

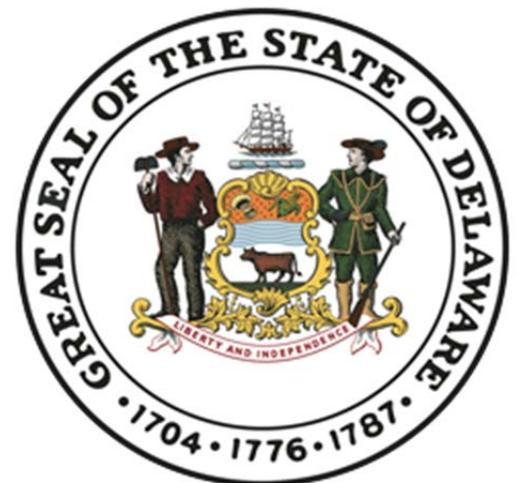
**State of Delaware
Office of Auditor of Accounts**

**Fiscal Year 2015 School District Revenue
and Debt Service Management
Delmar School District**

Inspection

Issuance Date: March 17, 2017

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts





State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr., CFE, CGFM, CICA
At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Inspection

We performed this inspection to review revenues received by the Delmar School District and ensure adequate internal controls over the revenue process.

This investigation was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

For further information on this release, please contact:

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What We Found

The Office of Auditor of Accounts (AOA) reviewed revenues received by the Delmar School District (the School District) in Fiscal Year 2015, as reported by the School District in the Schedule of School District Revenues, and the internal controls surrounding the School District's receipt process. During Fiscal Year 2015, Delmar received over \$14.8 million in revenue from federal, State, local, and other sources.

AOA's review of internal controls specifically focused on cafeteria and student activity funds since these revenues are generated through cash receipts. We found that the School District did not always ensure that cash is physically secure, employees do not share login credentials, key duties are properly segregated, and personnel adhere to internal controls over cash receipts.

We recommend that the School District work to develop policies and procedures that are detailed enough to easily identify individual responsibilities and ensure an adequate segregation of duties. Next, the School District should restrict the receipt of cash during breakfast service to cafeteria registers with secured cash drawers. The School District should also ensure that all employees have separate login credentials, and require that employees only process transactions under their own credentials. Finally, management should complete and document their monitoring activities, including reconciliations, to ensure a proper segregation of duties, and hold all individuals involved in the revenue process accountable for their responsibilities.

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Background

This engagement focused on school district revenues received and recorded in the State's accounting system during the period of July 1, 2014 through June 30, 2015 (Fiscal Year 2015). We also looked at how school districts manage the debt used to pay for school construction, including whether the school district has a reasonable amount of funds set aside to meet their bond obligations.

With the exception of donations, gifts, and student activity accounts among other sources, school district revenues generally come from federal, State, and local sources.

Delmar School District

The Delmar School District (the School District), located in Delmar, Delaware, operates a single middle school and high school with students ranging from grades 5-12 and a Fiscal Year 2015 enrollment of 1,367 students. Students residing in this district attend pre-kindergarten through fifth grade at the School District's neighboring Delmar School District located in Wicomico County, Maryland (the Maryland School District). The Districts are managed through a bi-state agreement separating the students based on grade level, with elementary level students attending the Maryland School District, and the middle school and high school level students attending the School District in Delaware. In addition to tuition funding provided by the Maryland School District as a result of the bi-state agreement, the School District also receives funds from a variety of sources including federal grant funding, state funding appropriated in the Budget Bill or through competitive grants, local funding (e.g. local tax collections), and other sources (e.g. student activity collections).

Federal Funding

Most federal grants received by the State are reimbursable, which means that the State must cover the payment of bills before reimbursement can be requested from the federal agency.

Federal grant applications are first reviewed at the agency level. Once the grant application is approved by the agency internally, it is submitted to the Office of Management and Budget (OMB) for the Delaware State Clearinghouse Committee's (DSCC) review. Once the grant application is approved by DSCC, the Delaware Department of Education (DOE) waits to hear from the federal granting agency on whether the State will receive the funds or not.

After DOE expends grant funds, the federal agency reimburses the State via a drawdown process. To drawdown the reimbursement, DOE must complete a few steps. DOE reviews the appropriate report and then logs onto the corresponding federal system to make the draw, then DOE receives a deposit for the amount requested. The deposit is entered into the State's accounting system, First State Financials (FSF), and applied to the applicable grant.

State Funding

Delaware school districts receive State funding which is mostly based on DOE's calculations using each school district's annual unit count. The unit count is a complex process that occurs each year during the last 10 student days of September. It includes the total pupil enrollment on the last school day in September¹ and considers various factors such as grade level and, if applicable, the special education

¹ 14 Del. C. §1704, <http://delcode.delaware.gov/title14/c017/index.shtml>

needs of the child. DOE uses a web-based student information system called eSchoolPLUS² to calculate the unit count.

Determination of State Funding

There are three State funding types received by the school districts as a result of the annual unit count. The funding categories are referred to as Division I (Salaries and Benefits), Division II (All-Other Costs and Energy), and Division III (Equalization). The annual Budget Bill appropriates these funds to DOE, then DOE allocates and distributes the funds to the school districts.

Division I (Salaries and Benefits)

Division I funding is used to pay the salaries of school employees. The State pays approximately 70% of total salary costs and benefits for school employees, with the remaining balance paid by local funds. The number of authorized positions, which includes teachers, support staff, and administrators, is based on the annual unit count. As illustrated in Table 1 below, one teacher is earned per a prescribed amount of pupils counted in each unit category. A unit is a group of students that are grouped together by grade level and needs. The State-funded portion of an employee’s salary is determined by the annual Budget Bill; however, the school districts also pay a portion of the employees’ salaries with local funds.

<i>Table 1: Division I Teacher Units³</i>	
Unit Category	Teachers Earned
Preschool	1 per 12.8 pupils
K-3	1 per 16.2 pupils
4-12 Regular Education	1 per 20.0 pupils
4-12 Basic Special Education (Basic)	1 per 8.4 pupils
Pre K-12 Intensive Special Education (Intensive)	1 per 6.0 pupils
Pre K-12 Complex Special Education (Complex)	1 per 2.6 pupils

In addition to teachers, the unit count determines various other support staff and administrator positions. Table 2 below provides examples of positions that are generated based on the total number of units counted.

<i>Table 2: Division I Support Staff and Administrator Units</i>	
Position	Positions Earned⁴
Superintendent	1 per District
Assistant Superintendent	1 per 300 units (maximum 2)
Director	1 per first 200 units; 1 per 100 units thereafter (maximum 6)
Supervisor	1 per 150 units
Supervisor of Transportation	1 per 7,000 or more transported pupils
Specialist – Visiting Teacher	1 per 250 units

² eSchoolPLUS is a software developed by SunGard.

³ 14 Del. C. §1703(a)

⁴ 14 Del. C. §1321, <http://delcode.delaware.gov/title14/c013/index.shtml>

Specialists – Related services positions which include physical therapists, occupational therapists, speech language pathologists, school psychologists, or other related service specialist	1 per 57 units K-3, 4-12 Regular Education, and 4-12 Basic; 1 per 5.5 Intensive units; 1 per 3 Complex units
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Career & Technical Education (CTE) Programs are also funded based on the annual unit count and result in corresponding occupational-vocational units. Delaware CTE Programs include Agriscience, Business Finance and Marketing, Family and Consumer Sciences, and Skilled and Technical Sciences. For New Castle County Vocational Technical School District, Polytech School District, and Sussex Technical School District, every 30 students enrolled equals one occupational-vocational unit. For the remaining school districts, occupational-vocational units are based on the minutes per week a pupil is provided an approved CTE program.⁵

Division II (All-Other Costs and Energy)⁶

Division II funding is appropriated to each school district and comprised of two components – “All-other Costs” and “Energy.” Section 323 of the Fiscal Year 2015 Budget Bill states that a Division II energy unit shall be valued at \$2,435 and an all other costs unit shall be valued at \$2,925. All-Other Costs provides for resources in the classroom, which include textbooks, furniture, and other classroom equipment. Energy funds are provided to heat and cool school buildings.

Division III (Equalization)⁷

Division III funding is referred to as equalization funding because it attempts to balance the disparity in funding received by school districts as a result of disproportionate property values. School districts receive varying amounts based on a complex tax effort formula determined by the Equalization Committee appointed by the Secretary of DOE. The formula is based on the property wealth of a school district compared to the State average property wealth, as well as the school district’s tax effort, or willingness of the school district’s citizens to accept higher tax rates. Division III funding is discretionary and may be used by school districts for virtually any purpose.

Since the unit count is not finalized until after the school year begins, OMB performs preliminary calculations in June of each year and preloads a portion of Division I, II, and III funds at the beginning of the fiscal year. OMB monitors Division I funds prior to the annual unit count and will transfer funding over to meet salary and benefit needs as necessary. After finalization of the annual unit count, the remaining funds are transferred to the school districts.

In addition to the Division I, Division II, and Division III funding discussed above, the school districts also receive State funding for transportation expenses, professional development, technology, and a variety of other needs. The additional funding sources are provided through DOE using an award method that is specific to each type of funding. For example, driver’s education funding is awarded based on the annual tenth grade enrollment within a school district, while funds for state testing are awarded through a competitive grant process where school districts submit applications to DOE. In another instance, funds

⁵ 14 Del. C. §1703(g), <http://delcode.delaware.gov/title14/c017/index.shtml>

⁶ 14 Del. C. §1706, <http://delcode.delaware.gov/title14/c017/index.shtml>

⁷ 14 Del. C. §1707, <http://delcode.delaware.gov/title14/c017/index.shtml>

may be based on need, such as transportation funds which are provided to school districts by DOE based on contracts with transportation providers.

Local Funding

Local Tax Collections

On a monthly basis, the school districts receive a lump sum amount of revenues collected from the three Delaware counties through real estate and capitation taxes.⁸ Sussex County school districts also receive rollback tax revenue.⁹ These revenues are commonly referred to as local funds.

To receive local funds, each school district's local school board approves and sends an annual tax warrant to their respective county, which authorizes the levy and collection of taxes. The tax warrant shows a separate tax rate for a combination of the following categories:

- **Current Expense:** costs associated with the general operation of the school district as well as specific voter approved programs. This tax rate can only be increased with taxpayer approval through referenda.
- **Debt Service:** the principal and interest payments on capital improvement bonds used to fund new construction, additions, and major renovations. Voters must authorize the issuance of bonds through a referendum. Thereafter, the school district's local school board annually sets the debt service tax rate to meet the authorized obligations.
- **Tuition:** the cost of providing in-district and out-of-district placements for students who must attend special schools within and outside of the State (e.g. Sterck School for the Hearing Impaired and Intensive Learning Centers). The local school board sets this tax rate annually based upon anticipated needs of the student body. A voter referendum is not required to adjust this rate and there is limited guidance regarding the methodology behind the amount of tuition funding needed.
- **Match:** provides a local match to State appropriations where required or allowed by law. According to the Fiscal Year 2015 Budget Bill, examples of matching programs include minor capital improvements (MCI), technology, reading resource teachers, math resource teachers, and extra time programs. Although the State only provides its portion of the MCI match funds, qualified school districts are still permitted to collect taxes for their local portion of other match programs. An explanation of each match program is provided below:
 - **MCI** – These funds are used to keep real property assets in their original condition and are reserved for projects that cost less than \$500,000.¹⁰ School districts are required to pay 40% of this amount through local tax collections, according to 29 Del. C. §7528 (b), while the State provides the remaining 60%.
 - **Technology** – These funds are intended to support the replacement or purchase of equipment that supports classroom instruction, technology maintenance in schools either through the use of technology personnel or contractual services, or other technology needs which could improve or enhance the technology

⁸ Capitation taxes are collected based on the number of adult residents in a school district.

⁹ Rollback taxes result when agricultural land is changed to another use, such as commercial or residential property. The basis for the tax is the difference between the land's value when classified as agricultural and the land's value under the new classification.

¹⁰ Section 7.1 of the State of Delaware *School Construction Technical Assistance Manual*.
<http://www.doe.k12.de.us/Page/1828>

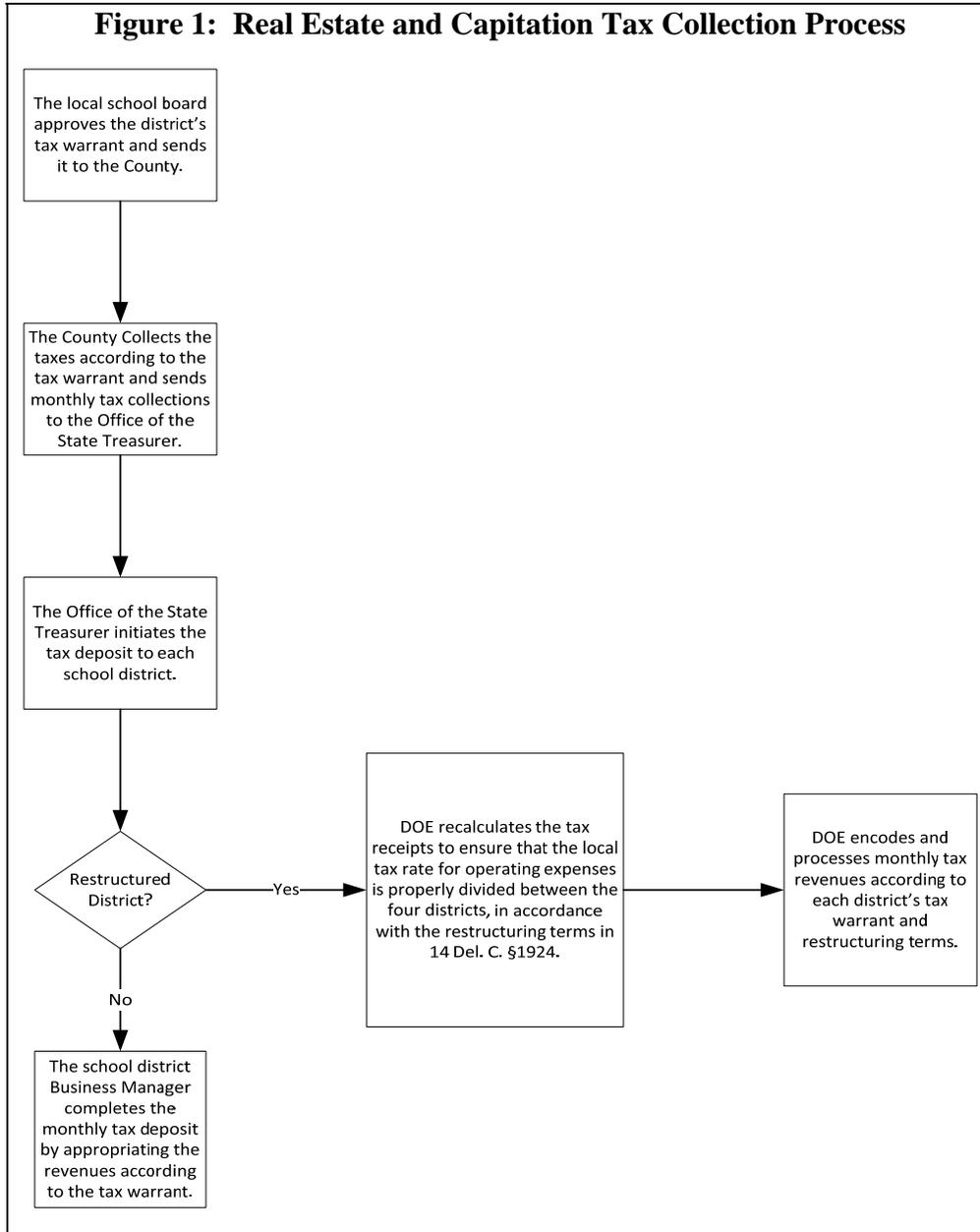
capabilities of the school district. According to Section 348 of the Fiscal Year 2015 Budget Bill Epilogue, all school districts are eligible for a technology match. The State portion of these funds is allocated proportionally to school districts based upon the Division I unit count.

- Reading and Math Resource Teachers – Each school district, excluding state approved special schools, shall be entitled to one Reading Resource Teacher for each school which has a grade configuration of kindergarten through fifth grade. Each school district shall be entitled to a Mathematics Resource Teacher/Specialist for each school with a grade configuration containing both seventh and eighth grades. As specified in the Fiscal Year 2015 Budget Epilogue, all school districts shall be allowed to assess a local match based on their Fiscal Year 2010 Reading and Math Resource Teachers.
- Extra Time – This match provides additional instruction for low achieving students. As specified in the Fiscal Year 2015 Budget Epilogue, all school districts shall be allowed to assess a local match based on their Fiscal Year 2008 Extra Time funding.

To ensure equal disbursement of funds, DOE has taken responsibility for allocating local tax revenues to the four restructured school districts: Brandywine, Christina, Colonial, and Red Clay.¹¹ Although these four school districts operate separately, they all share a current expense tax rate as part of the restructuring plan. Each school district's student enrollment unit count is used as the basis for dividing the tax revenue attributed to current expense.

The tax collection process is summarized in Figure 1 below.

¹¹ These four districts were formerly the New Castle County School District but were divided in 1981 in accordance with 14 Del. C. §1924. Each of the four districts shares a local tax rate for the current expense appropriation, which is distributed by DOE to ensure the funds are disbursed objectively.
<http://archives.delaware.gov/collections/aghist/8181.shtml>



The school districts may also receive payments in lieu of taxes (also known as PILOT) from sources such as the Delaware State Housing Authority, Prime Hook National Wildlife Refuge, and Bombay Hook National Wildlife Refuge. It is the school district’s responsibility to deposit and code the revenue to the correct appropriation. These funds are in addition to the tax receipts collected by each county, so AOA takes these items into consideration.

Local Tax Cycle

The tax receipts for Fiscal Year 2015 were collected from the tax bills that were due September 30, 2014. Delinquent taxes from previous years’ tax billings may also be collected during this period.

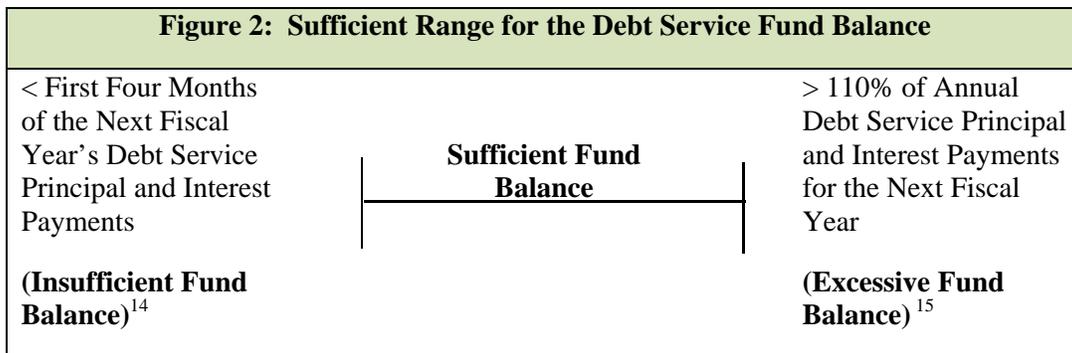
Other Revenue

Internal accounts consist of all monies other than federal, State, and local funds. Internal funds may include, but are not limited to, receipts from student activities (e.g. clubs, dramatics, yearbook, and fundraisers), donations, or before- and after-school care. Student activity funds are purely custodial and are treated as agency funds in the State’s Comprehensive Annual Financial Report (CAFR). Agency funds are used to account for monies and properties collected by the State for distribution to designated beneficiaries or governmental units.¹²

Debt Service Management¹³

Once approved by a taxpayer referendum, the General Assembly will approve a bond issuance to cover a school district’s construction cost. The school district is responsible for using county tax receipts to repay the local share of the bond, which is typically between 20% and 40%. The remainder of the bond is covered by other sources of funds. Most school districts have payment obligations for multiple debt service bonds that have accumulated over recent decades.

The debt service appropriation must be carefully monitored to ensure that the school has sufficient tax receipts to cover its debt service obligations without accruing an excessive fund balance. This analysis is a good indicator of whether the district’s tax rates need adjustment. The parameters surrounding the debt service fund balance are illustrated in Figure 2 below.



¹² Per Table 3.1 of the State of Delaware Budget and Accounting Policy

¹³ Debt Service is the series of principal and interest payments required on debt over a given time period.

¹⁴ Attorney General’s Opinion 89-I017.

¹⁵ Attorney General’s Opinion 1W-024.

Procedures and Results

The Office of Auditor of Accounts (AOA) reviewed revenues received by the Delmar School District (the School District) in Fiscal Year 2015, as reported by the School District in Table 3 below, and the controls surrounding the School District's receipt process. During Fiscal Year 2015, Delmar received over \$14.8 million in revenue from federal, State, local, and other¹⁶ sources.

Federal Funding	
Name of Grant / Award	Amount Received
Title I	\$ 366,823.00
Individuals with Disabilities Education Act (IDEA)	237,238.00
Title II	80,211.00
Perkins	29,053.00
Title III	12,366.00
IDEA - Pre School	2,548.00
Total	\$ 728,239.00
State Funding	
Type	Amount Received
Division I	\$ 7,687,145.16
Division III	1,862,746.00
Division II	568,015.00
Contractor Transportation	444,838.27
Educational Sustainment Fund	240,224.00
Minor Cap	99,953.00
Excellence Option	94,177.71
College Access	45,731.00
Unique Alternatives	35,948.70
Related Services	32,048.64
Homeless Transportation	23,550.00
Driver's Education	19,950.00
Technology Block Grant	19,907.00
Professional Development	12,261.00
Student Assessment	4,512.50
Education Accountability	4,101.00
Transportation Supplies	1,000.00
Vocational Equipment Replacement	987.00
Dual Enrollment	300.00
Total	\$ 11,197,395.98
Local Funding	
Classification	Amount Received
Current Expense	\$ 916,812.56

¹⁶ Other revenue sources encompass student activity funds (e.g. field trip money, student organization dues, or money earned through fundraisers).

Tuition	641,002.56
Cafeteria	500,818.63
Debt Service	308,811.80
Match - Minor Capital Improvements	66,275.89
Indirect Costs	55,440.54
Athletic Receipts	47,887.00
Match - Technology	19,461.12
E-rate Funding	19,355.84
Children Services Cost Recovery Project (CSCRCP)	514.13
Total	\$ 2,576,380.07
Other Revenue (Donations, gifts, student activity accounts, etc.)	
Description*	Amount Received
Holding Account	\$ 55,766.66
Future Farmers of America (FFA)	22,341.43
Band (Senior)	21,337.33
Seventh Grade Field Trip	17,464.00
Yearbook 2014-2015	15,975.00
Hockey	15,765.00
Cheerleading	15,653.46
Class of 2016	14,942.45
Eighth Grade Field Trip	12,465.00
Golf Fund	10,740.00
All Others ¹⁷	178,204.13
Total	\$ 380,654.46
Grand Total FY2015 Revenue	\$ 14,882,669.51

*These funds are deposited into an account held at Bank of Delmarva.

AOA's review of internal controls specifically focused on cafeteria and student activity funds since these revenues are generated through the receipt of cash. As detailed in the Findings and Recommendations section below, we found that the School District did not always ensure the physical security of cash, ensure that employees do not share login credentials, segregate duties appropriately, and monitor adherence to cash receipts controls.

We also reviewed the School District's debt service ending balance and debt service reserve to ensure the School District maintained sufficient funds for their bond obligations without having an excessive debt service balance. We found that the School District's debt service ending balance was sufficient to cover bond obligations for the first four months of the next fiscal year, while being less than 110% of the total debt service obligations for the fiscal year. AOA also reviewed local tax collections to ensure that these funds were properly recorded in FSF, and found that the School District's tax receipts were accurately recorded.

¹⁷ Individual accounts in this category had less than \$10,000 in revenue in Fiscal Year 2015.

Findings and Recommendations

Finding 2015-001 – Physical Security of Assets

According to the Standards for Internal Control in the Federal Government (Green Book),¹⁸ published by the Government Accountability Office (GAO), “*Management establishes physical control to secure and safeguard vulnerable assets. Examples include physical security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use.*”

Cafeteria

On occasion, School District personnel collect cash using portable iPads, which do not have secured cash drawers, during breakfast service at Delmar High School.

Student Activity

The School District’s School (Student) Account Procedures¹⁹ state:

- “*Receipts are to be deposited in the appropriate bank account **on the day received;**” and*
- “*No funds are to be kept overnight by an employee or sponsor.*”

AOA found that for all 14 deposits, totaling \$33,907, tested, student activity funds were not turned in to the Financial Secretary on the day received by teachers or advisors. Since funds were not turned in to the appropriate designee on a timely basis, the School District held the funds for several days before depositing the funds into the external bank account. Maintaining cash for an extended period of time delays accounting procedures, and leaves the School District vulnerable to misappropriation of cash.

Recommendation

Management should establish policies that prohibit cashiers from accepting cash when it cannot be secured and limit cash transactions to those registers with a locked cash drawer. The School District should also work to ensure the security of student activity funds by depositing these funds on the day received.

School District Response

The District concurs with the recommendation and will evaluate the current processes further to determine the appropriate corrective action.

Finding 2015-002 – General Technology Controls

The Delaware Department of Technology and Information’s (DTI’s) Information Security Policy,²⁰ “*...applicable to all users of the State of Delaware communications and computing resources...*,” states, “*All Data Users must have unique user access credentials. Access to computing resources via a shared username, shared passwords, shared access credentials and anonymous logins is strictly prohibited. All personnel must treat passwords and other access credentials as private and highly confidential. All Data Users are responsible for all activity performed with their personal [Identifications (IDs)]. These IDs are not authorized to be utilized by anyone but the individual to whom they have been issued.*”

¹⁸ Green Book 2014 Section 10.03

¹⁹ Receipts Section, items six and eight.

²⁰ DTI Information Security Policy, effective February 1, 2007, reference number SE-ESP-001.

School District personnel confirmed that, on occasion, cafeteria cashiers processing breakfast service forget to log out of their registers, and there are no School District policies requiring users to log out at the end of service (e.g. breakfast or lunch). The School District also confirmed that in instances where a cashier forgets to log off after breakfast service, the lunch cashier may be processing transactions under the breakfast cashiers login information.

In addition, the Financial Secretary and the Director of Finance share login credentials for the School District's Education Programs and Software (EPES) system, which is used to track student activity accounts.

Allowing employees to process transactions under another employee's user identification prohibits identifying the employee responsible when errors or misappropriations occur.

Recommendation

All staff should have separate login credentials for all information systems. In addition, the School District should develop policies to ensure that users are not sharing login credentials.

School District Response

The District does not encourage or condone the sharing of login credentials. There was a specific and limited time period when the Financial Secretary was out on an unforeseen and extended leave of absence. During this time the Director of Finance maintained the student activity accounts and logged onto the EPES system using the absent Secretary's login credentials. This decision was known and made by administration, and only one person used the login credentials at all times during this period, so all activity in the system could be traced to a single, specific person. If a similar situation occurs in the future, the District will document the decision to avoid the appearance or perception that employees are sharing login credentials. Additionally, the District will evaluate the current register login process in the cafeteria and determine the appropriate corrective action.

Auditor Response

AOA's finding stands as written. Regardless of the situation, the District should never allow users to share login credentials.

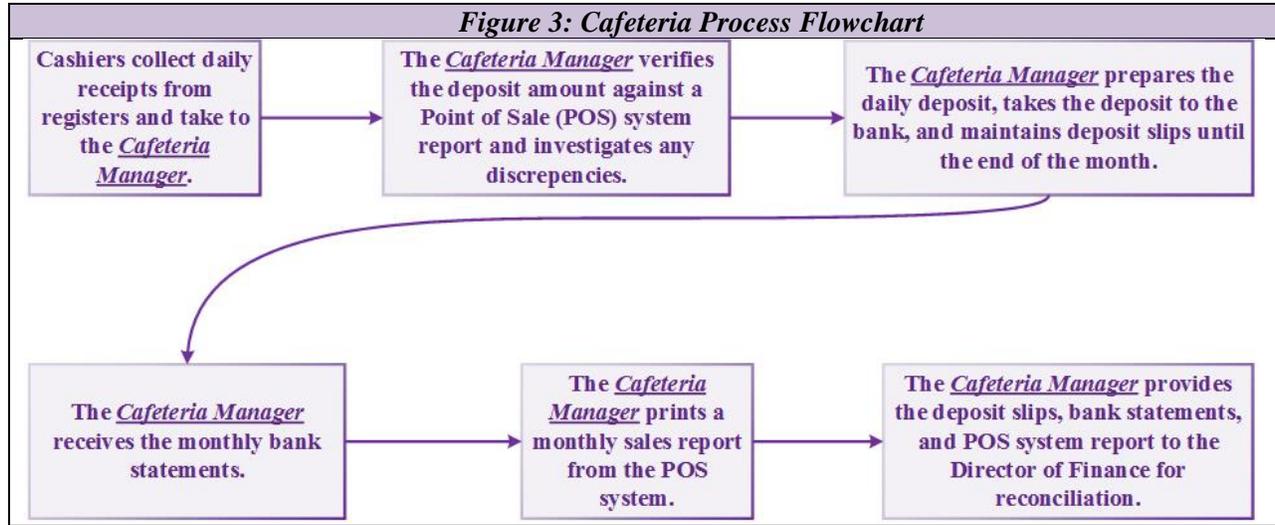
Finding 2015-003 – Segregation of Duties

According to the Green Book,²¹ *“Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”*

Cafeteria

Through process interviews with the School District, AOA found that the Cafeteria Manager has too much responsibility in the cafeteria receipt process. An overview of the School District's cafeteria revenue process, showing the conflicting Cafeteria Manager duties, can be found in Figure 3 below. Allowing one individual to complete key responsibilities in the deposit and reconciliation process leaves the School District vulnerable to misappropriation or error.

²¹ Green Book 2014 Section 10.03



Student Activity

In addition, the bank statements for the student activity account are delivered to the Financial Secretary who maintains the accounts, as opposed to the Director of Finance, who is responsible for reconciling the monthly statements.

Neither the School District’s policies and procedures, nor every day practices, adequately segregate duties among employees.

Recommendation

The School District should appropriately divide responsibilities to ensure adequate internal controls.

School District Response

The District concurs with the recommendation and will evaluate the current processes further to determine the appropriate corrective action.

Finding 2015-004 – Inadequate Documentation

According to the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control – Integrated Framework, supervisory controls “...*assess whether other transaction controls (i.e., particular verifications, reconciliations, authorizations and approvals, controls over standing data, and physical control activities) are being performed completely, accurately, and according to policies and procedures.*” COSO adds that “...*effective documentation assists in capturing the design of internal control and communicating the who, what, when, where, and why of internal control execution, and creates standards and expectations of performance and conduct.*”

Based on the lack of documentation discovered in our review of the cafeteria and student activity process discussed below, AOA determined that School District management did not adequately review the cafeteria and student activity revenue processes.

Cafeteria

Although the School District stated that the Cafeteria Manager takes the deposits to the bank each day after lunch service, there was no documentation (e.g. a signed deposit slip or deposit form) to confirm the validity of this statement. Failure to keep records of the individuals delivering daily

deposits leaves the School District at risk of being unable to identify which individual took the deposit on a given day if there was a discrepancy with the deposit.

In addition, the School District was unable to provide supporting documentation to show which individual completed monthly reconciliations of the cafeteria account, although there was evidence that a reconciliation had been completed. Failure to document which individual completes monthly reconciliations prohibits those charged with governance from ensuring an adequate segregation of duties, or holding the individual completing the reconciliation accountable.

Finally, the School District's cafeteria policies and procedures describe school processes, but were too vague to determine the individual assigned to each task. A lack of detailed policies and procedures leaves employees with an unclear outline of their responsibilities, and keeps auditors from determining individual responsibilities in a given process.

Student Activity

The School District's School (Student) Account Procedures states, "...all deposits require a Monetary Receipts Form to be completed and signed by the authorized representative." The Monetary Receipts Form itemizes receipts and documents the date funds were received by the authorized individual (e.g. a teacher collecting money for school field trips). Of the 14 deposits, totaling \$33,907, reviewed by AOA, each deposit contained at least one Monetary Receipts Form which was incomplete. The Monetary Receipts Forms often excluded the date that the authorized individual collected the funds and the details regarding the source of the funds. In addition, School District personnel confirmed that support (e.g. receipts or ticket stubs from sporting events) for the funds collected, does not accompany the Monetary Receipts Form.

This lack of detail prevents management from easily identifying and correcting errors or misappropriations, while the lack of support accompanying the forms forces management to rely solely on the Monetary Receipts Form completed by the individual collecting the funds, and prevents a thorough review of the source of the funds.

Recommendation

The School District should document which individual makes the daily deposits to ensure adequate controls over cash in the School District's possession, and ensure management can perform adequate reviews of cash receipts. In addition, in an effort to ensure that controls are functioning as intended, the School District should require that all reconciliations or verifications of receipts be documented, so that the individual completing the reconciliation or verification can be easily identified if there is a discrepancy or issue. Next, the School District should work to develop policies and procedures that clearly identify individual responsibilities in all financial processes. Finally, maintaining appropriate support for all transactions, and ensuring the support is thoroughly completed, provides management with the necessary resources to complete a thorough review of the School District's transactions.

School District Response

The District concurs with the recommendation and will evaluate the current processes further to determine the appropriate corrective action.

Finding 2015-005 – Verification

COSO's Internal Control – Integrated Framework defines verification as, "...compare two or more items with each other..., and perform a follow-up action when the two items do not match...." The School District did not maintain support to confirm that they verify the accuracy of the State and

federal funds received through the DOE. Failure to document the confirmation that all State and federal funds due to the School District were received may result in an oversight and a missed opportunity to claim all funds owed to the School District.

Recommendation

The School District should verify the accuracy of all funds received by and owed to the School District from State and federal funding sources, and document such verification to ensure the School District receives all funds to which they are entitled.

School District Response

The District did (and does) verify the accuracy of all funds received by the State and federal funds received through the DOE – it just did not have a written process or policy of the verification process. Revenues are projected in the Preliminary Budget and then updated in the Final Budget after the Unit Count is certified and the Consolidated Grant is approved by the DOE. Both are approved by the Board of Education, and year-to-date balances are submitted to the Board for their approval every month. The District receives backup documentation from the DOE for each transfer of funds, and this documentation is reconciled with the revenues reported in the final and monthly budgets. The District will amend the *Delmar School District Internal Control Policies for Financial Accounting* to include this verification process.