

CAPITAL SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2023



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

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 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 2023 tax rates to provide adequate revenues, as summarized here.

- The District's FY 2023 current expense tax rate was set by referendum in 2019.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$4,882,931 as of June 30, 2023 complied with the State of Delaware requirements.

Capital School District Quick Facts

K-12 Schools

8

Special Schools

2

Students Served

6,400

Employees

800

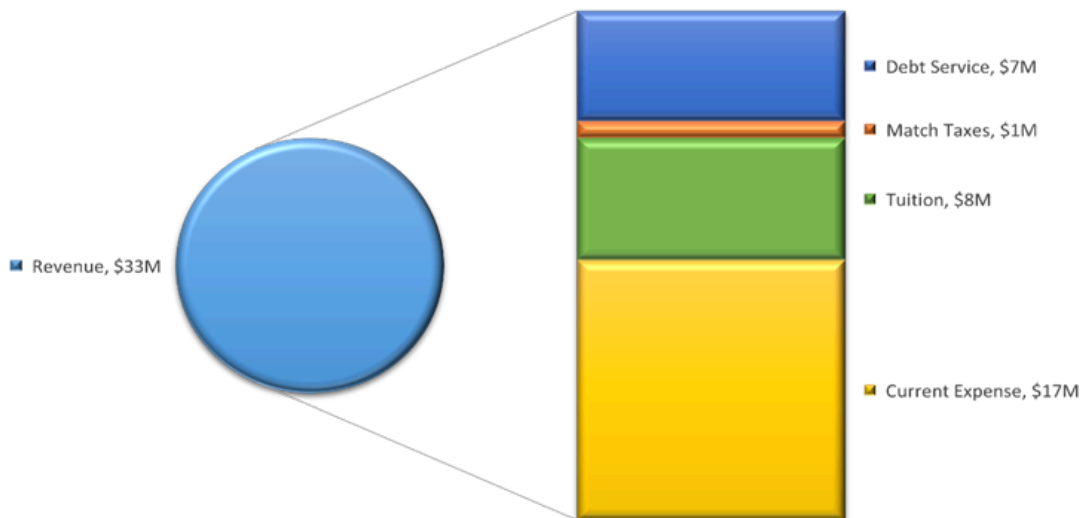


CAPITAL SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

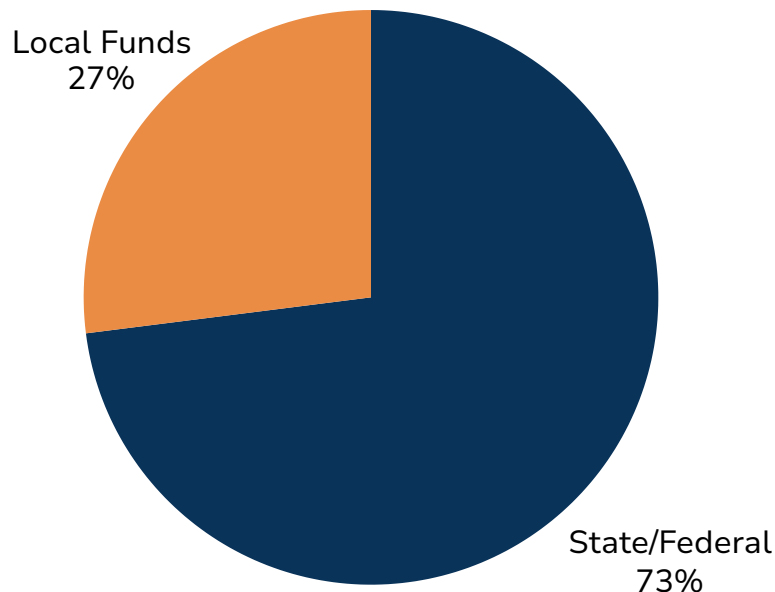
KEY INFORMATION AND FINDINGS CONTINUED

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:

Local School Tax Revenue Allocation
(in \$ millions)



FY23 Revenue Sources





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

KEY INFORMATION AND FINDINGS CONTINUED

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

Testing identified the following conditions that are reported as findings:

- District payroll policies do not properly segregate responsibilities of the payroll function.
- District payroll lacked proper review and approval.
- District did not maintain evidence of payroll period review.
- District did not maintain support for employee payroll changes
- District purchases of professional services, mower and repair 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.

CAPITAL SCHOOL DISTRICT

**LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2023

CAPITAL SCHOOL DISTRICT
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JUNE 30, 2023

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Independent Auditor's Report

Dr. Victoir T. Cahoon, Superintendent
Capital School District
198 Commerce Way
Dover, Delaware 19904

Dear Dr., Cahoon:

We present the attached report which provides the results of our performance audit of the Capital School District's Local Funds' design and operation of internal controls and compliance with applicable State and District regulations and policies during the year ended June 30, 2023. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Capital School District's Local Funds under OAOA Contract Number 22-CPA01_SDLOCALFUNDS.

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

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

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.

Dr. Victoir T. Cahoon, Superintendent
Capital School District

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

Belfint, Lyons & Shuman, P.A.

September 4, 2025
Wilmington, Delaware

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

CAPITAL 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. 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. 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.

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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Continued

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.

Match - Match funds provide a local match to State appropriations where required or allowed by law. Examples of Match programs include technology, minor capital improvements (MCIs), extra time, reading and math resource teachers, student success block grant and opportunity fund. 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.

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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

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.

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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

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 Capital School District, located in Kent County, operates K-12 schools with over 6,400 students. The Capital School District employs over 800 employees to educate and support its students. The Capital School District has seven elementary schools, three middle schools, and one traditional comprehensive high school. In addition, the District is home to the Kent County Community School and the Kent County Secondary Intensive Learning Center. The Capital School District Board of Education is the governing body of the District. The School Board includes five elected members who serve four-year terms. For the purposes of this report, Capital School District is referred to as the "District."

AUDIT OBJECTIVES

The objectives established for the performance audit of the 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).

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

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT OBJECTIVES - CONTINUED

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

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

AUDIT SCOPE

The period covered by the Performance Audit was July 1, 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.

CAPITAL 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.

CAPITAL 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.

CAPITAL 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 the Schedule of Findings and Recommendations, Findings 1 through 4, we found the design of the key internal controls over payroll, non-payroll, and debt expenditures of Local Funds were designed and operated in accordance with the requirements during the period from July 1, 2022 through June 30, 2023.

Non-Payroll Expenditures - To assess the operation of the internal controls over non-payroll expenditures of Local Funds, we selected a sample of forty 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 thirteen 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 one procurement card purchase 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.

CAPITAL SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

We examined documentation for each of the transactions selected and found that 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 Numbers 3 and 4, 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 significant 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 except for the condition noted in Finding Number 4 in the *Schedule of Findings and Recommendations*. See Finding Number 4 for details of the deficiency identified and the related recommendation.

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 37 pay rate changes were not properly approved in accordance with District policies. We also found that certain transactions were not supported by documentation maintained in the employee file. Refer to Finding Numbers 1 and 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 ten annual step increases and agreed each employee's salary profile in the State's payroll system, Payroll and Human Resource Statewide Technology (PHRST), to the District's approved FY 2023 salary schedules.

We determined that authorized personnel at the District did not maintain evidence of a review of bi-weekly payroll expenditures. Refer to Finding Number 1 in the *Schedule of Findings and Recommendations* for details of the deficiency identified and the related recommendation.

CAPITAL 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 Kent County Reports of Local Property Tax Collections. We 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 warrants and code requirements. We also observed transfers of restricted current expense receipts to relevant appropriations.

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 April 2019.
- The District assesses a local match tax for the following: Minor Capital Improvements, Technology, Extra Time, and Student Success Block Grants and Extra Time. 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 61% 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.

CAPITAL 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	\$ 5,577,260
FY 2023 Debt Service Activity	
Receipts	7,362,783
Expenditures	<u>(8,057,112)</u>
June 30, 2023 Debt Service Reserve Balance	<u>\$ 4,882,931</u>
Budgeted FY 2024 Debt Service	<u>\$ 8,020,475</u>
Reserve to Expected Future Payments Ratio	<u>61%</u>

Per Kent County, Delaware (County) Code Part II, General Legislation, Ch. 105, Districts within the County that are impacted by construction, receive funds from surcharges on the proposed construction valuation of issued building permits. The funds are restricted by the County to fund the District's local share of capital improvements. The amounts presented above for Debt Service Reserves do not include the balance of unexpended surcharges received from the County. FY 2024 budgeted debt service is not adjusted for transfers of funds from the unexpended surcharges appropriation to the local debt service appropriation. In FY 2023, there were no transfers of funds between the appropriations.

We accumulated information from the following sources to meet this audit objective - The FY 2023 Debt Service 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. FY 2024 Debt Service Principal and Interest were obtained from debt service schedules presented in 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.

CAPITAL 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 twenty-five disbursement transactions made 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.

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.

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

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023

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

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

The District's controls over the authorization of payroll changes prior to PHRST entry are not operating in the manner in which the District's policies were designed. Of the 40 transactions tested:

- Thirty-seven transactions did not have evidence that the Director of Human Resources reviewed and approved the payroll transaction prior to their processing into PHRST.
- The District does not maintain support documenting the hiring process or changes in pay rate for substitute teachers.
- The District does not maintain support documenting the hiring of EPER, (Extra Pay Extra Responsibility, Employees).

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

The District does not memorialize the review of the bi-weekly payroll registers. The District indicated that the CFO reviews the bi-weekly payroll reports; however, this process is not memorialized.

Context: A similar finding regarding documentation of payroll change and review was reported in the FY 2022 performance audit report issued on February 27, 2024.

Criteria:

- Chapter 5, *Payroll Compliance*, Section 14.2.1 *Controls* of the *BAM* requires that: "Organizations are required to maintain and enforce effective internal controls to monitor Payroll-related transactions. These internal controls must be documented in a Payroll Internal Controls Plan. Controls must include, but are not limited to, the review and approval of all wage payments..." In addition, the PICP-Q indicates the HR Director and CFO are responsible for reviewing payroll changes.
- State of Delaware School District General Retention Schedules - Accounting and Financial Records Series No. GSF-080 requires Personnel Action Requests and related contracts to be retained for 50 years.

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

Cause: Review and approval evidence of the bi-weekly payroll expenditures was not documented due to failure to follow the District's payroll policies and the *BAM*.

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

Recommendation: We recommend the District implement the following:

- Review its preparation and review processes over payroll changes to ensure that changes are properly reviewed prior to processing in PHRST as required by the Payroll Internal Control Plan Questionnaire (PICP-Q).
- Formal documentation of formal review and approval procedures for payroll changes.
- Procedures to maintain pertinent documentation related to employee salary decisions.
- Implementation of procedures to review entries after entry to PHRST and adoption of procedures to memorialize that review.
- Creation of a formal manual for payroll internal control to meet the *BAM* requirements.

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

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

Finding Number 2 - Lack of Segregation of Duties in Human Resources Responsibilities for Payroll Functions

Condition: We found the design of the District’s payroll controls assigns certain incompatible functions to the same employees.

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

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

Context: A similar finding regarding the segregation of duties of Human Resources responsibilities for payroll functions was communicated in the FY 2022 audit report issued on February 27, 2024.

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

Cause: The PHRST system’s Human Resource, Payroll, and Benefits Administration modules are available to all Payroll and Human Resources staff in edit mode. Payroll and Human Resources have the same update access in PHRST because the District has a single team of specialists for these functions.

Effect: The existence of incompatible functions without mitigating controls puts the District’s payroll at risk of error or fraud occurring without detection.

Recommendation: We recommend the District review and update payroll and human resource functions to ensure proper segregation of duties or implement mitigating internal controls.

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

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

Condition: We found that the district's purchasing decisions for goods and services from five vendors did not comply with the State's and District's procurement requirements.

- A material purchase of a mower totaling \$30,772 was made without obtaining three quotes.
- Public works purchases of \$63,340 for electrical repairs from a vendor were made without obtaining three quotes and \$164,679 of plumbing repairs from a vendor were made without completing the required formal bid process.
- The following Professional Services were procured without completing the required procurement actions for the year ended June 30, 2024:
 - Speech Therapy Services totaling \$428,720.
 - Behavioral Health Services totaling \$144,300.

Criteria: The District is required to follow the procurement and purchasing requirements of the *BAM* and 29 Del. C. Ch. 69, *State Procurement*.

The following requirement are applicable to material, public works, and professional services purchases:

- 29 Del. C., §6902(18) 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.
- 29 Del. C., §6902(21) defines "Professional Services" as services which generally require specialized education, training, or knowledge and involve intellectual skills.
- *BAM* Chapter 5, *Procurement*, Section 5.3.1 *Material and Non-professional Services Purchase Thresholds*, Section 5.3.2, *Public Works Thresholds*, and Section 5.3.3, *Professional Services Thresholds* required the following during FY2023:

CAPITAL 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

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

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

Effect: By not following State and District purchasing and procurement requirements to obtain competitive pricing through formal bids or quotations, the District may not have gotten the best prices and terms available. In addition, for the large public works contracts, prevailing wage requirements, and performance bonding requirements were not considered, resulting in a violation of the State Code and the assumption of unnecessary risk of non-performance, to the District.

Recommendation: We recommend that the District implement the following:

- Procedures to evaluate purchases for compliance with formal procurement requirements, specifically, purchases for similar goods or services from the same vendor should be combined and evaluated against the procurement requirements in total.
- Procedures to document purchasing analyses performed by the District and its purchasing decisions, as a result of the analyses. Documentation retained should also include documents associated with the competitive bid or competitive quotation processes.

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

CAPITAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

Finding Number 4 - Lack of Review to Verify that Purchases Comply with the Terms and Pricing of Contracts

Condition: We found the District does not verify purchases made using Statewide contracts are consistent with the terms and pricing contained in the contracts executed by OMB's GSS Division prior to issuing a purchase order or making a payment.

Context: Per Chapter 5, *Procurement*, Section 5.2.1, *State Contracts* of the *BAM*, School districts are allowed, but not required, to use Statewide contracts procured by the OMB's GSS Division.

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and the Delaware Code.

Per Chapter 7, *Purchasing and Disbursements*, Section 7.6, *Disbursements* of the *BAM*:

"The DOF may refuse to approve payment for an invoice or bill only, if the invoice or bill... is not in accordance with the contract under which the indebtedness was created..."

Cause: The District's purchasing and procurement policies do not include procedures to verify that purchases of goods and services made by the District, using Statewide contracts are consistent with the terms and pricing contained in the contracts originally executed by OMB's GSS Division.

Effect: The purchases may not comply with the Statewide contract and may result in the District not receiving the best prices or terms for the purchases.

Recommendation: We recommend that the District review its purchasing and procurement policies and implement procedures to verify and document that its purchases comply with the terms and pricing of the contracts entered into with the vendors.

CAPITAL 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 the exceptions detailed in Findings 1 through 4 in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

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

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

CAPITAL SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2023

Board of Education

Dr. Chanda Jackson, President
Sean P. M. Christiansen, Vice President
Felecia R. Duggins
Vickie L. Pendleton
Donna J. Geist

Superintendent of Schools

Dr. Victoir T. Cahoon
Voice: (302) 857-4201
Fax: (302) 672-1715
Email: victoir.cahoon@capital.k12.de.us



198 Commerce Way
Dover, DE 19904

**Chief Financial Officer/
Business Manager**

Ade Kuforiji
Voice: (302) 857-4204
Fax: (302) 672-1715
Email: adewunmi.kuforiji@capital.k12.de.us

Capital School District's Management Response to the FY 23 Local Funds Audit**Finding Number 1 – Lack of Proper Review and Approval of Changes to Employee Payroll.**

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

Since substitutes are not permanent employees a recommendation for hire is not generated. Substitutes are hired via applications that they submit for positions. There are specific payrates for substitutes based on education. The application is placed in the individuals file folder and stored in a locked room. Updates to substitute pay rates may occur based on proof of education (college transcript). Transcripts are then placed in the substitute's file.

Finding Number 2 – Lack of Segregation of Duties in Human Resources Responsibilities for Payroll Functions

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

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

The one vendor's services (Speech Therapy Services - \$428,720) were procured through the RFP process. The vendor forgot to sign the renewal document but continued to provide services per the contract. The Behavioral Health Services vendor provides similar services to the Kent County Consortium – missed securing approval for piggyback use of the Consortium's contract.

Miscellaneous electrical supplies purchases are more difficult to procure getting quotes for low dollar items. The purchasing needs are difficult to predict and are done on an as needed basis.

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

Finding Number 4 – Lack of Review to Verify that Purchases Comply with the Terms and Pricing of Contracts

District will ensure verification of state contract pricing on purchases from State vendors.