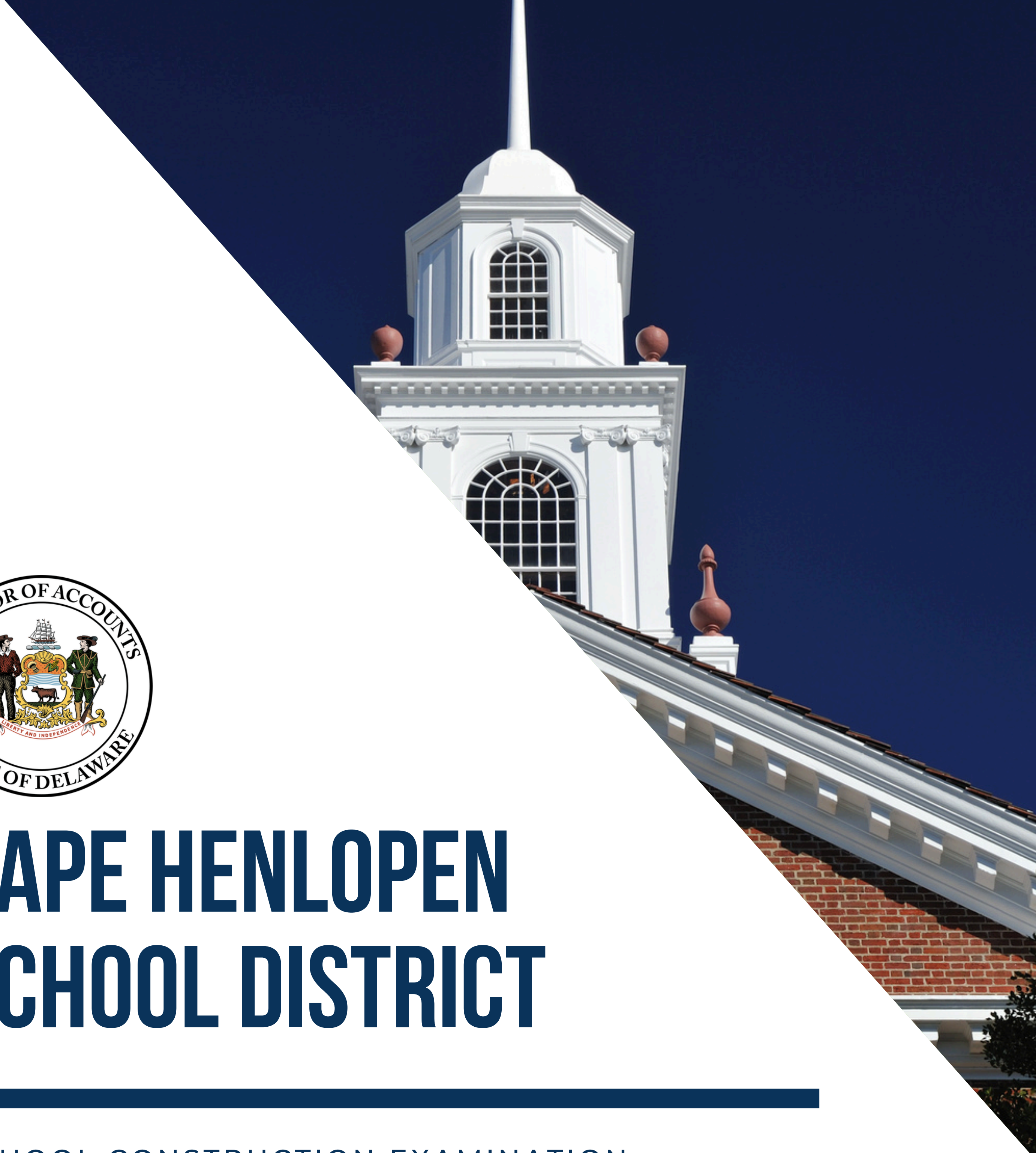


CAPE HENLOPEN SCHOOL DISTRICT

SCHOOL CONSTRUCTION EXAMINATION
FISCAL YEAR ENDED JUNE 30, 2023

CAPE HENLOPEN SCHOOL DISTRICT SCHOOL CONSTRUCTION EXAMINATION

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

BACKGROUND

The Office of Auditor of Accounts conducted an examination engagement of the Cape Henlopen School District Schedule of Construction Projects to determine whether it is in accordance with the criteria set forth in the Delaware Code. The State of Delaware Department of Education School Construction Technical Assistance Manual, and the State of Delaware Budget and Accounting Policy Manual.

In accordance with 29 Del. C. §7526, the State Auditor shall be responsible for conducting or having conducted such audit subject to 29 Del. C. §2906(c) and (d) and §§2907, 2908, and 2909, as amended. This engagement was performed to examine financial data, recordkeeping and reports generated by the school district related to projects authorized by a school construction bond authorization act.

KEY INFORMATION AND FINDINGS

Since fiscal year 2018, state and local funding for Cape Henlopen School District totaled $195.3 million in construction appropriations, including $25.4 million expended in FY2023.

We have examined the Cape Henlopen School District's financial data, recordkeeping and reports related to its Schedule of Construction Projects for the fiscal year ended June 30, 2023, to determine whether the District's Capital Budget process was in accordance with the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual, and the State of Delaware Budget and Accounting Policy Manual.

This engagement contained one finding on the Schedule of Construction Projects for Cape Henlopen School District as stated below:

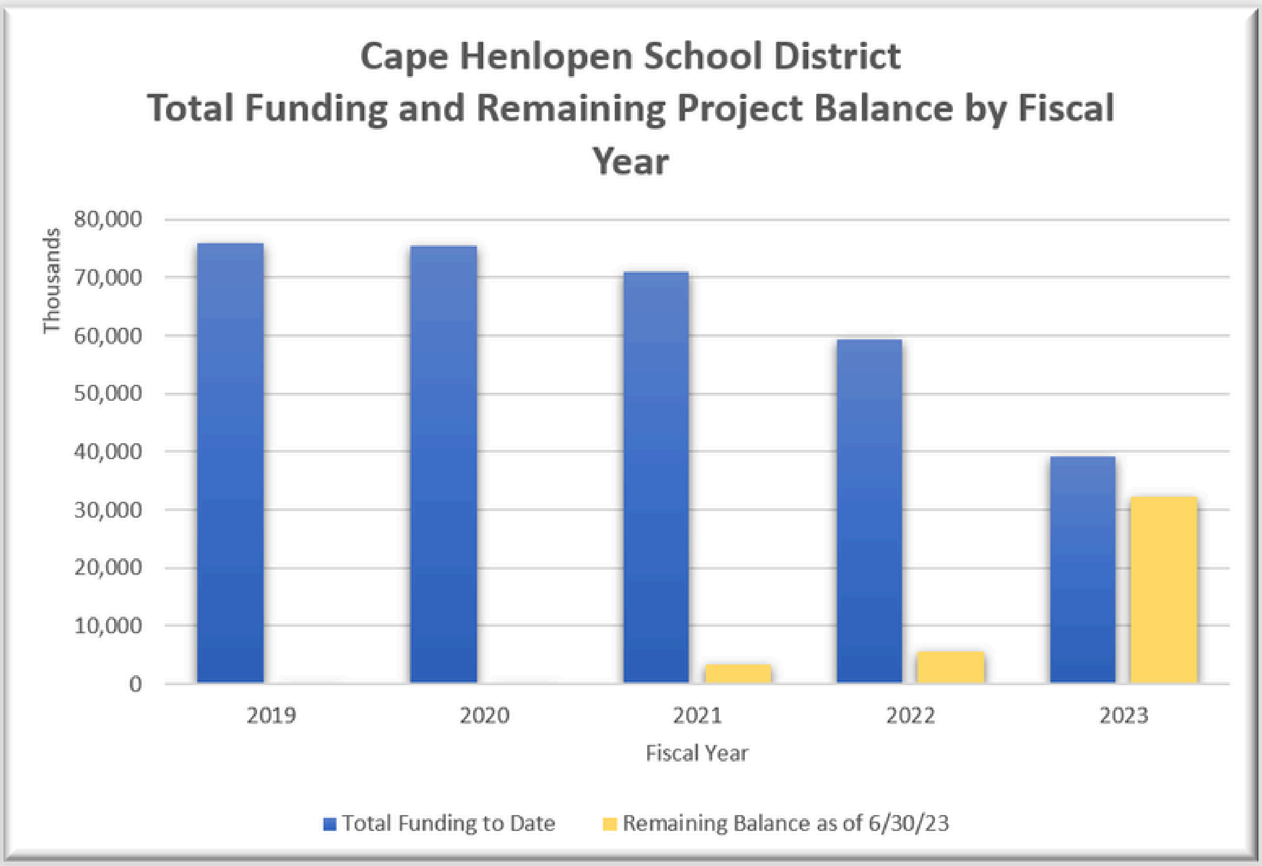
- The Schedule of Construction Projects, as presented for examination, omitted a funding source that included a purchase order and expenditures created during fiscal year 2023.

CAPE HENLOPEN SCHOOL DISTRICT SCHOOL CONSTRUCTION EXAMINATION

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

KEY INFORMATION AND FINDINGS CONTINUED

Cape Henlopen School District Summary of Active Project Capital Funding			
FY	**Total Funding to Date**	**Total Expended to Date**	**Balance as of 6/30/23**
2018	$31,861,301	$31,861,301	$0
2019	29,323,529	29,150,865	172,664
2020	31,414,459	31,084,761	329,698
2021	60,898,800	55,253,291	5,645,509
2022	30,627,000	13,411,739	17,215,261
2023	11,138,339	412,735	10,725,604
Total:	**$195,263,428**	**$161,174,692**	**$34,088,736**



State of Delaware
Office of Auditor of Accounts

Working Hard to Protect YOUR Tax Dollars

State of Delaware
Statewide School Districts' Construction Projects Attestation Engagements
Cape Henlopen School District

Fiscal Year Ended
June 30, 2023

Lydia E. York
State Auditor

AUDITOR OF ACCOUNTS
STATE OF DELAWARE
LIBERTY AND INDEPENDENCE

Background

School District Construction Projects

In accordance with 29 Del. C. §7509, the Department of Education (DOE) shall determine the present necessity for any school construction program. Once a School District (the District) identifies the need for a construction project and receives approval from its local Board of Education (the Board), it submits a request for Certificate of Necessity (CN) to the DOE by August 31 each year. The DOE then meets with the District to review appropriate documentation and discuss the necessity of the project. If it is deemed necessary, the DOE will include the project in its budget request for the following fiscal year. All projects that are included in the budget request are then issued a CN by late October of each fiscal year, which authorizes the construction project and details the scope and cost limits for the project. [1]

The DOE calculates the amount of the State of Delaware (the State) funding the District will receive using a standard school construction formula. The formula is uniform throughout the State and is based on pupil capacity for the type of school requested (i.e., elementary, middle, or high school). The remainder of the cost is paid with local tax receipts, thus referred to as the local share. Before a District can issue bonds to fund the local share of the construction costs, taxpayers must approve the bond sale through a referendum. [2] A referendum may occur any time after a CN is issued, and the District has one year and two opportunities to pass a successful referendum before needing to request a new CN from the DOE. The timing of each referendum is at the discretion of the Board. Vocational-Technical Districts are not subject to the referendum process. Instead, the Legislature approves these Districts' tax rates. [3]

The District must provide adequate public notice of the referendum that includes the purpose and amount of the proposed bond issuance, as well as the estimated annual amount of tax increase upon approval. [4] The estimated increase, however, is based on certain assumptions that are subject to change, such as the anticipated interest rate on new bonds. [5] Therefore, taxpayers are voting on the approval of the construction project and cannot rely on the advertised referendum rate as the effective tax rate. The District may ask its taxpayers to approve a local share in excess of the school construction formula to finance additional options. For example, if a construction project included expanding a particular school building and the District wished to continue the same flooring throughout the entire building, taxpayers may be asked to fund the costs in excess of the State formula. This particular request must be clearly labeled on the referendum voting ballot using the language set forth in 14 Del C. §2004.

1 DOE School Construction Technical Assistance Manual, Section 1.10, *Summary of Steps in the Major Capital Improvement Process*
2 14 Del. C. §2122
3 14 Del. C., c. 26
4 14 Del. C. §1074 (b)
5 Other rates that are not subject to voter approval (e.g., tuition, minor capital improvements) may be increased by the District to meet annual demands, thus resulting in the effective tax rate for the District.

The DOE presents its budget of all the State's Districts' construction projects to the Office of Management and Budget for approval and inclusion in the Governor's Recommended Budget. [6] The Governor's Recommended Budget is then subject to final approval by the Bond Bill Committee and the Legislature via the Bond and Capital Improvements Act (also referred to as the Bond Bill). If a District fails to obtain a successful referendum before June 30, its project is removed from the Governor's Recommended Budget and not included in that year's Bond Bill.

The District's Board then has the "power to employ engineers, architects and such other employees as it deems essential…" for its construction project per 29 Del. C. §7521. All final plans and specifications, including costs of construction under any school construction bond authorization act, are approved by the DOE. [7]

Depending on various factors (e.g., the total cost of the project, other projects within the State), the District will receive funding for its construction project over the course of several fiscal years. For each State bond sale, the District receives an aggregate allocation of funds and must pay back a portion of those funds with local tax receipts. The local share for each District in the State can vary,[8] depending on an assessment of the District's ability to meet its obligations. [9]

The District coordinates with the Office of the State Treasurer to pay the local share of its outstanding principal and interest payments in accordance with 14 Del. C. §2108. Annually, the Office of Auditor of Accounts audits the Districts' local tax collections and debt service management in a separate engagement. Further, this engagement examines Bond Bill construction project expenditures.

In the event the construction project comes in under budget, the District may request permission from the State legislature to redirect the State-funded portion of the excess budget amount to fund another project. The subsequent epilogue language in the Bond Bill dictates if the District must put forth local tax receipts and what sources of funding the District may use, such as Minor Capital Improvement funds. Since this is a result of Delaware law, the change does not require a referendum.

There are no legal or statutory provisions that would prohibit a District from utilizing excess funds for early repayment of its debt.

Maintenance of Records

The District should maintain all appropriate documentation related to its construction projects and related debt, including documents related to the referendum process, for audit purposes.

6 DOE School Construction Technical Assistance Manual, Section 1.10, Summary of Steps in the Major Capital Improvement Process
7 29 Del. C. §7518
8 29 Del. C. §7503
9 An Equalization Committee, as defined by 14 Del. C. §1707 (i), is comprised of 10 to 15 members appointed by the Secretary of the DOE. The equalization formula (detailed in 14 Del. C. §1707) incorporates an annual survey conducted by the University of Delaware and is annually reviewed and approved by the Equalization Committee.

Table of Contents

State of Delaware
Office of Auditor of Accounts

Lydia E. York
State Auditor

Independent Auditor's Report

Dr. Jennifer Nauman, Superintendent
Cape Henlopen School District
1270 Kings Highway
Lewes, DE 19958

Cynthia Marten, Secretary
Delaware Department of Education
Townsend Building
401 Federal Street
Dover, DE 19901

We have examined the accompanying State of Delaware Cape Henlopen School District (the District) Schedule of Construction Projects for the fiscal year ended June 30, 2023, to determine whether it is in accordance with the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual (SCM), and the State of Delaware Budget and Accounting Policy Manual (BAM). The District's management is responsible for the presentation of the Schedule of Construction Projects in accordance with the criteria set forth in the Delaware Code, the SCM, and the BAM. Our responsibility is to obtain reasonable assurance by evaluating the Schedule of Construction Projects against the criteria set forth in the Delaware Code, the SCM, and the BAM and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation based on our examination.

Our examination was conducted in accordance with the attestation standards for a direct examination engagement established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain reasonable assurance by evaluating the District's presentation of the Schedule of Construction Projects for the fiscal year ended June 30, 2023 against the criteria set forth in the Delaware Code, the SCM, and the BAM and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation of the District presentation of the Schedule of Construction Projects for the fiscal year ended June 30, 2023. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks that the District's Schedule of Construction Projects was not in accordance with the criteria set forth in the Delaware Code, the SCM, and the BAM in all material respects, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our examination engagement.

Dr. Jennifer Nauman
Superintendent
Cape Henlopen School District

Cynthia Marten
Secretary
Delaware Department of Education

In our opinion, the District's Schedule of Construction Projects for the fiscal year ended June 30, 2023, presents fairly, in all material respects, based on the criteria set forth in the Delaware Code, the SCM, and the BAM.

The amounts reported in the Expended in Prior Years column of the Schedule of Construction Projects contain expenditures incurred prior to July 1, 2022, that were examined by other accountants. The fiscal year ended June 30, 2022, report dated April 18, 2024, expressed an unmodified opinion on the Schedule of Construction Projects. As a result, we did not examine expenditures incurred prior to July 1, 2022, reported in the Expended in Prior Years column of the Schedule of Construction Projects for the fiscal year ended June 30, 2022, and, therefore, express no opinion on it.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the District's Schedule of Construction Projects; and any other instances that warrant the attention of those charged with governance, noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the District's Schedule of Construction Projects is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control applicable to preparing the District's Schedule of Construction Projects or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed a certain instance that is required to be reported under *Government Auditing Standards*, and this finding, along with the views of responsible officials, are described in the attached Schedule of Current Year Findings.

The purpose of this report is to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation of the District presentation of the Schedule of Construction Projects for the fiscal year. This report is not suitable for any other purpose.

However, under 29 Del. C. §10002, this report is public record, and its distribution is not limited. This report, as required by statute, was provided to the Cape Henlopen School District management and board members, the Delaware Department of Education, Office of the Governor, Office of the Controller General, General Assembly, Office of the Attorney General, Office of Auditor of Accounts, and Office of Management and Budget.

Lydia E. York
State Auditor

Dover, Delaware
April 24, 2026

Schedule of Construction Projects
Fiscal Year Ended June 30, 2023

Project Name	FY	APPR	Source of Funding (State/Local)	Original Funding Amount	Increases (Decreases) in Funding	Market Pressure Funding	Total Funding to Date	Expended in Prior Years	Expended in Current Year	Total Expended to Date	Balance as of June 30, 2023
Cape Henlopen High School	2019	50188	100/0	$ -	$ 450,000	$ -	$ 450,000	$ 443,892	$ 6,108	$ 450,000	$ -
Cape Henlopen High School	2019	50492	60/40	4,172,500	-	-	4,172,500	4,019,643	59,698	4,079,341	93,159
Cape Henlopen High School	2020	50492	60/40	8,345,000	-	-	8,345,000	8,295,731	49,269	8,345,000	-
Cape Henlopen High School	2021	50492	60/40	1,390,800	-	-	1,390,800	1,305,439	68,858	1,374,297	16,503
Cape Henlopen High School/SC	2019	50496	100/0	187,700	-	-	187,700	182,748	4,952	187,700	-
Cape Henlopen High School /SC	2021	50496	100/0	212,600	-	-	212,600	164,716	47,883	212,599	1
Cape Henlopen High School/SC	2020	59971	100/0	1,275,400	-	-	1,275,400	1,252,924	22,476	1,275,400	-
Milton Elementary School	2019	50467	60/40	8,968,900	(100,000)	-	8,868,900	8,827,826	40,286	8,868,112	788
Milton Elementary School	2020	50467	60/40	2,989,667	-	2,969,645	5,959,312	5,911,298	48,014	5,959,312	-
Milton Elementary School	2021	50467	60/40	17,937,800	-	-	17,937,800	17,482,127	268,514	17,750,641	187,159
Rehoboth Elementary School	2018	50474	60/40	12,655,700	-	-	12,655,700	12,652,639	3,061	12,655,700	-
Rehoboth Elementary School	2020	50474	60/40	-	3,396,500	-	3,396,500	3,394,566	1,934	3,396,500	-
Rehoboth Elementary School	2021	50474	60/40	3,646,500	(3,646,500)	-	-	-	-	-	-
Richard Shields Elementary (Lewes School)	2019	50482	60/40	10,325,600	(7,000,000)	-	3,325,600	3,134,426	112,457	3,246,883	78,717
Richard Shields Elementary (Lewes School)	2020	50482	60/40	3,441,833	2,153,500	3,059,962	8,655,295	8,430,621	196,702	8,627,323	27,972
Richard Shields Elementary (Lewes School)	2021	50482	60/40	20,651,200	3,646,500	-	24,297,700	20,327,343	3,743,503	24,070,846	226,854
Sussex Consortium	2018	50490	100/0	13,466,300	-	-	13,466,300	13,431,218	35,082	13,466,300	-
Sussex Consortium	2019	50490	100/0	2,244,400	110,000	-	2,354,400	2,317,733	36,667	2,354,400	-
Sussex Consortium additional funds	2019	50497	100/0	2,964,429	7,000,000	-	9,964,429	9,943,169	21,260	9,964,429	-
Sussex Consortium additional funds	2020	50497	100/0	10,782,952	(7,000,000)	-	3,782,952	3,285,566	195,660	3,481,226	301,726
Sussex Consortium supplemental funds	2018	59945	100/0	5,739,301	-	-	5,739,301	5,737,454	1,847	5,739,301	-
HOB Elementary	2021	50491	60/40	3,646,500	(450,000)	-	3,196,500	2,675,015	461,280	3,136,295	60,205
New Middle School (Fred Thomas MS)	2021	50499	60/40	11,863,400	2,000,000	-	13,863,400	2,536,268	6,172,345	8,708,613	5,154,787
New Middle School (Fred Thomas MS)	2022	50499	60/40	23,727,000	-	-	23,727,000	-	11,786,116	11,786,116	11,940,884
New Middle School (Fred Thomas MS)	2023	50499	60/40	3,954,500	-	-	3,954,500	-	-	-	3,954,500
Market Pressure	2022	10187	100/0	-	-	6,900,000	6,900,000	-	1,625,623	1,625,623	5,274,377
Market Pressure	2023	10187	100/0	-	-	7,183,839	7,183,839	-	412,735	412,735	6,771,104
Construction Projects Total				**$ 174,589,982**	**$ 560,000**	**$ 20,113,446**	**$ 195,263,428**	**$ 135,752,362**	**$ 25,422,330**	**$ 161,174,692**	**$ 34,088,736**

SCHEUDULE OF CURRENT YEAR FINDINGS

Criteria

The Schedule of Construction Projects shall be created, reviewed, and approved for existence of active construction projects, completeness of funding sources and expenditures, and accurate for District and public use.

Condition

The Schedule of Construction Projects, as presented for examination, omitted a funding source (market pressure funds totaling $14,083,839) that included purchase orders totaling $13,888,089 and expenditures totaling $2,038,358 during fiscal year 2023.

Cause

The District did not realize market pressure funds sent to the District were coded as general funds (Fund 100) rather than capital project funds (Fund 300).

Effect

The Schedule of Construction Projects was materially understated at presentation for examination.

Recommendation

We recommend the District identify all funding sources involved in the school construction projects by cross-referencing FSF reports Delaware General Ledger (DGL) DGL049 and DGL060 to its current schedule.

District's Response

See Attachment

Cape Henlopen School District

Jason Hale, Ed.D., CPA
Director of Operations
jason.hale@cape.k12.de.us

District Office
1270 Kings Highway, Lewes, DE 19958
P (302) 645-6686 F (302) 645-6684

Below, please find the district's response to the audit finding.

District's Response

We recognize the importance of accurate reporting. Because this was an FY23 audit, we did not know at the time that Market Pressure funds issued from the State's Fund 100 were required to be included on the Schedule of Construction Projects, as historically only Fund 300 activity had been reported. Now that this requirement is clear, we will ensure these funds are included moving forward.

This finding relates only to how the expenditures were reported and does not reflect any issue with the underlying transactions. All expenditures were audited and, like all others, were valid, properly authorized, and paid timely.

We will begin cross-referencing FSF reports DGL049 and DGL060 to ensure all funding sources are captured accurately in future schedules.

If you need anything further from us or have questions, please let me know.

Thank you,

Jason Hale

Jason S. Hale, CPA, Ed.D.
Director of Operations