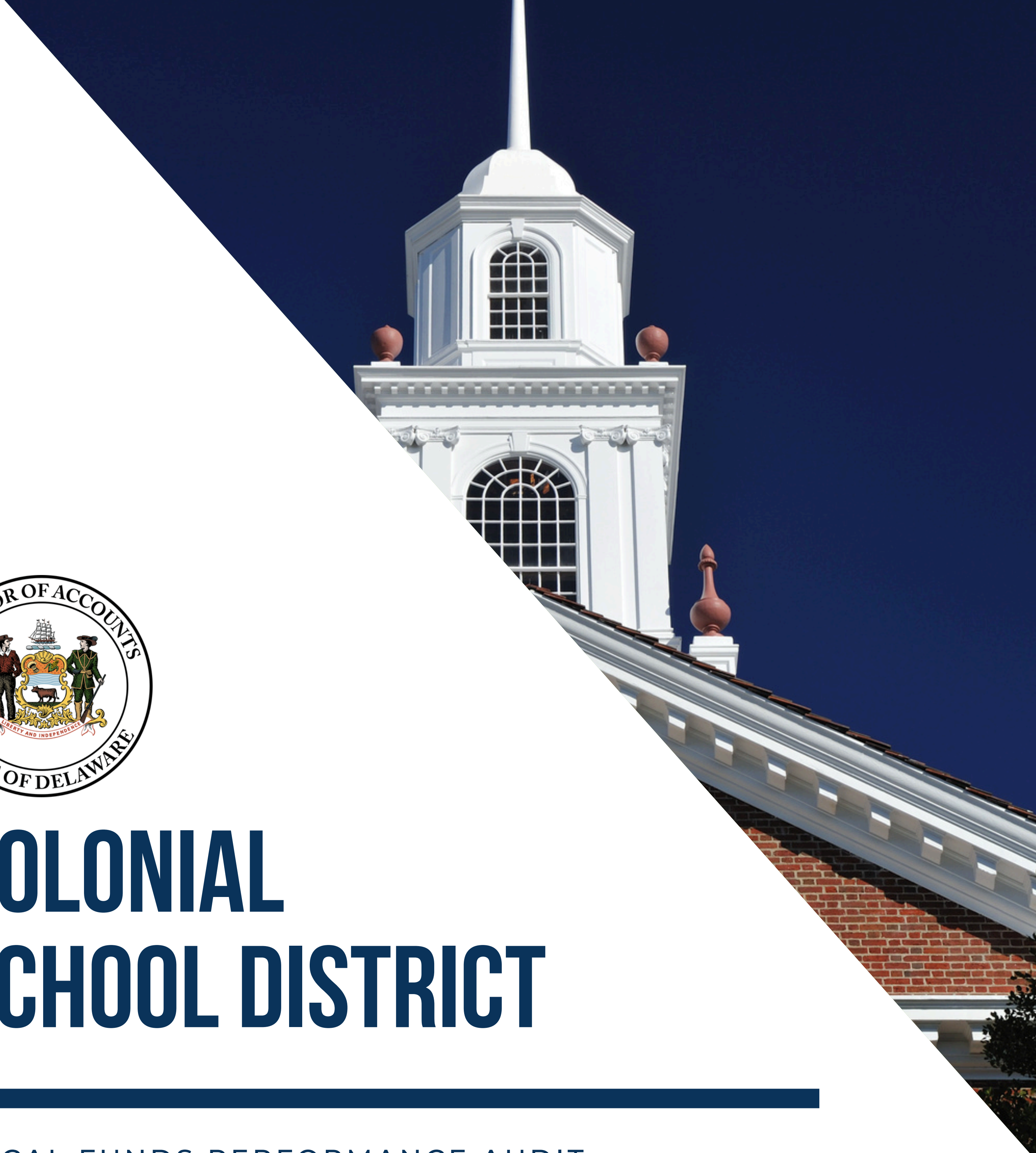


COLONIAL SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2024

COLONIAL SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2024

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 Colonial School District Board of Education and the State of Delaware with information to improve performance, public accountability, and transparency.

The purpose of this performance audit is to determine whether the District's operations over the collection and spending of local school district property tax funds complied with relevant laws and regulations. Our performance audit addressed the following areas:

- The tax rate setting process
- Payments for services and supplies
- Employee compensation and payroll processing

The Auditor of Accounts is mandated by 29 Del. C., §2906(f) to perform annual audits of local school district tax funds. Under Delaware Code[1], 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

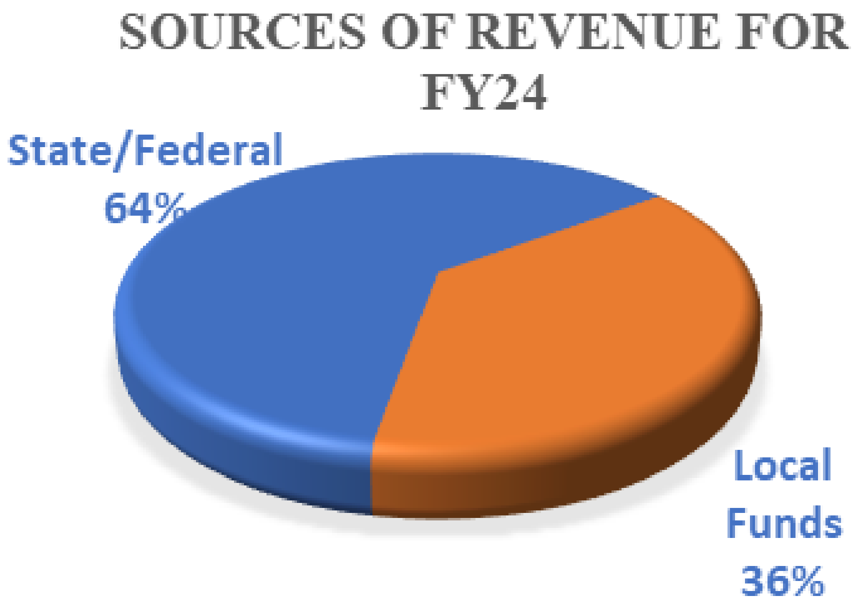
Performance audit testing of the rate-setting process revealed the District's management and Board of Education analyzed expected spending and set the FY 2024 tax rates to provide adequate revenues, as summarized here.

- The District's FY 2024 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 $2,172,581 as of June 30, 2024 complied with the State of Delaware requirements.

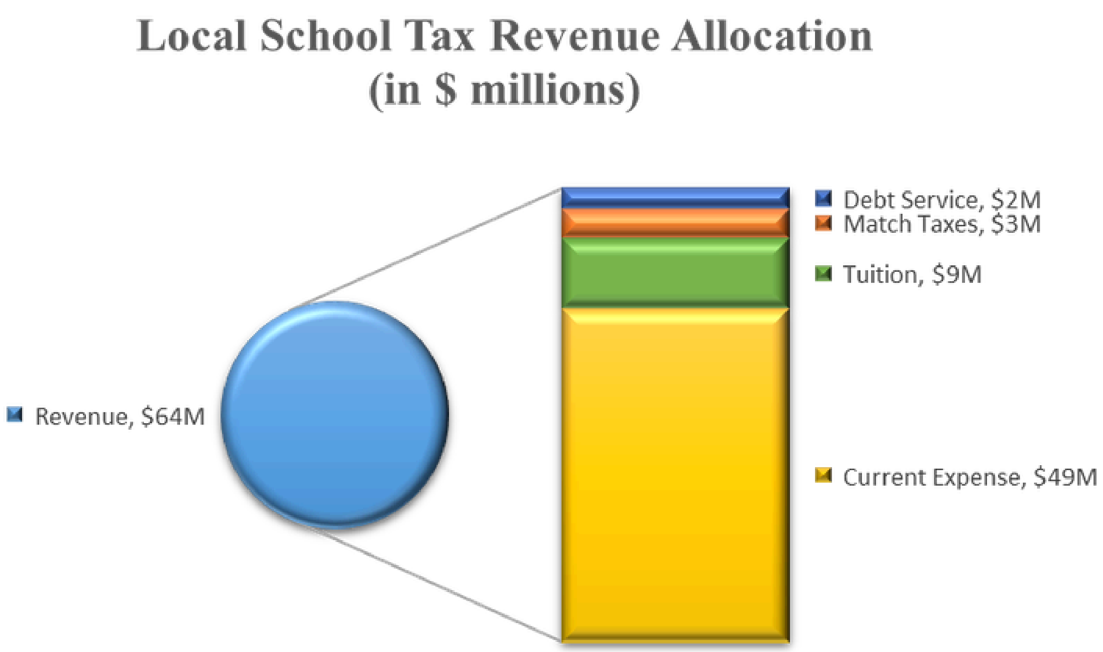
Colonial School District Quick Facts

K-12 Schools	Special Schools	Students Served	Employees
12	3	8,778	1,500

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:



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 did not comply with its policy requiring a purchase order for all vendor purchases.
- District policies do not require appropriate review of purchases for compliance with contract terms.
- District payroll policies do not require appropriate review and approval of payroll changes.
- District payroll internal controls do not operate as designed resulting incomplete and unreviewed payroll transactions.

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

COLONIAL SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2024

COLONIAL SCHOOL DISTRICT
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JUNE 30, 2024

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Independent Auditor's Report

Dr. Jeffrey D. Menzer, Ed. D, Superintendent
Colonial School District
318 East Basin Road
New Castle, Delaware 19720

Dear Dr. Menzer:

We present the attached report which provides the results of our performance audit of the Colonial 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, 2024. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Colonial 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 Colonial 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 Colonial 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.

February 13, 2026
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Emily Falcon - Chief Financial Officer

1011 Centre Road • Suite 310 | Wilmington • DE 19805 | Phone: 302.225.0600 | Fax: 302.225.0625

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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[1]. 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.

[1] 14 Del. § 1902 authorizes School Districts to levy taxes for school purposes.

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Debt service tax rates are levied to cover the local share of the principal and interest payments on bonds funding major capital projects which, per Delaware Administrative Code Section 401, *Major Capital Improvement Program,* are projects costing $1,000,000 or more. The local share of major capital projects is between 20% and 40% of the total cost per 29 Del. C., §7503(b) with the remaining balance financed by the State of Delaware. The project must be approved by the DOE and bond issuances are authorized via voter referendum. Per 14 Del. C §2116 and §2118(a), with a passing referendum, districts are authorized to levy a debt service tax sufficient to cover the local share of annual principal and interest payments plus 10% for expected delinquencies.

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

- Attorney General Opinion 89-I017 from 1989 stated that, per the DOE, a sufficient reserve is at least four months of the following fiscal year's debt service payments.

- Attorney General Opinion 1W-024 from 1975 stated that a reserve is considered excessive when it is greater than 110% of total debt expenditures in the following year as districts' powers to levy taxes for debt service are limited per 14 Del. C., §2116 and §2118(a) to principal and interest and 10% for delinquencies.

Tuition - Tuition tax rates are levied to cover educational expenses for in-district and out-of-district placements of students in special programs and schools. The rate is set annually by the school board based on anticipated needs in the district and does not require a voter referendum.

Match - Match funds provide a local match to State appropriations where required or allowed by law. Examples of Match programs include technology, minor capital improvements (MCIs), extra time, reading and math resource teachers, student success block grant, opportunity fund, and substitute teacher block grant. The following summarizes the significant match taxes authorized for the year ended June 30, 2024:

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.

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 2024 Operating Budget Epilogue Sec. 348 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 2024 Operating Budget Epilogue Sec. 357 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.

BACKGROUND - CONTINUED

Laws and Regulations - Continued

<u>*Match - Continued*</u>

Opportunity Fund - The FY 2024 Operating Budget Epilogue Sec. 354 authorizes school districts to assess a local match for costs associated with the 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 2024 Operating Budget Epilogue Sec. 370 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.

Year-End Required Reserves - Districts are required by 14 Del. §1507 to hold sufficient local reserves at the end of each fiscal year to satisfy the local portion of payroll expenditures during the period from July 1st through October 15th of the subsequent fiscal year with a surplus equal to one month's payroll expenditures after adjusting for 75% equalization funding (referred to as Division III Funding) expected to be received. If a deficit is projected, the district must report its play to meet payroll. If the surplus is less than one months local payroll, the district must report its plan to ensure a sufficient balance in the following fiscal year.

DISTRICT SPECIFIC SUMMARY

The Colonial School District, located in New Castle County, operates Pre-K-12 schools with over 8,500 students. The Colonial School District employs over 1,500 employees to educate and support its students. The Colonial School District has eight elementary schools, three middle schools, and one traditional comprehensive high school. In addition, the District is home to the John G. Leach School, the Wallin School and the Colonial Early Education Program at the Colwyck Center. The Colonial 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, Colonial School District is referred to as the "District."

AUDIT OBJECTIVES

The objectives established for the performance audit of the School District were:

Objective 1 - School District internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *Budget and Accounting Policy Manual (BAM)*, School District Accounting Policies, and the School District Budget (the requirements).

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

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, 2023 through June 30, 2024. We sampled and examined transactions from the populations of expenditures and receipts of Local Funds for the period from July 1, 2023 through June 30, 2024. 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

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.

AUDIT METHODOLOGY - CONTINUED

3. Reviewed the Board of Education's meeting minutes for the audit period to identify unusual transactions or matters which impact activities funded by the District's Local real estate tax funds.

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.

   b. Completed engagement team discussions, including discussions about the possibility of error or fraud involving Local Funds.

   c. Made inquiries of management and others about risks (including fraud risks, related-party transactions, unusual transactions, and compliance with laws, regulations, contracts, and grant agreements).

   d. Obtained and documented an understanding of the School District's internal control system over Local Funds by performing walkthroughs.

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

7. We determined that we could rely on the internal controls in the State's First State Financials Accounting System (FSF) and the State's Payroll Human Resource Statewide Technology (PHRST) system for our Performance Audit. This conclusion was based on our review of the following documents:

   a. The State's System and Organizational Controls (SOC 1), Type II Report: Covering the period from April 1, 2023 through March 31, 2024, issued by the State's Independent Service Auditor.

   b. The State's Management Confirmation (Bridge Letter): Covering the subsequent period from April 1, 2024 through June 30, 2024, issued by the Department of Finance.

AUDIT METHODOLOGY - 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 and the requirements as defined previously. The following chart provides a summary of the Performance Assessment procedures performed:

Objective Testing Procedures	Key Areas Tested	Requirements Assessed
Objective 1: Expenditure Controls		
Disbursement testing, procurement testing, payroll testing.	Design and operation of controls over Local funds' and Local Tuition Tax funds' disbursements, including tests of purchasing cards, single payment suppliers, and procurement. Design and operation of controls over Local funds' and Local Tuition Tax funds' payroll, including payroll changes, and approvals.	Delaware Code, State Administrative Code, *BAM*, District Accounting Policies, District Budget
Objective 2: Receipt Controls		
Budgetary process, tax warrants and receipt recording testing.	Design and operation of controls over Local Fund receipts, including budgetary process, tax warrants, and monthly receipt recording.	Delaware Code, State Administrative Code
Objective 3: Real Estate Tax Approval and Calculation		
Budget, tax warrant, and reserve analysis.	Approval process, tax calculations, and reserve compliance.	Delaware Code, referendum requirements, Delaware Attorney General's opinions
Objective 4: Tuition Tax Calculation and Expenditure		
Tuition tax disbursement, payroll, budget, and reserve analysis.	Tuition tax calculations, expenditure alignment with special education purposes, and reserve compliance.	Delaware Code, District policies

AUDIT METHODOLOGY - CONTINUED

I. To assess the design and operation of internal controls with respect to Audit Objectives 1 and 4, we conducted the following:

1. To assess the design of disbursement related internal controls, we analyzed the information gathered in the Planning Phase regarding the following internal control structures:

   a. Disbursements from all Local Funds including disbursements funded partly with State of Delaware General Fund or Federal appropriations.

   b. District Purchasing Procedures.

2. To assess the operation of disbursement internal controls and the District's compliance with the requirements, we selected and tested random samples[2] of disbursement transactions funded with Local Taxes. We obtained supporting documents from the District to determine if the related products and services were received; transactions were properly documented, authorized, recorded; and that transactions complied with the requirements. We selected the following samples:

   a. A sample of disbursements funded by non-tuition tax funded appropriations: We identified purchases made using Statewide contracts (Contracts entered into by the Office of Management and Budget's (OMB), Government Support Services Division (GSS)). We selected a subsample of transactions with Statewide contract vendors to verify that District's purchases complied with the terms of the Statewide contracts.

   b. We selected a sample of disbursements funded by the District's tuition tax funds to determine if the expenditures were consistent with the purpose set forth for use of the tuition tax.

---

[2] We selected samples that are sufficient to provide a high level of reliance (95% confidence level) on the operational effectiveness of the internal controls and compliance requirements being tested for the audit period. Sample sizes are based on the degree of planned control reliance along with assessed risk to achieve sufficient evidence to support findings and conclusions.

AUDIT METHODOLOGY - CONTINUED

3. To assess operation of procurement internal controls, we summarized the District's purchases into risk-based categories. The following categories[3] were identified for sampling during the planning phase:

   a. Cumulative Purchasing Card expenditures by vendor, with consideration to other non-purchasing card payments to the vendor, to test whether single payments (or multiple payments for similar products or services) may have exceeded the applicable procurement thresholds. Purchasing Card expenditures are higher risk because employees could make purchases without following District procurement requirements. We selected a representative sample of Purchase Card transactions that exceeded the District's procurement threshold, if any.

   b. Payments to Single-Payment Suppliers (suppliers that were paid only once during the year) to test whether payments may have exceeded the applicable procurement thresholds. Single-Payment Suppliers are subject to increased risk because one-time payments could be used to circumvent the District's purchasing requirements. We selected a representative sample of Single Payment Suppliers that exceed the District's procurement threshold, if any.

   c. The remaining population of transactions was summarized by vendor. We analyzed cumulative expenditures by vendor, with consideration to multiple purchase orders and multiple direct-claim payments (purchases without purchase orders) for similar products and services. We reviewed the summary of purchases by vendor for vendor activity that exceeded the applicable procurement thresholds. District purchasing operations are decentralized, which increases the risk that similar cumulative vendor procurements could exceed the thresholds in the State's and District's purchasing requirements. We selected a representative sample of vendors that exceed the District's procurement threshold for testing.

4. To assess the design of internal controls over payroll, we analyzed the results of the information gathered in the Planning Phase to identify internal control weaknesses and opportunities for improvement. We specifically analyzed the following internal control processes:

   a. Employee hiring and approval.

   b. Salary determination.

---

[3] Analysis of the District's purchasing activity was performed at the District level and included all funding sources. Our analysis included all District funding (local, state and federal) because the procurement requirements apply regardless of funding source. While analysis was performed at the District level, our audit samples were selected from Local Funds with consideration of the transaction materiality of the Local Funds only.

AUDIT METHODOLOGY - CONTINUED

c. Changes to employee salary, related to changes in positions, related to the achievement of additional education and certifications.

d. Payroll preparation and approval.

5. To assess the operation of payroll internal controls and compliance with the requirements, we performed the following:

   a. Selected a sample of payroll transactions from the population of current year payroll change events[4] funded by Local Tax appropriations. We tested the selected payroll change events 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 Department of Education approvals, as appropriate.

      iii. Proper approval was made, as required by District internal controls and the requirements.

   b. Selected a judgmental[5] sample of employees, from the population of current year Tuition Local Fund payroll expenditures, to verify that those employees' responsibilities were consistent with the District's special education programs.

   c. Sampled and tested management's reconciliation, review, and approval of bi-weekly payrolls.

II. To assess the design of internal controls over the approval of real estate taxes and internal controls over the receipt of Local Funds with respect to Audit Objectives 2, 3, and 4, we performed the following:

   1. Reviewed evidence of the budgetary process by review of Board of Education minutes.

   2. Obtained the preliminary and final District budgets for the Fiscal Year. This provides that the District undertook a process to analyze its financial needs and set tax rates that are estimated to provide sufficient resources to meet its obligations during the Fiscal Year.

---

[4] Payroll change events include promotions, new hires, position changes, and salary changes for the achievement of additional education or certification.
[5] A judgmental sample was selected for this testing. This sampling approach is sufficient because the payroll control testing addressed controls over this requirement. This additional testing is to provide additional evidence that the District complied with the Tuition Tax requirements during the year.

AUDIT METHODOLOGY - CONTINUED

3. Obtained the District’s executed tax warrant submitted to the County for the Fiscal Year.

4. Analyzed the District's process for receiving and recording the monthly receipt of Local Funds from the County.

III. To assess the operation of internal controls over the approval and calculation of real estate taxes and the District’s compliance with the requirements with respect to Audit Objectives 2, 3, and 4 we performed the following:

1. Compared taxes levied per official tax warrants to supporting rate calculations, budgets, amounts authorized by referendum, relevant legislation (including tax revenue reserve limits) and District approval.

2. Obtained and reviewed the District monthly recording of Local Funds receipts. Obtained evidence that District management reviewed and approved the recording of the monthly Local Funds receipts.

3. Compared the recording of local tax fund receipts by Appropriation to our expectations based on the official tax warrant.

4. Reviewed the District’s budget analysis supporting the Local Tuition Tax rate. We compared the actual tuition tax-funded activities to the tuition tax budget, to identify significant unexplained differences or unexpected increases in the Local Tuition tax reserves.

5. Analyzed year-end District reserves to determine if the following reserves complied with the following requirements:

   a. Debt service reserves were within the range set by the Delaware Attorney General’s opinions and were sufficient to fund debt service in the first four months of the following fiscal year and no more than 110% of the following fiscal year’s debt service payments.

   b. Overall Local Reserves met the minimum set by the requirements to fund payroll expenditures in the first three and a half months with a surplus equal to one month’s payroll expenditures of the following fiscal year.

6. Analyzed tax revenue reserves at the beginning and end of the fiscal year, as applicable.

AUDIT RESULTS

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

<u>Results</u> - 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, 2023 through June 30, 2024.

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 of 5,860 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 approvals on invoices and receipts as well as in First State Financials (FSF), the Delaware State accounting system, except as noted in Finding Number 1 in the *Schedule of Findings and Recommendations*, where we reported deficiencies and related recommendations, where the District did not conform to its purchase order policy to require an approved official purchase order for purchases of all goods and services.

School districts are allowed but not required to use Statewide contracts procured by the OMB's GSS Division. We found a deficiency in the design of internal controls over the use of contracts procured by OMB's GSS Division. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and the related recommendations.

We 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 and determined that the transactions were properly approved by the District as evidenced by approval on invoices and receipts as well as in FSF. However, we found that the District's purchases for two of the vendors did not comply with State and District procurement requirements.

AUDIT 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 2024 disbursement population, including purchasing card expenditures by vendor, and using a risk-based approach, we selected the following samples:

- A judgmentally selected sample of six vendors from the population of 63 vendors with cumulative expenditures exceeding the $50,000 procurement threshold per the *BAM* (this is the lowest threshold that requires competitive purchasing).

- There were no vendors with procurement card purchases made by the District that exceeded the $50,000 procurement threshold per the *BAM*.

- There were no single-payment supplier purchases made by the District that exceeded $50,000; therefore, a sample of these transactions was not selected.

We examined documentation for each of the transactions selected and found that the purchasing process for goods and services purchased from the six vendors during the fiscal year was in compliance with State and District procurement requirements, with the exception that the District did not contemporaneously document its use of a Statewide contract in accordance with State and District requirements. Refer to Finding Number 2 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and the 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 60 from the population of 796 Local Funds pay rate changes, processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that certain transactions did not have evidence of review and approval. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and the related recommendations.

To test employees' annual pay increases, we selected a random sample of 10 out of 1,310 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 2024 salary schedules.

AUDIT RESULTS - CONTINUED

Objective 1 - Continued

Results - Continued

Payroll Expenditures - *Continued*

We reviewed evidence of the District's bi-weekly payroll reconciliation and approval process for a random sample of five selected from the population of 26 bi-weekly payroll cycles. We determined that authorized District personnel performed, but did not maintain evidence of a review of, bi-weekly payroll expenditures. Refer to Finding Number 3 in the *Schedule of Findings and Recommendations* for details of the deficiencies identified and the related recommendations.

Debt Service Expenditures - We examined the requirement that the District maintain its debt service reserve, within a range of at least four months and no more than 110% of the following fiscal year's debt service payments. We also compared budget to actual debt service expenditures, at the District level, during our analysis of debt service real estate tax rate calculations in Objective 3. Because the payment of debt service is managed and initiated at a statewide level by the State of Delaware Department of Finance, it is outside of the scope of this performance audit, and we did not assess the design or operation of internal controls over debt service expenditures.

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

Results - Colonial School District is one of four districts that comprise the New Castle County School District. District tax receipts are allocated by DOE. The District allocates Match Taxes received from after receipt from the DOE. 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 Colonial 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 2024 and concluded the following on the next page:

AUDIT RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

- The District's current expense rate was supported by a referendum passed in June 2017. The New Castle County District shared current expense rate agreed to historical reports provided by the DOE and to the District's FY 2024 Budget.

- 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 2024 and FY 2025 and determined that the rate was sufficient to cover debt service expenditures in FY 2024 and provide the District with a reserve equal to approximately 95% of its FY 2025 debt payments, as summarized below. District debt service reserves held as of June 30, 2024, were within the range set by the State of Delaware Attorney General.

July 1, 2023 Debt Service Reserve Balance	$ 2,600,672
FY 2024 Debt Service Activity	
Receipts	2,295,411
Expenditures	(2,723,502)
June 30, 2024 Debt Service Reserve Balance	$ 2,172,581
Budgeted FY 2025 Debt Service	$ 2,283,753
Reserve to Expected Future Payments Ratio	95%

We accumulated information from the following sources to meet this audit objective - The FY 2024 Debt Service Tax Collections and FY 2024 Debt Service Reserves were obtained from the June 30, 2024 Daily Validity Report (Document Direct Report DLG060), which is a daily report on the status of appropriations. The FY 2024 and FY 2025 Debt Service Principal and Interest were obtained from debt service schedules presented in the FY 2024 Final Budget.

AUDIT RESULTS - CONTINUED

Objective 3 - Continued

<u>*Results - Continued*</u>

- 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, 2024 Daily Validity Report and budgeted expenditures from the District's FY 2024 Final Budget.

- We compared the District's local tax funded reserves, held as of June 30, 2024, plus 75% of its expected preliminary State equalization funds to its local tax funded payroll obligations for the period from July 1, 2024 through October 15, 2024. The District's carryover balances and preliminary State equalization funds alone were not sufficient to meet local tax funded payroll obligations through November 14, 2024. In its July 1, 2024, Financial Position Report, the District submitted to DOE, the District planned to rely on anticipated local tax receipts during this period to meet its local tax funded payroll obligations and to maintain, as of October 15, 2024, a balance equal to one month of local tax funded payroll as required by 14 Del. C., §1507.

  The FY 2024 local tax funded reserves were obtained from the June 30, 2024 Daily Validity Report. The District's debt service reserves, held as of June 30, 2024, were excluded for the purposes of the analysis. The preliminary State equalization funds were calculated as 75% of the total State equalization funds appropriated to the District in FY 2024 per the June 30, 2024 Daily Validity Report. Local tax funded payroll obligations for the period from July 1, 2024 through November 14, 2024, were obtained from the District's FY 2025 General Ledger.

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

<u>*Results*</u> - We examined a random sample of 27 of 1,443 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, except as noted in Finding Number 1 in the *Schedule of Findings and Recommendations*, where we reported deficiencies and related recommendations, where the District did not conform to its purchase order policy, requiring an approved, official purchase order for purchases of all goods and service.

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.

AUDIT RESULTS - CONTINUED

Objective 4 - Continued

Results - Continued

We examined payroll expenditures made from tuition tax funds in conjunction with the procedures performed over nontuition payroll expenditures. Results are reported in Objective 1.

We examined employee files for a random sample of 10 of 282 tuition tax funded 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.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding Number 1 - Lack of Purchase Orders for Vendors

Condition: We found the District did not comply with its policy requiring an approved official purchase order prior to creating a vendor order. As summarized in the following chart, we found the District did not comply with its policy in the expenditure of the following Local Tax-funded appropriations: Current Expense, Tuition, and Match Taxes during the year ended June 30, 2024.

	Local Tax Funded Expenditures			
	Vendor Count	Purchase Order	No Purchase Order	Total Purchases
Purchase Order(s) for all Purchases	153	$ 4,141,245	$ -	$ 4,141,245
Purchase Order(s) for some Purchases	140	5,991,384	1,209,779	7,201,163
No Purchase Order	392	-	2,817,118	2,817,118
	685	$ 10,132,629	$ 4,026,897	$ 14,159,526

Context: The District indicated most exceptions to its Purchase Order policy are specific contracts managed by the District Business Office.

Criteria: Colonial School District's *Procedure No. 3400 - Purchasing & Purchase Orders (PO)*, revised April 22, 2022, requires that "A state of Delaware purchase order, accompanied by a P.O. approval form, initialed by the administrator in charge of the relevant budget, shall be used for the purchase of all materials, supplies, equipment, and services."

Cause: The District allowed certain exceptions to the purchase order policy and purchases were made without a purchase order; however, it did not formally document these exceptions and has not adopted a policy outlining these exceptions.

Effect: By not requiring purchase orders for purchases of goods and services, the District was not in compliance with its purchasing procedures.

Recommendation: We recommend the District implement the following:

- Strengthen its controls over the review and approval of purchases to ensure that approved purchase orders are in place.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 1 - Lack of Purchase Orders for Vendors - Continued

Recommendation - Continued:

- When exceptions to the policies are considered necessary, document, justify and formally approve the exceptions to the policy requirements contained in its procedures manuals.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 2 - Lack of Review to Verify that Purchases Comply with the Terms and Pricing of Statewide Contracts and Undocumented Use of Statewide Contracts

Condition: We found the following deficiencies in the design and operation of the District's purchasing controls related to the District's use of Statewide contracts:

- The District did not verify purchases made using Statewide contracts are consistent with the terms and pricing contained in the contracts executed by OMB's GSS Division prior to issuing a purchase order or making a payment. We found the District did not receive the contract price for custodial supplies purchased from one vendor.

- The District did not contemporaneously document its use of Statewide contracts for purchases from three vendors for the following good and services expended from the detailed sources:

    - Automotive Parts and Labor - Local Funds: $65,591; State/Federal Funding: $835
    - Custodial Supplies - Local Funds: $232,137; State/Federal Funding: $73,077
    - Diesel Fuel - Local Funds: $468,794

  The District did not perform its own procurement action for these goods and services.

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

Criteria: School Districts must adhere to the procurement and purchasing requirements of the *BAM* and the Delaware Code. The following requirements are applicable to the purchases made using Statewide contracts:

- Chapter 5, *Procurement*, Section 5.2.6, *Contract Documentation* of the *BAM* requires that "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."

- Chapter 5, *Procurement*, Section 5.2.6, *Contract Documentation* of the *BAM*, required that "If a purchase is supported by a contract, the contract number must be listed on the requisition/purchase order/direct claim voucher."

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 2 - Lack of Review to Verify that Purchases Comply with the Terms and Pricing of Statewide Contracts and Undocumented Use of Statewide Contracts - Continued

Criteria - Continued*:*

- The District is required by 29 Del. C., §6518(a) to verify that all invoices presented for payment are in accordance with the related contract.

  > *"The Secretary of Finance shall examine all bills, statements, accounts and demands against the State and the Secretary of Finance may require affidavits that articles have been furnished, services rendered and expenses incurred, as claimed. The Secretary of Finance shall refuse to approve any bill or statement of indebtedness which has not been presented to the Secretary of Finance in conformity with this chapter, or which would more than exhaust the appropriation from which it must be paid, or* ***which is not in accordance with the contract under which the indebtedness was created*** *or where the agency shall have refused to furnish the Secretary of Finance with any information or data that the Secretary of Finance may require for the execution of the Secretary's duties, or where the order or requisition, or bill or statement of indebtedness involves any transaction or item not in accordance with law. The Secretary of Finance shall have no right to refuse approval except on the grounds specified. "*

- Colonial School District's *Procedure No. 3400 - Purchasing & Purchase Orders (PO)*, revised April 22, 2022, requires that "Purchases from current state or district contracts require only a reference to the specific contract number on the purchase order."

Cause: The District's purchasing and procurement policies do not include procedures to verify that purchasers agree to the terms and pricing in the Statewide contracts used by the District to procure the goods and services.

The District did not maintain contemporaneous documentation memorializing its decision to utilize the Statewide contract to purchase the materials.

Effect: The District did not adhere to State and District purchasing and procurement requirements. The purchases may not comply with the Statewide contract and result in the District not receiving the best prices or terms for the purchases.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 2 - Lack of Review to Verify that Purchases Comply with the Terms and Pricing of Statewide Contracts and Undocumented Use of Statewide Contracts - Continued

Recommendation: We recommend that the District review its purchasing and procurement policies and implement procedures to verify and document that its purchases comply with the terms and pricing of the Statewide contracts it uses to procure goods and services.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 3 - Lack of Proper Review and Approval of Changes to Employee Payroll and Bi-Weekly Payroll

Condition: We found the following deficiencies in the design of the District's payroll internal controls during fiscal year 2024:

- District policy and procedures do not require the appropriate documentation that internal controls over the preparation, review, and approval of payroll transactions were performed.

- The District does not memorialize the review of the bi-weekly payroll expenditures. The District indicated that the Finance Specialist, under the direction of the CFO, reviews the bi-weekly payroll reports; however, this process is not memorialized (with a signature, initials, memo, etc.). The District's Business Office receives payroll reports for review and approval. The Business Office only responds to these reports if a change or correction to the report is necessary.

We found the following deficiencies in the operation of the District's payroll internal controls during fiscal year 2024:

- The District's controls requiring authorization of payroll changes prior to PHRST entry were not operating as specified by District policy. Of the 60 transactions tested, we found the following:

    - Six payroll transactions were not appropriately reviewed and approved by the Human Resource Department.

    - Three payroll transactions were not reviewed and approved on a timely basis.

    - Two unapproved transactions did not memorialize compensation for entry into PHRST.

    - Five payroll transactions for administrators were properly recorded on the District's schedule for changes to administrator pay; however, evidence of the District's Executive Team's review and approval of administrator pay is not memorialized on the schedule. The administrator contracts executed by the Superintendent's Office do not memorialize employee salaries that are entered into PHRST.

    - 43 transactions were recorded on District forms and approved by Human Resources, but 14 of the approved forms did not memorialize salary and wages entered into PHRST.

- The District indicated all employee payroll changes in PHRST are verified by the District's Payroll Manager; however, this is not memorialized and could not be tested.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 3 - Lack of Proper Review and Approval of Changes to Employee Payroll and Bi-Weekly Payroll - Continued

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

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

The District's policy requires the memorialization of appropriate preparation, review and approval of changes to employee information by the Human Resources Department and the Superintendent's Office on the District's forms prior to processing the transactions in PHRST.

Cause: The conditions above were caused by the following:

- The District has not memorialized sufficient and appropriate review, and approval internal controls over payroll transactions.

- Review and approval of payroll transactions was not performed or documented due to weaknesses in the District's payroll policies.

Effect: Failure to properly document the approval of employee payroll changes and review bi-weekly payroll expenditures, increases the District's risk that erroneous or fraudulent information is entered into PHRST and not detected.

Recommendation: We recommend the District implement the following:

- Implement policies to formally document the review and approval of all payroll changes.

- Implement policies to formally document the review and approval of the biweekly payroll reports.

- Reinforce District policy to ensure all payroll changes include sufficient support prior to approval and processing in PHRST.

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

CONCLUSION

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

Objective 1 - Except for the deficiencies detailed in Finding Numbers 1, 2, and 3 in the *Schedule of Findings and Recommendations*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

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

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

Colonial SCHOOL DISTRICT

Where Access Meets Opportunity

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Date: February 13, 2026

To: Belfint Lyons & Shuman, P.A.

Re: FY 2024 Local funds Performance Audit findings

In response to the FY 2024 Local funds performance audit findings, Colonial provides the following:

Finding #1 regarding use of Purchase Orders-

The Budget & Accounting Manual exempts school districts from the PO requirement when using local or federal funds. Our current policy is more restrictive to ensure consistent practices and limit confusion among building staff but we do employ the BAM exceptions when appropriate, as determined by the Business office. We will update our policy to better reflect how the exemption process is utilized for purchase orders.

Finding #2 regarding procurement-

We will issue reminders to staff regarding the need to document use of a state contract for all relevant vendors and transactions. We will establish a procedure to ensure that invoices are consistent with the terms of state contracts.

Finding #3 regarding payroll internal controls-

A payroll reconciliation is sent by the Payroll Manager each pay period and reviewed by the Finance Specialist under the direction of the CFO. When changes are needed, we respond with corrections. Going forward, we will memorialize the approval of bi-weekly payroll via email regardless of whether there are changes or not.