

INDIAN RIVER SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2023



INDIAN RIVER 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 2017.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$7,794,075 as of June 30, 2023 complied with the State of Delaware requirements.

Indian River School District Quick Facts

K-12 Schools

13

Special Schools

2

Students Served

10,700

Employees

1,300

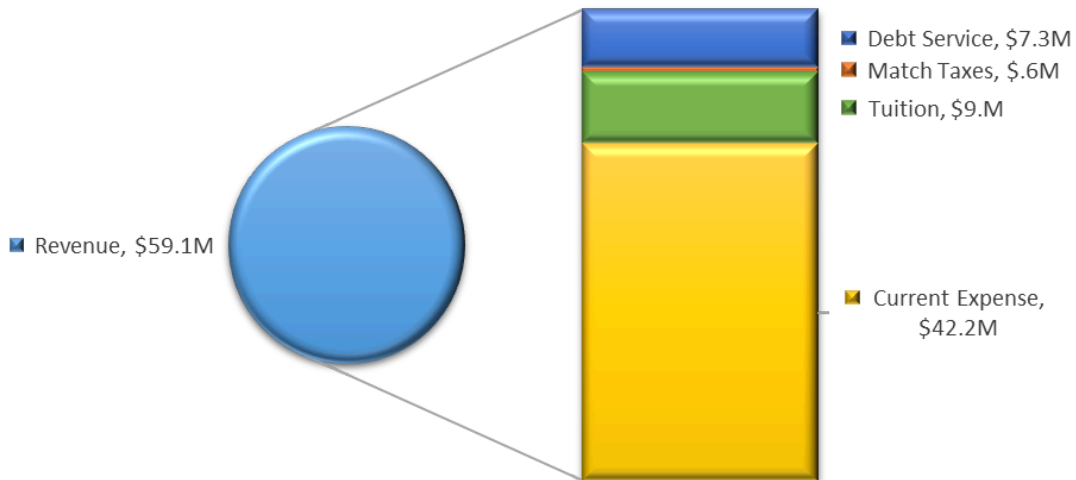


INDIAN RIVER SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

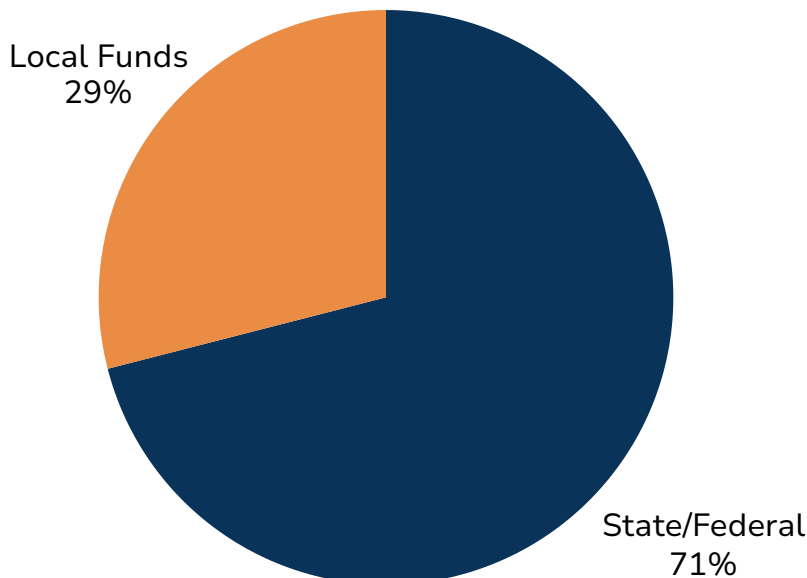
KEY INFORMATION AND FINDINGS CONTINUED

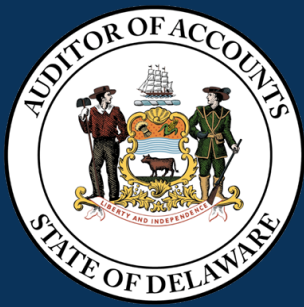
The District allocates the local property tax funds received by their intended purpose (current expense, debt service, tuition, and match taxes). We found that the allocation was consistent with the tax rates approved by the Board of Education. The four components of local school tax revenue allocations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

Local School Tax Revenue Allocation
(in \$ millions)



FY23 Revenue Sources





INDIAN RIVER 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 purchases of materials & non-professional services did not follow state procurement laws.
- District's debt service reserve exceeds 110% of Total Debt Expenditures for the Following Year.

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.

INDIAN RIVER SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023

INDIAN RIVER SCHOOL DISTRICT
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JUNE 30, 2023

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Independent Auditor's Report

Jay F. Owens, Ed.D., Superintendent
Indian River School District
31 Hosier Street
Selbyville, Delaware 19975

Dear Dr. Owens:

We present the attached report which provides the results of our performance audit of the Indian River 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 Indian River 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 Indian River 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 require 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 Indian River School District, the Delaware Department of Education, and the Office of Auditor of Accounts, and is not intended to be, and should not be, used by anyone other than these specified parties. Under 29 Del. C. §10002(o), this report is a matter of public record, and its distribution is not limited. This report, as required by statute, will be provided to the Office of the Governor, General Assembly, Office of the Controller General, Office of the Attorney General, and Office of Management and Budget.

Belfint, Lyons & Shuman, P.A.

October 21, 2025
Wilmington, Delaware

cc: Lydia E. York, State Auditor
Christopher L. Parker, Director of Business and Finance

INDIAN RIVER SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT
JUNE 30, 2023

PERFORMANCE AUDIT OVERVIEW

Performance audits 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. 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 Title 14, 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 fund the local share of annual principal and interest payments plus 10% for expected delinquencies.

The District is required to maintain debt service reserve, within a range of at least four months to no more than 110% of the following fiscal year’s debt service payments based on the following opinions issued by the State of Delaware Attorney General on the next page:

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Continued

- 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), enhanced minor capital improvements, 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:

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 purposes of remediating lead contaminated drinking water infrastructure.

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Extra Time and Reading Resource and Math Resource Teachers - In accordance with 14 Del. C., §1902(b), the State of Delaware 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 State of Delaware FY 2008 Operating Budget Epilogue, the extra time appropriation is intended for additional instruction for low achieving students and school districts were encouraged to match on a 70% state and 30% local basis.
- Per the State of Delaware FY 2010 Operating Budget Epilogue, the reading and math resource teacher appropriations are intended to fund state salaries for resource teachers in each school and districts were encouraged to match on a 70% state and 30% local basis.

Student Success Block Grant - The State of Delaware FY 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 State of Delaware 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.

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

DISTRICT SPECIFIC SUMMARY

The Indian River School District, located in Sussex County, operates PK, and K through 12 schools with over 10,600 students. The Indian River School District employs over 1,300 employees to educate and support its students. The District has one early education center, seven elementary schools, three middle schools, and two traditional comprehensive high schools. In addition, the District is home to the Howard T. Ennis School and Southern Delaware School of the Arts. The Indian River School District Board of Education is the governing body of the District. The School Board includes ten elected members who serve five-year terms. For the purposes of this report, Indian River 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).

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 District and the State of Delaware’s financial accounting and human resources systems.

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

AUDIT METHODOLOGY AND RESULTS

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

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

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

1. To assess the design and operation of disbursement internal controls, we sampled and tested transactions from the population of expenditures from Local Funds and Local Tuition Tax funds to determine that transactions were properly documented, authorized, and properly recorded; that products and services were received, and that the transactions complied with State and District requirements.
2. To assess the design and operation of procurement internal controls, we analyzed disbursements to vendors made from the District's State, Local, and Federal Funds' (excluding purchases made using State-wide contracts, those entered into by the Office of Management and Budget's (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.
 - d. In addition, we selected the following types of vendor transactions for testing:
 - i. A judgmental sample of vendors with cumulative Local Funds purchase amounts meeting or exceeding the District's 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 District's procurement thresholds.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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.
 - 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - Except as detailed in the *Schedule of Findings and Recommendations*, Findings 1 and 2, we found the design of the key internal controls over the expenditure of Local Funds, including payroll, non-payroll and debt service, was in accordance with the requirements, for 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 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 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 the First State Financials (FSF), the Delaware State accounting system.

Procurement - To assess the District's compliance with both State and District procurement requirements, we analyzed the District's total FY 2023 disbursement population and, using a risk-based approach, we selected the following samples:

- A judgmentally selected sample of eight vendors with cumulative expenditures exceeding the \$10,000 procurement threshold per the *BAM* (this is the lowest threshold that requires competitive purchasing).
- There were four procurement card purchases exceeding the \$10,000 procurement threshold per the *BAM*, which we selected for testing.
- There were no single-payment supplier purchases made by the District that exceeded \$10,000; therefore, a sample of those transactions was not selected.

The District could not provide evidence that the purchasing process for goods and services purchased from six vendors during the fiscal year was in compliance with State and District procurement requirements. Refer to Finding Number 1 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Procurement - Continued

In conjunction with the procedures performed over non-payroll expenditures, we selected a sample of five significant disbursements from nontuition Local Funds to vendors with State-wide contracts. The District could not provide evidence that purchases with three of those vendors complied with the agreements entered into with the vendors by the OMB's GSS Division. Refer to Finding Number 1 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

Payroll Expenditures - To assess the operation of the internal controls over payroll expenditures from Local Funds, we selected a random sample of 40 Local Funds pay rate changes, processed during the fiscal year, other than annual salary step increases. Our examination of the transactions determined that changes were supported and properly approved by the District.

To test the employees' annual step 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.

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 found the District's debt service reserve at year end was 132% of the following year's budgeted debt service. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations*.

We also compared budget to actual debt service expenditures, at the District level, during our analysis of debt service real estate tax rate calculations in Objective 3. Because the payment of debt service is managed and initiated 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.

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

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

Results - We obtained the Sussex County School District Reports of Local Property Tax Collections for FY 2023. 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.
- The District assesses a local match tax for Minor Capital Improvement. We found the District's match tax rates were consistent with relevant legislation and guidance.
- 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 2024 and provide the District with a reserve equal to 132% of FY 2024 debt payments as summarized below. District debt service reserves held as of June 30, 2023, were not within the range set by the State of Delaware Attorney General. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations*.

July 1, 2022 Debt Service Reserve Balance	\$ 5,330,843
FY 2023 Debt Service Activity	
Receipts	7,780,071
Expenditures	<u>(5,316,840)</u>
June 30, 2023 Debt Service Reserve Balance	<u>\$ 7,794,074</u>
Budgeted FY 2024 Debt Service	<u>\$ 5,911,330</u>
Reserve to Expected Future Payments Ratio	<u>132%</u>

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

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

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. The FY 2023 and FY 2024 Debt Service Principal and Interest were obtained from debt service schedules presented in the District's FY 2023 Final Budget and FY 2024 Preliminary Budget, respectively.

- We compared actual tuition tax expenditures and funds transferred out to the 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.

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

Results - We examined eight significant transactions and a random sample of four disbursement transactions out of a population of 40 disbursement transactions from tuition tax funds and determined that the purchases complied with State and District requirements and that the transactions were properly approved by the District as evidenced by approval on invoices and receipts, as well as in FSF.

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

We examined payroll expenditures made from tuition tax funds in conjunction with the procedures performed over nontuition payroll expenditures. Results are reported in Objective 1. There were no findings identified as a result of this performance audit of the Indian River School District's Local Funds.

We also examined employee files for a random sample of 10 employees funded by the District's Local Tuition Tax and determined that the employees' responsibilities were consistent with the functions of the District's special education programs. We found the selected employees' salaries and wages were appropriately funded with Local Tuition Tax Funds.

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

INDIAN RIVER SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2023

Finding Number 1 - Purchases Did Not Comply with State Purchasing and Procurement Requirements

Condition: We found the District’s purchasing decisions for six of the eight vendors selected for procurement testing did not comply with the State’s procurement requirements. Additionally, we found the District’s purchasing decisions for three of five vendors that had GSS contracts selected for procurement testing did not comply with the State’s procurement requirements. For these three GSS contracts, pricing on invoices received from vendors was not compared to the pricing negotiated under the related GSS contracts. We also found that:

- The District did not retain evidence of its purchasing decision, for one of the GSS contracts involving leased trailers.
- The District indicated that because state contracts were used, district-level procurement procedures were not performed. However, evidence that the state contract was used could not be provided.
- One of those contracts examined expired November 30, 2022, yet continued to be used after the expiration date.
- An invoice from one vendor for two items was tested. One item was not included in the GSS contract, the other was included, but was charged at a price greater than the state contract specified.
- Purchases were made from a vendor that participates in the Federal telecommunications E-Rate Program. Some of the purchases made from the vendor were not included in the E-Rate Federal Program. The E-rate Program, also known as the Schools and Libraries program, is a U.S. federal program that provides discounts on telecommunications and information services to eligible schools and libraries. The purchases that were part of this program were made at an 80% discount. The non-program purchases made with the vendor were not tracked to determine if they would require a separate procurement.

The exceptions are summarized in the following chart:

Type of Purchase	Number of Vendors	Services	FY 2023 Expenditures
Materials and Non-Professional Service	2	Equipment	\$ 167,216
	1	Leased Trailers	199,699
	2	Maintenance	231,095
	1	Printing	42,718
	1	Supplies	450,544
	2	Electronics	1,258,889

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

Finding Number 1 - Purchases Did Not Comply with State Purchasing and Procurement Requirements - Continued

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and 29 Del. C., Ch. 69. The District's Internal Controls for Financial Accounting states the following:

PURCHASING/PAYMENT PROCEDURES:

8. Any material or non-professional service purchase over \$10,000 will follow the current State of Delaware Small Purchase Procedures as noted: \$10,000 - \$24,999 - 3 Written Quotes; \$25,000 and over - Formal Bid.

9. Public Works jobs over \$50,000 will follow the current State of Delaware procedures as noted: \$50,000- \$99,999 - 3 Letter Bids; \$100,000 and over - Formal Bid.

10. Any Professional Services over \$50,000 requires a formal RFP process.

Cause: The following resulted in the noted condition:

- The District did not retain evidence supporting the purchasing decision for leased trailers.
- The District did not aggregate annual services. These transactions were analyzed at the transaction level instead of reviewing past usage in anticipation of the current year's needs.
- The District did not document that purchases made, under state contracts, were being made at agreed-upon pricing, or that appropriate contracted discounts were received.

Effect: By not following the State purchasing and procurement requirements, the District may not have obtained the best prices or terms for these purchases.

Recommendation: We recommend that the District follow the State purchasing and procurement requirements and perform the following:

- Fully document its decision-making process when procuring goods and services.
- Document its process when evaluating purchases for compliance with State procurement requirements. Specifically, purchases for similar services from the same vendor should be combined and evaluated against the procurement thresholds and other requirements in total, rather than at the individual purchase level, and the process documented.
- Document that purchases made under state GSS contracts are made at agreed-upon pricing and that appropriate discounts were received.

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

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

Finding Number 2 - Debt Reserve Exceeds 110% of Total Debt Expenditures for the Following Year

Condition: The District's debt service reserve at year end was 132% of the following year's budgeted debt service.

Criteria: The District is required to maintain debt service reserves, within a range of at least four months but no more than 110% of the following fiscal year's budgeted debt service payments based on the Attorney General Opinions 89-I017 and 1W-024 issued by the State of Delaware Attorney General.

Cause: The District's debt services reserve was not properly calculated and exceeded the prescribed limit.

Effect: The Attorney General Opinions consider this to be an excessive reserve.

Recommendation: We recommend the District ensure debt tax rates are accurately set and that debt service expenditures are properly budgeted to maintain a debt service reserve within the allowable limits set by the Attorney General Opinions.

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

INDIAN RIVER 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 Finding Number 1 detailed in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

Objective 3 - Except for Finding Number 2 detailed in the *Schedule of Findings and Recommendations*, the School District's real estate taxes were approved and calculated in accordance with the requirements.

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

INDIAN RIVER SCHOOL DISTRICT

“A Model of Excellence”

Jay F. Owens, Jr., Ed.D
Superintendent



Renee Jerns, Ed.D
Deputy Superintendent

In connection with the Fiscal Year 2023 Indian River School District Local Funds Performance Audit, the Indian River School District's responses to the findings are as follows:

Finding #1:

The Indian River School District is committed to using its funds efficiently and effectively. However, the District faces constraints in attempting to comply with State requirements that do not necessarily consider the large budgets and various needs of school districts. Most notably, the availability of staffing at school districts is dictated by the annual student unit counts, which are, rightfully so, designed to primarily provide resources directly to students. As time and human resources have allowed, the District has been working to develop a districtwide, comprehensive procurement process while working through the various challenges associated with the unique needs of school districts. This is a time-consuming project that will take time to implement. However, due to the lag time between the close of the fiscal year that is under audit and the finalization of the audit, any audit findings cannot be remedied prior to the next audit of the already closed fiscal year.

We are appreciative of the recent efforts by the State Government Support Services (GSS) division to provide training and technical assistance related to procurement. Additionally, the District is committed to working with the other school districts, GSS, and/or the State Office of Management and Budget to create a statewide contract for commonly used services or equipment and/or to ensure understanding and applicability of procurement requirements.

To address the specifics of the finding:

- **Leased Trailers:** As discussed in the Fiscal Year 2022 audit response, the District signed a 60-month lease in Fiscal Year 2019 for modular classrooms to accommodate significant overcrowding at two schools. The District believes that the vendor was on a State contract at that time but, given the amount of time, change of systems, and staff turnover since the signing of those leases, the District cannot provide documentation to support that. The District also cannot terminate an agreement during the lease period if State contract vendors change.
- **State Contract Use/Pricing –** The District utilizes state contracts whenever possible. It is a fair presumption of the District that if a vendor has a contract with the State of Delaware the vendor would be responsible to provide appropriate pricing/services and be knowledgeable of the State of Delaware organizations. The State of Delaware contract includes reporting requirements from the vendors to Government Support Services that includes detailed purchasing information which help to ensure proper invoicing to State of Delaware agencies and school districts. The District will implement procedures to perform random checks on prices on invoices.

Additionally, the District, as part of the procurement project will determine a best practice to ensure current vendors are being utilized when contracts expire mid-fiscal year.

- Purchasing Thresholds – The District, as part of the procurement process development, will implement a procedure to review aggregate annual services expenditures to ensure appropriate purchasing procedures are utilized.

Finding #2:

The Indian River School District takes every precaution in the financial analysis used to determine current year tax rates. This finding is related to the timing of rate-setting and the anticipated sale of a bond for the new Sussex Central High School construction project. The tax rates for Fiscal Year 2023 is determined by the end of Fiscal Year 2022. The financial analysis for the Debt Service rate for Fiscal Year 2023 included anticipated bond and interest payments that would be made during that year. The sale of the bond did not occur until late in Fiscal Year 2023 which resulted in a larger debt service reserve.