Cape Henlopen School District employs over 1,300 employees to educate and support its students. Cape Henlopen has five elementary schools, two middle schools, and one high school. In addition, the District is also home to the Sussex Consortium and the Little Vikings Learning Center. The Cape Henlopen District Board of Education is the governing body of the District. The School Board includes seven elected members who serve four-year terms. For the purposes of this report, Cape Henlopen School District is referred to as the "School District" or "District."

**AUDIT OBJECTIVES**

The objectives established for the performance audit of the School 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).

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT OBJECTIVES - CONTINUED**

***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, 2022 through June 30, 2023. We sampled and examined transactions from the populations of expenditures and receipts of Local Funds for the period from July 1, 2022 through June 30, 2023. In sampling these transactions, we relied on documentation provided by the School District, the DOE, and the State of Delaware's financial accounting and human resources systems.

**AUDIT METHODOLOGY AND RESULTS**

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

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

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

- b. Completed engagement team discussions, including discussions about the possibility of error or fraud involving Local Funds.
- c. Made inquiries of management and others about risks (including fraud risks, related-party transactions, unusual transactions, and compliance with laws, regulations, contracts, and grant agreements).
- d. Obtained and documented an understanding of the School District's internal control system over Local Funds by performing walkthroughs.

6. Identified key internal controls over the District's Local Funds for testing.

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

- 1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and Local Tuition Tax funds to determine that transactions were properly documented, authorized and properly recorded; that products and services were received and that transactions complied with State and District requirements.
- 2. To assess the design and operation of procurement internal controls, we analyzed disbursements to vendors made from the District's State, Local and Federal Funds' (excluding purchases made using State-wide contracts, those entered into by the Office of Management and Budget's (OMB), Government Support Services Division (GSS)). 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 vendor, with consideration to multiple purchase orders and multiple direct claim payments (purchases without purchase orders) for similar products and services, to test whether the cumulative amounts may have exceeded the applicable procurement thresholds.
  - b. 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.
  - c. Payments to Single Payment Suppliers (suppliers that are paid only once) to test whether payments may have exceeded the applicable procurement thresholds.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

- d. In addition, we selected the following types of vendor transactions for testing:
  - i. A judgmental sample of vendors with cumulative purchase amounts meeting or exceeding the State and District procurement thresholds.
  - ii. A judgmental sample of unusual or higher risk vendor transactions.
  - iii. A judgmental sample of purchasing card transactions and single payment supplier transactions meeting or exceeding the State and District procurement thresholds.
- For vendor relationships governed by State-wide contracts, we selected and tested a sample of significant transactions to verify that District's purchases complied with the terms of the agreements entered into by the OMB's GSS Division.
3. To assess the design and operation of payroll internal controls:
  - a. Sampled and tested transactions from a population of current year payroll change events, affecting local funds' payroll expenditures for the following:
    - i. Employees' annual salary increases agreed to published and approved salary tables.
    - ii. Changes to payroll, other than annual salary increases, agreed to supporting documentation and were properly approved.
  - b. Sampled and tested transactions from a population of current year payroll expenditures from Tuition Local Funds to verify employees, whose salaries and wages during the fiscal year were funded with Tuition Local Funds, responsibilities were consistent with the District's special education programs.
  - c. Sampled and tested management's reconciliation, review, and approval of bi-weekly payrolls.
4. To assess the design and operation of internal controls over the approval and calculation of real estate taxes, including tuition tax:
  - a. Compared taxes levied per official tax warrants to supporting rate calculations, budgets, and amounts authorized by referendum, relevant legislation (including tax revenue reserve limits) and District approval.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

- 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 Findings Numbers 1 through 3 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 were in accordance with the requirements during the period from July 1, 2022 through June 30, 2023.

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

*Non-Payroll Expenditures* - To assess the operation of the internal controls over non-payroll expenditures of Local Funds, we selected a sample of 40 disbursement transactions (excluding transactions from tuition Local Funds tested in Objective 4). Thirty-five of these transactions were selected randomly and five transactions were selected from a population of nontuition Local Fund disbursements made to vendors with State-wide contracts, in conjunction with the procedures performed over procurement. The results of our procedures over procurement are reported below. 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 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 2023 disbursement population and, using a risk-based approach, we selected the following samples:

- A judgmentally selected sample of 12 vendors 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 16 procurement card purchase exceeding the \$10,000 procurement threshold per the *BAM*.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 1 - Continued***

**Results - Continued**

***Procurement - Continued***

- 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 12 vendors and 16 procurement card purchases selected and found the purchasing process for goods and services purchased from six vendors throughout the fiscal year were not in compliance with State and District procurement requirements. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

In conjunction with the procedures performed over non-payroll expenditures, we selected a sample of five disbursements, from nontuition Local Funds, made to vendors with State-wide contracts. We compared the terms of the invoices to the State-wide contracts and found that the District's purchases complied with the agreements entered into with the vendors by the OMB's GSS Division.

***Payroll Expenditures*** - To assess the operation of the internal controls over payroll expenditures made from Local Funds, we selected a random sample of forty Local Funds pay rate changes processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that all the changes sampled were supported; however, one transaction was not properly approved in accordance with District policies. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

To test the employees' annual increases, we selected a random sample of 10 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 2023 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.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**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. We also compared budget to actual debt service expenditures, at the District level, during our analysis of debt service real estate tax rate calculations in Objective 3. Because the payment of debt service is managed and initiated at a statewide level by the State of Delaware Department of Finance, it is outside of the scope of this performance audit, and we did not assess the design or operation of internal controls over debt service expenditures.

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

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

***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 2023 and concluded the following:

- The District's current expense rate was supported by a referendum passed in March 2018.
- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Opportunity Fund and substitute teacher block grant. We found the District's local match tax revenues were consistent with the prior year and were determined to be immaterial to total Local Fund revenues.
- We compared debt service tax collections based on the debt service rate to principal and interest schedules for FY 2023 and FY 2024 and determined that the rate was sufficient to cover debt services expenditures in FY 2023 and provide the District with a reserve equal to approximately 49% of its FY 2024 debt payments as summarized below. District debt service reserves held as of June 30, 2023, were within the range set by the State of Delaware Attorney General.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**AUDIT METHODOLOGY AND RESULTS - CONTINUED**

***Objective 3 - Continued***

***Results - Continued***

July 1, 2022 Debt Service Reserve Balance	\$ 11,448,856
FY 2023 Debt Service Activity	
Receipts	10,367,891
Expenditures	(8,159,339)
Other Activity	
Market Pressure Relief Funding*	<u>(9,389,226)</u>
June 30, 2023 Debt Service Reserve Balance	<u>\$ 4,268,182</u>
Budgeted FY 2024 Debt Service	<u>\$ 8,659,339</u>
Reserve to Expected Future Payments Ratio	<u>49%</u>

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

We accumulated information from the following sources to meet this audit objective - The FY 2023 Tax Collections and FY 2023 Debt Service Reserves were obtained from the June 30, 2023 Daily Validity Report (Document Direct Report DGL060), which is a daily report on the status of appropriations. The FY 2023 and FY 2024 Debt Service Principal and Interest were obtained from debt service schedules presented in the FY 2023 Final Budget and the FY 2024 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, 2023 Daily Validity Report and budgeted expenditures from the District's FY 2023 Final Budget.

**CAPE HENlopen SCHOOL DISTRICT**  
**LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED**  
**JUNE 30, 2023**

**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 both complied with state and District requirements and that the transactions were properly approved by the District as evidenced by approval on invoices and receipts as well as in FSF.

We also examined the District's compliance with State and District procurement requirements in conjunction with procedures performed over nontuition Local Funds in Objective 1's results. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations made surrounding the School Districts payroll process.

We also examined employee files for a random sample of 10 employees and determined that the employees' responsibilities were consistent with the functions of the District's special education programs and that the employees' salaries and wages were appropriately funded with tuition Local Funds. Refer to Findings Numbers 1 and 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations made surrounding the School Districts payroll process.

We examined tuition tax fund calculations in conjunction with procedures performed over the nontuition Local Funds. Results are reported in Objective 3.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**JUNE 30, 2023**

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

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

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

The Payroll and Benefits staff update employee salary information in PHRST, based on employee records maintained in the District's internal database software FileMaker Pro. The Payroll and Benefits staff also have access to enter changes to the records maintained in the internal database. The District's internal database FileMaker Pro does not have internal controls to evidence review and approval of changes.

**Context:** A similar finding regarding the segregation of payroll duties was reported in the FY 2022 performance audit issued on January 9, 2024.

**Criteria:** Chapter 14, *Payroll Compliance*, Section 14.2.1 *Controls*, of the *BAM* states that "Organizations should ensure an appropriate segregation of duties and monitoring throughout the payroll process."

**Cause:** The PHRST system's Human Resource, Payroll, and Benefits Administration modules and the District's internal employee database software are available to all Payroll and Benefits staff in edit mode.

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

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

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

**CAPE HENlopen SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2023**

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

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

- The District's controls over the authorization of payroll changes prior to entry in PHRST are not operating as District's policies were designed. Of the 40 transactions tested, one change, to an administrator's pay, was not documented on an employee action form, (known as Goldenrods), nor was it reviewed and approved by the Supervisor of Human Resources, Director of Business Operations or Assistant Superintendent prior to being submitted to the Payroll and Benefits staff for processing, as required by the District's policies.
- While the District performs detailed review of each payroll, the District does not retain documentation to evidence their review. Documentation evidencing the review of the four pay periods selected was not available.
- The District does not have controls in place to review and approve changes entered in PHRST. Although the Payroll and Benefits staff perform a review of each other's changes made in PHRST, District Management does not actively, and contemporaneously review and approve changes in PHRST.

**Context:** A similar finding regarding the documentation of payroll review was reported in FY 2022 performance audit report issued on January 9, 2024.

**Criteria:** The District's internal control policies, as documented on the District's FY 2023 Payroll Internal Control Plan Questionnaire, require the following:

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

**Cause:** The conditions above were caused by the following:

- Annual increases in administrator pay are calculated in an Excel workbook prepared and maintained by the CFO. The Board communicated its approval and recommended changes to Administrator pay formula. The District did not prepare Goldenrods because the payrates were approved by the Board of Education.

**CAPE HENlopen SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2023**

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

**Cause - Continued:**

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

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

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

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

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

**CAPE HENlopen SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2023**

***Finding Number 3 - Purchases Did Not Comply with State Purchasing and Procurement Requirements***

**Condition:** As summarized in the following chart, we found that the District's purchasing decisions for six of the vendors we examined did not comply with the State's and District's procurement requirements:

1. Material purchases of sporting goods from a vendor totaling \$39,651 without obtaining three quotes.
2. Material purchases of two lawnmowers from a vendor totaling \$53,424 without going through the formal bid process.
3. Public works HVAC repair purchases from a vendor totaling \$161,845 without going through the formal bid process.
4. Material purchases of Automated External Defibrillator (AEDs) from a single vendor totaling \$61,350, without documenting the purchase as a sole source purchase.
5. Material purchases of software from a vendor totaling \$83,995 without going through the formal bid process.
6. Public works Modular rentals from a vendor totaling \$144,868 without obtaining three quotes.

**Context:** A similar finding regarding the purchase of HVAC repairs was reported in the FY 2022 audit report issued on January 9, 2024.

**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 materiel and public works purchases:

- 29 Del. C., §6902(19) defines “Materiel” as materials, equipment, tools, supplies, or any other personal property.
- 29 Del. C., §6902(26) defines “Public Works” as construction, reconstruction, demolition, alteration and repair work and maintenance work.

**CAPE HENlopen SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED**  
**JUNE 30, 2023**

***Finding Number 3 - 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 Purchase Thresholds* and *Section 5.3.2, Public Works Thresholds*, required the following during FY 2023:

<b>Procurement Requirement</b>	<b>Through February 15, 2023</b>	<b>Effective February 16, 2023 to April 12, 2023</b>	<b>Effective April 13, 2023</b>
<b>Materiel and Non-Professional Services</b>			
Open Market Purchase	Less than \$10,000	Less than \$10,000	Less than \$50,000
3 Written Quotes	\$10,000 - \$49,999.99	\$10,000 - \$99,999.99	\$50,000 - \$99,999.99
Formal Bid	\$50,000 and Over	\$100,000 and Over	\$100,000 and Over
<b>Public Works</b>			
Open Market Purchase	Less than \$50,000	Less than \$50,000	Less than \$150,000
3 Written Quotes	\$50,000 - \$149,999	\$50,000 - \$249,999	\$150,000 - \$249,999
Formal Bid	\$150,000 and over	\$250,000 and over	\$250,000 and over

**Cause:** Purchases were made without performing or documenting the required procurement actions.

**Effect:** By not adhering to the State procurement requirements, and by making purchases in multiple, small dollar amounts instead of aggregating these purchases at the overall District level, the District may not have received the best prices or terms on the materials purchased.

**Recommendation:** We recommend that the District implement procedures to annually evaluate vendor relationships for compliance with State purchasing and procurement requirements. Specifically, multiple purchases of similar goods or services from the same vendor should be combined and evaluated, in aggregate, against the procurement thresholds and other requirements. While it is difficult to predict what specific needs the District will have for the year in advance, the District can make current-year estimates based on prior years' purchases. These estimates can then be used as the basis to solicit open market purchases, three written quotes, or formal bids.

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

**CAPE HENLOPEN SCHOOL DISTRICT**  
**CONCLUSION**  
**JUNE 30, 2023**

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

**Objective 1** - Except for Findings Numbers 1 through 3, as detailed in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

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

**Objective 4** - Except for Findings Numbers 1 and 2, as detailed in the *Schedule of Findings and Recommendations*, The School District's tuition tax funds were calculated and spent in accordance with the requirements.

**CAPE HENLOPEN SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**  
**JUNE 30, 2023**

**Response to Findings**

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

Response - The District agrees with this finding and will continue to review related procedures, policies and possible staffing changes to bring resolution to this issue.

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

Response - The District recognizes the finding and has delegated a new position to manage this process and begun implementation of procedures related not resolving this issue.

***Finding Number 3 - Purchases Did Not Comply with State Purchasing and Procurement Requirements***

Response - The District recognizes the finding and will continue to provide training and update policies and procedures to minimize this type of finding. The District will continue to work with the State and other Districts in obtaining Bids for common services.