

RED CLAY CONSOLIDATED SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2023



RED CLAY CONSOLIDATED 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 2015.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of \$2,070,432 as of June 30, 2023 complied with the State of Delaware requirements.

Red Clay Consolidated School District Quick Facts

K-12 Schools

25

Special Schools

3

Students Served

16,000

Employees

3,000

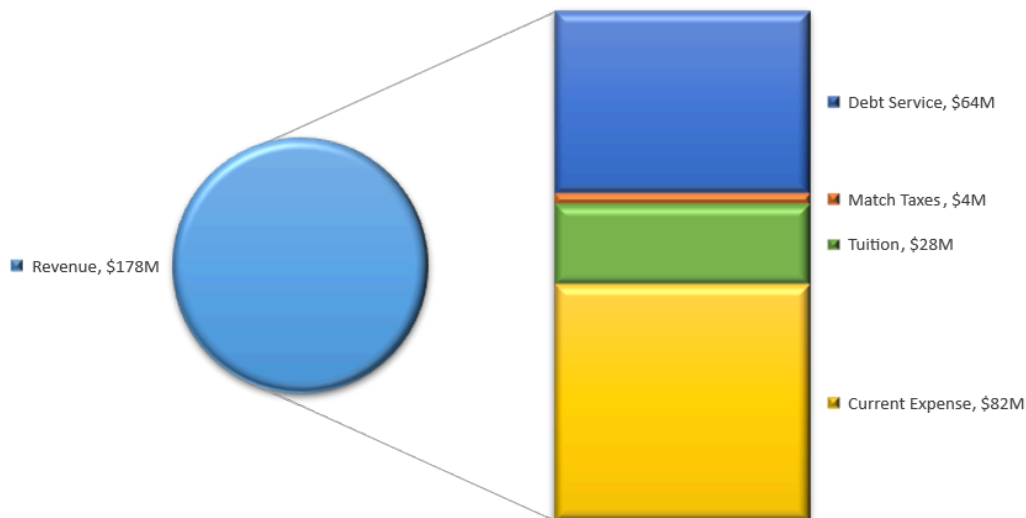


RED CLAY CONSOLIDATED SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

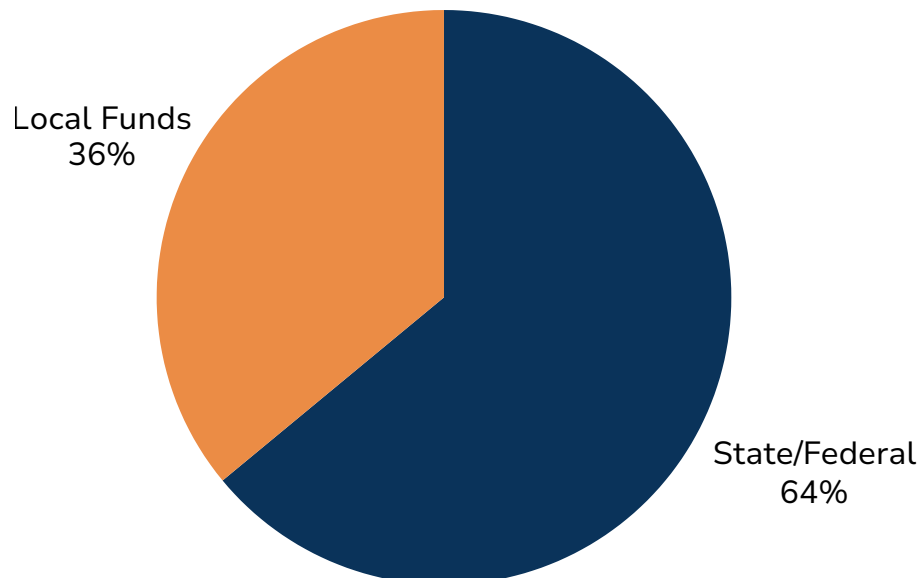
KEY INFORMATION AND FINDINGS CONTINUED

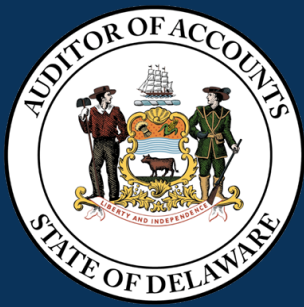
The District allocates the local property tax funds received by their intended purpose (current expense, debt service, tuition, and match taxes). We found that the allocation was consistent with the tax rates approved by the Board of Education. The four components of local school tax revenue allocations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

Local School Tax Revenue Allocation
(in \$ millions)



FY23 Revenue Sources





RED CLAY CONSOLIDATED 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 require appropriate review and approval of payroll changes and the District did not maintain supporting documentation of changes to employee pay.
- District purchases of supplies, alarm installation and monitoring services, and professional services did not follow state procurement laws.
- District debt service reserve balances did not comply with State of Delaware requirements and were insufficient to fund debt service when due during the fiscal year.

The potential exposure to the State of the weaknesses in payroll internal controls, described above, is that they increase the risk of error and fraud occurring, and not being detected, in the payroll process. The potential exposure to the State of the weaknesses in the purchasing internal controls is that they increase the risk that the District would make purchases without first obtaining the best prices and terms. The potential exposure to the State of the weaknesses in the controls over debt service reserve balances is that they increase the risk that the District would not have sufficient funds in the reserve on debt service due dates.

**RED CLAY CONSOLIDATED
SCHOOL DISTRICT**

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

JUNE 30, 2023

RED CLAY CONSOLIDATED SCHOOL DISTRICT
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Independent Auditor's Report

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

Dear Superintendent Green:

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

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

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

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

This report is intended solely for the information and use of the Red Clay Consolidated School District, the Delaware Department of Education, and the Office of Auditor of Accounts, and is not intended to be, and should not be, used by anyone other than these specified parties. Under 29 Del. C. §10002(o), this report is a matter of public record, and its distribution is not limited. This report, as required by statute, will be provided to the Office of the Governor, 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 York, Esq., CPA - State Auditor
Ted Ammann - Assistant Superintendent for District Operations

RED CLAY CONSOLIDATED 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.

Brandywine, Christina, Colonial, and Red Clay Consolidated School Districts share an additional current expense rate for the former New Castle County School District, which remains a school district for tax purposes only. These four districts were created pursuant to a 1981 federal court order to reorganize the New Castle County School District per 14 Del. C., §1028(k). The shared current expense rate is the rate that was in effect in 1981, and the collections are pooled and distributed by the DOE to the four districts based on unit counts in accordance with 14 Del. C., §1925.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Continued - 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.

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. The following summarizes 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

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

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

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

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

Student Success Block Grant - The FY 2023 Operating Budget Epilogue Sec. 370 authorizes school districts to assess a local match for costs relating to the Student Success Block Grant appropriations, which are intended for reading assistance in grades K through 4.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Opportunity Fund - The FY 2023 Operating Budget Epilogue Sec 367 authorizes school districts to assess a local match for costs associated with Opportunity Fund appropriations intended to enhance services and provide additional supports to English Learner and low-income students, as well as be used for mental health services and/or for additional reading supports for grades K through 5. Per a June 2019 DOE Memo, schools are allowed to match on a 70% state and 30% local basis.

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

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

DISTRICT SPECIFIC SUMMARY

The Red Clay Consolidated School District, located in New Castle County, operates Pre-K through 12 schools with over 16,000 students. The District employs nearly 3,000 employees to educate and support its students. The District has one early education center, 14 elementary schools, one elementary/middle school, four middle schools, three middle/high schools, and two traditional comprehensive high schools. In addition, the District operates the Meadowood Program, First State School, and the James H. Groves Adult High School. The Red Clay Consolidated School District Board of Education is the governing body of the District. The School Board includes seven elected members who serve four-year terms. For the purposes of this report, Red Clay Consolidated School District is referred to as the “School District” or “District.”

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

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 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

3. Reviewed the Board of Education's meeting minutes for the audit period.
 4. Identified and reviewed contracts, agreements, and other important documents.
 5. Performed risk assessment procedures such as:
 - a. Obtained and documented an understanding of the School District and its environment and identified risks.
 - b. 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.
- 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 Statewide 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 on the next page:

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- 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 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 Statewide contracts, we selected and tested a sample of significant transactions to verify that the 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.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

- 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.

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

Results - Except as detailed in the *Schedule of Findings and Recommendations*, we found the 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 random sample of 35 disbursement transactions (excluding transactions from tuition Local Funds tested in Objective 4). Our review of the selected transactions determined that the purchases complied with both State and District requirements and that the transactions were properly approved by the District as evidenced by approval on invoices and receipts as well as in First State Financials (FSF), the Delaware State accounting system.

School districts are allowed but not required to use State-wide contracts procured by the OMB's GSS Division. We also selected five transactions from a population of Local Fund disbursements made to vendors with Statewide contracts in conjunction with the procedures performed over procurement. We compared the terms of the invoices and the District's contracts to the Statewide contracts determined that the transactions were properly approved by the District as evidenced by approval on invoices and receipts as well as in FSF, and that the District's purchases complied with the agreements entered into with the vendors by the OMB's GSS Division; and therefore, were in compliance with State and District procurement requirements.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

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 25 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 five procurement card purchases made by the District that exceeded the \$10,000 procurement threshold per the *BAM*.
- There were no single-payment supplier purchases made by the District that exceeded \$10,000 and required procurement actions; therefore, a sample of these transactions was not selected.

We examined documentation for the 30 vendor relationships selected and found that the purchasing process for nine vendors was not in compliance with State and District procurement requirements. Purchases from one of these vendors were at least partly funded with tuition tax funds. 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 made from Local Funds, we selected a random sample of 40 Local Funds pay rate changes processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that certain of the pay rate changes tested did not agree to documentation maintained in the employee file and other transactions, although supported, did not have evidence of review and approval. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

To test the employees' annual increases, we selected a random sample of 10 annual step increases and agreed each employee's salary 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.

RED CLAY CONSOLIDATED 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. As described in the Objective 3 result, we found that the District's reserve at the end of FY 2023 was not sufficient to fund its expected debt service payments due in the first four months of FY 2024. We also found that the District's debt service appropriation balance during FY 2023 was insufficient to fund debt service when due. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

We also compared budget to actual debt service expenditures, at the District level, during our analysis of debt service real estate tax calculation in Objective 3. Because the payment of debt service is managed and initiated by the State of Delaware Department of Finance, it is outside the scope of this performance audit, and we did not assess the design or operation of internal control 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 New Castle County School District Reports of Local Property Tax Collections for FY 2023. Red Clay Consolidated School District is one of four districts that comprise the New Castle County School District. We recalculated the DOE distribution of receipts of the New Castle County School Tax to the four New Castle County School Districts. We also recalculated the DOE distribution of receipts of the Red Clay Consolidated School District Tax. We determined that the DOE accurately distributed the receipts based on the official warrants and code requirements.

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

Results - To determine if real estate taxes were approved and calculated in accordance with the requirements, we obtained the official tax warrant for FY 2023 and concluded the following:

- The District's current expense rate was supported by a referendum passed in February 2015. The New Castle County School District shared current expense rate was agreed to historical reports provided by the DOE and to the District's FY 2023 Budget.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- The District assesses a local match tax for the following: Minor Capital, Technology, Reading and Math Resource Teachers, Extra Time, Student Success Block Grant, Opportunity Fund, and Substitute Teacher Block Grant. We found the District's local match tax revenues were consistent with the prior year and were determined to be immaterial to total Local Fund revenues.
- We compared debt service tax collections based on the debt service rate to principal and interest schedules for FY 2023 and FY 2024, as summarized in the following chart:

July 1, 2022 Debt Service Reserve Balance	\$ 2,504,048
FY 2023 Debt Service Activity	
Receipts	6,782,029
Expenditures	(7,574,338)
Other Activity	
Charter School of Wilmington Payment*	<u>358,693</u>
Total FY 2023 Debt Service Activity	<u>(433,616)</u>
June 30, 2023 Debt Service Reserve Balance	<u>\$ 2,070,432</u>
Budgeted First 4 Months FY 2024 Debt Service	<u>\$ 4,114,581</u>
Reserve to 4 Months of Payments Ratio**	<u>50%</u>
Budgeted FY 2024 Debt Service	<u>\$ 7,242,811</u>
Reserve to Expected Future Payments Ratio	<u>29%</u>

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

As further described in Finding Number 3 in the *Schedule of Findings and Recommendations*, we found the following:

- We determined that the District's debt service tax receipts were not sufficient to fund its debt service expenditures for FY 2023. The District's debt service payments vary year to year and as such, expenditures exceeding revenues during the fiscal year may not be indicative of an insufficient tax rate.
- As of June 30, 2023, the District's debt service reserve was approximately 29% of its FY 2024 debt payment as summarized in the chart on the next page. However, its debt service reserve, as of June 30, 2023, was less than the four months debt service reserve recommended by the State of Delaware Attorney General.
- We found the District's debt service rate calculation assumes no delinquencies in collection rates and was not in compliance with 14 Del. C. §2118(a), which states "the district shall fix the rate of taxation plus 10 percent for delinquencies."
- We found the District's debt service reserve as of June 30 has decreased for the past three years as summarized in the chart below. The District's debt service expenditures have also decreased for the past three years.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Debt Service</u> <u>Reserve Balance</u>	<u>Upcoming Fiscal</u> <u>Year Debt Service</u>	<u>Reserve to</u> <u>Expected Future</u> <u>Payments Ratio</u>
2021	\$ 3,605,841	\$ 7,796,275	46%
2022	2,504,048	7,574,338	33%
2023	2,070,432	7,242,811	29%

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT - CONTINUED
JUNE 30, 2023

AUDIT METHODOLOGY AND RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- 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.

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

Results - We examined a random sample of 25 disbursement transactions 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. We found purchases from one vendor did not comply with State and District purchasing and procurement requirements. Refer to Finding Number 1 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

We examined payroll expenditures made from tuition tax funds in conjunction with the procedures performed over nontuition payroll expenditures. We found deficiencies in the design and operation of payroll internal controls. Results are reported in Objective 1. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and related recommendations.

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.

RED CLAY CONSOLIDATED 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 following deficiencies in the design and operation of the District's purchasing controls:

- We found that the District's purchasing decisions for nine of the 30 vendor relationships selected for testing did not comply with the State's and District's procurement requirements as summarized in the following chart:

District's Procurement Action	Required Procurement Action		
	Three Written	Formal Bid or	Notice of
Type of Purchase	Quotes	RFP	Award
<u>Open Market Purchase</u>			
Materials	-	2	-
Public Works	1	-	-
Professional Services	-	3	-
<u>Extended Contracts Beyond Term of 5 Years</u>			
Professional Services	-	2	-
<u>Notice of Award to the Next Qualified Firm</u>			
Professional Services	-	-	1
	1	7	1

- We also found the following of the items included in the chart above.
 - The District's open market Public Works procurement, which exceeded \$45,000, did not include the prevailing wage rate requirements.
 - One of the District's open market Professional Services procurements, which exceeded \$50,000, lacked Board approval.

RED CLAY CONSOLIDATED 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

Condition - Continued:

- The District did not contemporaneously document its purchasing decision for two of its open market Professional Services procurements. The vendor with which the District originally contracted to provide certain professional services was procured through a formal request for proposal in a prior year, but was unable to meet the District's demand for services during FY 2023.
- The District did not contemporaneously document its decision to award a professional services contract to the next most qualified vendor that had responded to a formal request for proposal solicited by the District in a prior year. The vendor to which the District originally awarded the professional services contract was unable to meet the District's demand for services during FY 2023, necessitating negotiation with the next most qualified vendor.
- The District does not have a policy limiting the number of times a contract can be extended without a new procurement and aware process.

Context: During our audit, we noted that the District did put two of its open-market Professional Services procurements out to bid in April 2023, correctly applying the requirements and subsequently awarded contracts.

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

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

- 29 Del. C., §6902(19) defines "Materiel" as materials, equipment, tools, supplies, or any other personal property.
- *BAM*, Chapter 5, *Procurement*, Section 5.3.1 *Materiel and Non-Professional Services Thresholds* required the following on the next page:

RED CLAY CONSOLIDATED 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 - Continued:

Procurement Requirement	Effective Through February 15, 2023	Effective February 16, 2023 Through April 12, 2023	Effective April 13, 2023
Open Market	Less than \$10,000	Less than \$10,000	Less than \$50,000
3 Written Quotes	\$10,000 - \$49,999	\$10,000 - \$99,999.99	\$50,000 - \$99,999.99
Formal Bid	\$50,000 and Over	\$100,000 and Over	\$100,000 and Over

The following requirements are applicable to the public works purchases:

- The purchases are considered public works per the following:
 - 29 Del. C., §6902(25) “Public funds” means funds of the State, of any agency within the State, of any public school district, of or from the United States government or of or from any department or representative body thereof.
 - 29 Del. C., §6902(26) “Public works contract” means construction, reconstruction, demolition, alteration and repair work and maintenance work paid for, in whole or in part, with public funds.
- *BAM*, Chapter 5, *Procurement*, Section 5.3.2, *Public Works Thresholds* required the following:

Procurement Requirement	Effective Through February 15, 2023	Effective February 16, 2023 Through April 12, 2023	Effective April 13, 2023
Open Market	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

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

Criteria - Continued:

The following requirements are applicable to the professional services purchases:

- 29 Del. C., §6902(23) defines “Professional Services” as services which generally require specialized education, training, or knowledge and involve intellectual skills.
- *BAM*, Chapter 5, *Procurement*, Section 5.3.3 *Professional Services Thresholds* required the following:

Procurement Requirement	Effective Through February 15, 2023	Effective February 16, 2023 Through April 12, 2023	Effective April 13, 2023
Open Market	Less than \$100,000	Less than \$150,000	Less than \$150,000
Formal Bid	\$100,000 and Over	\$150,000 and Over	\$150,000 and Over

- The Red Clay Consolidated School District Internal Control Review document, effective July 1, 2021, indicates that the District “The Board of Education “approve contracts that have a financial impact to the district (bids and contracts in excess of \$50,000).”
- The State of Delaware, Office of Management and Budget's best practice is for contracts to be in force for a period of up to five years.
- Chapter 5, *Procurement*, Section 5.6. *Professional Services*, Section 5.6.3, *Additional Provisions* of the *BAM* requires the following:
 - “A copy of all awarded/executed contracts is to be forwarded to GSS with the contract documents for publication on the central contract portal.”
 - “Each Organization must retain in their files all pertinent documents and correspondence relating to the contract bid process, in order that these supporting documents may be available for audit or review by a State official at all times.”

Cause: The District did not procure the goods and service in accordance with the requirements. Purchases were not aggregated by vendor and period for evaluation of the purchasing decision.

RED CLAY CONSOLIDATED 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

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

Recommendation: We recommend that the District implement procedures to properly evaluate purchases for compliance with formal procurement requirements, specifically, purchases for similar material and services from the same vendor should be combined and evaluated against the procurement requirements in total; approved exceptions from the requirements should be adequately documented, and a policy should be created to limit the number of renewal terms for a vendor's contract and require a new procurement and award process.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

Finding Number 2 - Lack of Proper Review and Approval of Changes to Employee Payroll and Supporting Documents for Changes to Employee Pay Were Not Maintained

Condition: We found the following deficiencies in the design and operation of the District's payroll controls during FY 2023:

- The District's written payroll procedures do not define review and approval procedures for changes to salaries and wages entered into the PHRST system that were not communicated on the District's requisition forms.
- The District's controls requiring authorization of payroll changes prior to PHRST entry were not operating as specified by District policy. Of the 40 transactions tested, we found the following:
 - Twenty-three hiring and promotion transactions were properly recorded on employee requisition forms and approved by Human Resources and Finance, but 15 of the approved forms did not memorialize salary and wages entered in PHRST.
 - Nine transactions related to pay increases for additional education and certifications that lacked evidence of proper review and approval prior to being processed by Human Resource staff in PHRST.
- The District's controls requiring the Human Resources Department to prepare contemporaneous documentation to support employee payroll transactions were not operating as specific by District policy. Of the 40 transactions tested, we found the following:
 - One transaction was for the hiring of a full-time substitute teacher. The transaction was properly recorded on an employee requisition form; however, supporting documentation to support the transaction was not maintained in the employee file.
 - One transaction was for the hiring of an instructional paraprofessional. The transaction was properly recorded on an employee requisition form; however, supporting documentation to support the State and local salary supplements included in the employee's pay was not maintained in the employee file.
- We found that during FY 2023, two instructional paraprofessionals that had obtained paraeducator permits and were eligible to receive the State salary supplement, had also received a local salary supplement for having an associate's degree despite not having the required education to receive the local salary supplement.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

Finding Number 2 - Lack of Proper Review and Approval of Changes to Employee Payroll and Supporting Documents for Changes to Employee Pay Were Not Maintained - Continued

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

“Organizations are required maintain and enforce effective internal controls to monitor Payroll related transactions. These internal controls must be documented in a Payroll Internal Controls Plan. Controls must include, but are not limited to, the review and approval of all wage payments...”

The District’s policy requires the Human Resources Department to prepare contemporaneous documentation to support employee payroll transactions.

The Delaware State Code and the Collective Bargaining Agreement between the Red Clay Consolidated School District Board of Education and the Red Clay Paraprofessional Association, in effect from September 1, 2020 through August 31, 2024 specify the criteria for additional compensation for additional certification and education.

- Per 14 Del. C., §1324(c) “Instructional paraprofessionals, paid under this section, who have received an associate degree, completed a minimum of 60 semester credits or have successfully passed a comprehensive testing mechanism to be defined by the Department of Education, shall receive an annual salary supplement in the amount of \$662.”
- Local Boards of Education are authorized by 14 Del. C., §1304 to pay salaries from local funds in addition to State supported salary schedules.
- The District’s Instructional Paraprofessional Salary Scale, approved by the Board and included in the collective bargaining agreement, which was effective on August 14, 2022, includes a local supplement in the amount of \$416 for having an associate’s degree.

Cause: The conditions above were caused by the following:

- The District’s process for the review and approval of payroll transactions is not clearly defined or effectively operated.
- Review and approval of payroll transactions was not performed or documented (documentation was not available to determine if the required review was performed) due to weaknesses in the District’s payroll policies.
- The District’s lack of appropriate effective internal controls over payroll transactions hinders the preparation and retention of sufficient supporting evidence for payroll transactions.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

Finding Number 2 - Lack of Proper Review and Approval of Changes to Employee Payroll and Supporting Documents for Changes to Employee Pay Were Not Maintained - Continued

Cause - Continued:

- The District applied the local salary stipend for additional education because the employee was eligible for the State salary stipend. The District's local salary stipend is different from the State salary stipend requirements, and is limited to an associate's degree.

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

Without adequate supporting documentation, it cannot be determined if those changes in the selected transactions were accurate.

Recommendation: We recommend the District implement the following:

- Formally, document review and approval procedures for payroll changes.
- Review its preparation and review processes over payroll changes to ensure that all changes are properly approved prior to processing.
- Implement procedures to record approved salary information for approval on the employee requisition forms.
- Implement procedures to maintain pertinent documentation related to employee salary decisions.
- Strengthen its review procedures over the onboarding process to ensure that employees hold relevant education and certifications that influence pay.

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

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

- The District's debt service payments of \$846,161 and \$1,645,677 due on August 1, 2022 and September 1, 2022, respectively, were not drawn by the State of Delaware's Secretary of Finance until September 21, 2022 and June 26, 2023, respectively. As summarized in the following chart, the District would not have had sufficient funds in the debt service appropriation to fulfill its debt obligation had the payments been drawn on the due date.

Scheduled Debt Service Payment Date	Required Minimum Balance (Payment Amount)	Adjusted Debt Service Appropriation Balance *	Deficit
August 1, 2022	\$ 846,161	\$ 779,225	\$ (66,936)
September 1, 2022	1,645,677	(24,013)	(1,669,690)

* The debt service appropriation balance presented in the chart above has been adjusted to assume that the District's debt service payments due on July 1, 2022, August 1, 2022 and September 1, 2022 were drawn on the due date.

- The District's debt service reserve of \$2,070,032, as of June 30, 2023, was not sufficient to meet scheduled debt service payments totaling \$4,114,581, due in the first four months of FY 2023. This required the District to transfer funds from its nonrestricted reserve appropriations to the debt service appropriation to ensure its debt service appropriation was sufficient to meet its debt obligations assuming that the debt service payments would be drawn on the due date.
- The District's debt service receipts have not been sufficient to fund its debt service expenditures for the past three years as summarized in the chart below:

Fiscal Year Ending June 30,	Debt Service Tax Receipts	Other Activity - Charter School of Wilmington Payment	Debt Service Expenditures	Difference
2021	\$ 5,950,883	\$ 347,161	\$ 8,018,212	\$ (1,720,167)
2022	6,341,612	352,870	7,796,275	(1,101,793)
2023	6,782,029	358,693	7,574,338	(433,616)

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

Condition - Continued:

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

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

Context: The District's debt service payments vary year to year and as such, expenditures exceeding revenues during the fiscal year may not be indicative of an insufficient tax rate.

Criteria: The authority of school districts to issue bonds is governed by 14 Del. C., Ch. 21 *Local School Bonds*.

- §2108, ...*The amounts of principal payable and the dates on which such payments are due shall be noted on the bond form. The dates on which the interest is due shall also be noted on the bond form.*
- §2116, *The authority to issue bonds shall be construed to be authority to provide funds for the payment of the interest and annual payments on such bonds, which without further authority shall be provided for by an additional tax levy on the property subject to taxation for county purposes in the district issuing such bonds...*
- §2118:
 - *(a) Based on the total value of all taxable property as shown on the county assessment list and on the amount to be raised, the board of the district shall fix the rate of taxation plus 10 percent for delinquencies.*
 - *(e) The Secretary of Finance is hereby authorized and directed to draw warrants or drafts on such fund in the amount of the principal of and interest on such bonds or other obligations as the same shall become due and payable, and to deposit such money, so drawn, to the credit of the General Fund of the State.*
- Attorney General Opinion 89-I017 from 1989 stated that, per the DOE, a sufficient reserve is at least four months of the following fiscal year's debt service payments.

RED CLAY CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED
JUNE 30, 2023

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

Cause: The District's debt service rate setting process for FY 2023 was not sufficient to meet the requirements set by Delaware Code. The District did not monitor the debt service appropriation to verify it was appropriately funded on debt service due dates.

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

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

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT
CONCLUSION
JUNE 30, 2023

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

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

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

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

Objective 4 - The School District's tuition tax funds were calculated and spent in accordance with the requirements, with the exception of deficiencies in the design and operation of the District's internal controls over payroll and the noncompliance with State purchasing and procurement requirements as reported in Objective 1.

DORRELL GREEN, Ed.D.
Superintendent

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

September 4, 2025

Red Clay 2023 Local Funds Audit

Corrective Action Plan

We have thoroughly reviewed the 2023 local funds audit. We believe that each audit engagement provides an opportunity to improve our processes. Having reviewed these recommendations, we are providing the below corrective action plan. In some cases, corrective action is already in place based on prior audits or internal reviews. In other cases, we will be reaching out to OMB for guidance or putting new processes in place.

Finding #1 - Recommendations

Finding Number 1 references two vendor relationships that were described as not in compliance because they were in force for more than 5 years and that the Office of Management and Budget's best practice is for contracts to be in force for a period of up to five years. There is no reference in Delaware State Code, or in the State Budget and Accounting manual to a limit of 5 years for a contract. The lack of a requirement limiting a contract to more than 5 years implies that there are times when it may be in the state's best interest to hold a contract for more than five years. Management does not believe that these two contracts "do not comply" with any state or district requirement. Certainly, contracts of periods longer than five years is not the rule and while it is a best practice to regularly review contracts rather than extending them indefinitely and without reason. If there is a requirement limiting contracts to 5 years than we believe it should be stated in code or regulation and shared with those responsible for adhering to it. The district does acknowledge that after five years there should (and currently is) a process to determine whether the contract should be renewed. The district will put in place an administrative memo highlighting the process for renewing contracts when it is in the district's best interest to do so.

Also in Finding Number 1, the audit states that the cause for the condition is that "purchases were not aggregated by vendor and period for evaluation of the purchasing decision." As the report notes as "Context", the "district did put two open market professional services procurements out to bid, correctly applying the requirements and subsequently awarded contracts." This was done once we aggregated the purchases for these open market professional services, thus confirming that we do in fact, as a rule, aggregate purchases of similar professional services. In the case of the examples cited, immediately halting the use of the open market purchases would have left classrooms void of substitutes, causing us to violate our collective bargaining agreements. Once we identified that we would exceed the threshold, the responsible action was to move forward with a RFP process to comply with the procurement rules and we did so.

DORRELL GREEN, Ed.D.
Superintendent

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

Additionally, two identified vendor relationships related to the purchase of materials were above procurement thresholds. The district will put in place a two-pronged approach to improving in this area. Firstly, better cyclical reporting of vendor totals regardless of cost center will predict our total spend so that we can issue bids, or find additional suppliers. We will expand our review of previous year expenditures to identify types of spend that would benefit from a bid prior to the start of the year to avoid finding these after expenditures reach thresholds.

We also acknowledge that a contract or aggregate of contracts was considered to be non-professional services rather than public works so there was not a Prevailing Wage Requirement in the contracts. We regularly include prevailing wage requirements in public works contracts and with better controls over the identification of purchases that are public works vs materiel and non-professional services, this will be resolved. We will request support from O.M.B. on better definitions of material and non-professional services vs public works contracts.

We also acknowledge that two contracts were not included in board agendas as action items when in fact they were new contracts or additional awards after a first awardee was unable to perform satisfactorily. The use of a pool of architects was in response to an audit finding and the process for notifying the board of alternate awards will be improved in the future.

Finding #2 - Recommendations

The schedule of findings and recommendations highlight five specific recommendations. Management agrees with all five of these and has either implemented these prior to this audit report or will improve the procedures already in place given current levels of staffing and system (PHRST, DOE certification timelines) constraints.

The audit finding identified 15 employees where the requisition form did not memorialize approved salary information. This process has already been fixed. Beginning with FY24, employee requisitions include salary scale, GSI, Step, etc. as appropriate.

The audit identified 9 employees who had additional education and certification payroll changes that lacked evidence or proper review prior to being processed by Human Resources staff. This has been addressed based on a previous audit and went in to effect for FY24.

The audit further identified 2 employees where appropriate backup information was not contained in the personnel file. We will better document and monitor a checklist of required materials for onboarding. In addition, the Director of Human Resources will audit this process to ensure compliance with our procedures.

In the final condition, "two instructional paraprofessionals...received a local salary supplement for having an Associates Degree despite not having the required education." The district characterizes this as a mistake in the collective bargaining agreement salary chart rather than incorrect compensation. The long-standing practice is that paraprofessionals receive the local supplement upon documentation of an Associates Degree OR a passing score on the ParaPro Test - similar to the state Department of Education guidelines. The fix to this condition is an

DORRELL GREEN, Ed.D.
Superintendent

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

MOU with our Paraprofessional Association recognizing that the ParaPro Test is a proxy for an Associates Degree in terms of the local supplement.
In all of the cases reviewed, management believes the employees were paid correctly but recognizes the importance of improved procedures to limit the chance of error.

Finding #3

A finding about assumption of delinquencies was noted in a previous audit and the timing of such audit prevented us from addressing this in time for the FY23 budget thusly leading to an audit finding in our 2023 Local Funds Audit. The previous finding, related to delinquency assumptions, was reviewed with our Community Financial Review Committee and Board of Education and we discussed and began our correction action plan to address this in our FY24 Debt Service Rate.

While we recognize the need for an assumption of delinquencies and recognize the state code requirement of a 10% allowance, we continue to believe this is excessive and not substantiated by current conditions. We have begun to increase our delinquency assumption and have worked with policy makers so that they may decide whether or not the language surrounding this needs to be updated; allowing us to comply with the law AND be responsible stewards of taxpayer dollars. Assuming a 10% delinquency would put an undue tax burden on taxpayers requiring an increased tax bill, only to build unnecessary reserves leading to a successive decrease in rates. Additionally, the finding noted that we did not have enough debt service funds on hand to cover the first four months of the next fiscal year's payments. This was identified in a prior audit but not in time to address for our FY23 Debt Service Budget. Instead, as noted in the audit, we transferred local funds to our debt appropriation to be temporarily available if the Office of the State Treasury were to collect funds on the scheduled date and we replaced those funds when sufficient debt service funds were received.

At no time, did the OST attempt to withdraw funds when there were insufficient funds available. Red Clay's FY26 debt service budget includes sufficient balances to cover FY26 payments as well as scheduled payments for the first four months of FY27.

Sincerely,



Ted Ammann, Ed. D.
Chief Operating Officer