State of Delaware
Office of Auditor of Accounts

School District Expenditures
Fiscal Year 2016

Inspection

Issuance Date: December 6, 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

<table>
<thead>
<tr>
<th>Why We Did This Inspection:</th>
<th>What We Found</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to the ongoing budget constraints the State of Delaware (the State) faces each year, the Office of Auditor of Accounts (AOA) sought to identify areas of potential cost savings to assist legislators in developing the State’s budget. With public education comprising approximately 30% of the State’s budget, AOA chose to focus this engagement on school district expenditures. We analyzed all Purchasing Card (PCard) and voucher transaction data for the 19 Delaware school districts from July 1, 2015 through June 30, 2016.</td>
<td>The original intent of this engagement was to perform a comparative analysis of expenditures across the 19 school districts. However, as we attempted to analyze the data, we found widespread inconsistencies in the way the school districts coded expenditure transactions in the State’s accounting system, First State Financials (FSF). Given the significance of this constraint, AOA shifted the objective of this engagement to reviewing payments that were not easily identifiable as benefitting students in the classroom.</td>
</tr>
</tbody>
</table>

| This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, Quality Standards for Inspection and Evaluation. | Many of the purchases that we reviewed were used for valid educational purposes. For example, boat dealer expenditures that were originally labeled as suspicious were supplies for a marine apprentice program. Also, purchases coded to categories such as table games and sports lottery were simply miscoded in FSF. |

| For further information on this release, please contact: R. Thomas Wagner, Jr. CGFM, CICA, CFE (302) 739-5055 | However, the permissibility of several transactions reviewed was questionable. School districts charged over $98,000 for in-State meal purchases to their PCards, some of which may have been in violation of the State’s Budget and Accounting Policy Manual. AOA identified the following types of purchases expressly prohibited by the State: |

| Meals for Non-State Employees | AOA recognizes there may be conflicting guidance regarding the applicability of State policies to the local school districts. Therefore, we encourage school districts to collaborate with each other and the Department of Education regarding the appropriate use of school funds. Further, they should consider consulting with the Division of Accounting to develop a more consistent coding structure for recording school district expenditures. |
| Flowers | We appreciate the school districts’ cooperation throughout this engagement and their interest in ensuring the proper controls are in place to support their fiduciary responsibilities. As part of this process, school districts should continue to scrutinize purchases to ensure that the taxpayer dollars they have been entrusted with are spent wisely, efficiently, and effectively. |
| Gift cards | |
| | |
## Table of Contents

Objective, Scope, and Methodology ............................................................................................................. 1  
Procedures and Results ................................................................................................................................. 2  
  Expenditure Coding Inconsistencies in First State Financials (FSF)......................................................... 2  
  Payment Voucher Review ......................................................................................................................... 3  
  State Purchasing Card (PCard) .................................................................................................................. 4  
  Conclusion ................................................................................................................................................ 9  
Recommendations ....................................................................................................................................... 10  
Responses to Findings ................................................................................................................................. 11  
Appendix A: Background .............................................................................................................................. 14  

### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOA</td>
<td>Auditor of Accounts</td>
</tr>
<tr>
<td>BAM</td>
<td>Budget and Accounting Manual</td>
</tr>
<tr>
<td>DOA</td>
<td>Division of Accounting</td>
</tr>
<tr>
<td>DOE</td>
<td>Department of Education</td>
</tr>
<tr>
<td>FSF</td>
<td>First State Financials</td>
</tr>
<tr>
<td>PCard</td>
<td>Purchasing Card</td>
</tr>
</tbody>
</table>
Objective, Scope, and Methodology

Objective
The objective of this inspection was to verify that State and local school district expenditures benefit students in the classroom.

Scope
The scope of the inspection included all State and local funds expended by the Delaware school districts through vouchers and Purchasing Cards (PCard) during Fiscal Year 2016.

Methodology
The methodology for this inspection included, but was not limited to:

- Obtaining Statewide school district voucher expenditure activity for State (Fund 100) and Local (Fund 270) spending from First State Financials (FSF).
- Obtaining PCard transactions for all Delaware school districts from JPMorgan Chase Bank.¹
- Reviewing the obtained expenditure data and identifying specific FSF account codes² and PCard merchant category codes³ that could be used in ways that do not directly benefit the children in the classroom.
- Selecting vendors that could be paid for purposes that do not directly benefit the children in the classroom.
- Obtaining and reviewing a sample of transactional supporting documentation to:
  - Determine the nature of the purchase, and
  - Ensure transactions were in compliance with applicable laws and regulations, including the State of Delaware’s (the State) Budget and Accounting Policy Manual (BAM).
- Inquiring with school district personnel as needed.

¹ JPMorgan Chase Bank holds the State’s contract for the PCard program (BAM Section 12.1, v.5.13).
² Account codes identify the specific uses of funds within FSF.
³ This is a four-digit number assigned to a business by credit card companies that reflects the primary categories in which the merchant does business, according to Wikipedia (https://en.wikipedia.org/wiki/Merchant_category_code) on August 10, 2017.
Procedures and Results

In an attempt to categorize spending items as instructional or non-instructional for further analysis, the Office of Auditor of Accounts (AOA) extracted all voucher and PCard expenditures made from State and local funds by each of the 19 school districts. However, the State’s financial accounting system has over 11,000 active appropriations and over 1,500 active account codes available for use. As a result, we found inconsistencies in expenditure coding across the 19 school districts that prevented us from performing an in-depth analysis of expenditures. In addition to these limitations discussed below, AOA identified a few areas where school districts are encouraged to assess the prudency of their spending.

Expenditure Coding Inconsistences in First State Financials (FSF)

The State uses FSF to process, reconcile, and track its financial transactions. The coding structure within FSF includes the fund accounting method, which “…is a method of segregating resources into categories (funds) to identify both the source and use of monies.”4  FSF also uses appropriations to set aside monies for specific purposes.5 Coding within FSF allows users to summarize spending data in various ways, such as by fund type, appropriation, agency, or account code.6  Obtaining accurate and consistent data is necessary in assisting school district officials and State oversight bodies in making appropriate financial decisions.

We attempted to determine which costs were for instructional purposes (e.g. textbooks, paper, various classroom equipment) versus which costs were for non-instructional purposes (e.g. transportation, operations and maintenance, food service) by using various data analysis tools. Through our analysis, however, AOA found that expenditure coding varied widely across the 19 school districts in the State.

As one example of the difficulties we encountered during our voucher analysis, we identified 45 different account codes used by school districts for pupil transportation expenditures. Of the almost $50 million spent on pupil transportation, we found $48 million coded to the “Equipment Rental” account that primarily paid for school bus services, not the leasing of school buses as we would have expected from the account code description. While some of the 45 codes used may be appropriate, Table 1 displays some of the unusual account codes used for pupil transportation expenditures.

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Code Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>56150</td>
<td>Instructional Supplies</td>
</tr>
<tr>
<td>55010</td>
<td>Medical Services</td>
</tr>
<tr>
<td>55635</td>
<td>Laundry Service</td>
</tr>
<tr>
<td>57040</td>
<td>Multimedia Equipment</td>
</tr>
<tr>
<td>55692</td>
<td>Sanitary Services</td>
</tr>
</tbody>
</table>

The inconsistency in expenditure coding makes it difficult, if not impossible, for users of the data to analyze, compare, and make important decisions regarding school district funds. Accordingly, school districts should work together and seek guidance from the Department of Education (DOE) and the

---

4 BAM Section 3.2, v.2.8  
5 BAM Section 3.1, v.2.8  
6 See Footnote 2.
Division of Accounting (DOA) regarding the best and most accurate way to code transactions. To increase transparency, school districts should request the creation of account codes that would more accurately reflect the nature of their transactions (e.g. school bus contractor). \(^R_1\)

**Overview of Transactions Selected for Testing**

Given the restraints imposed by the inconsistent coding, we focused our inspection on payments using FSF account codes or PCard merchant category codes that did not appear to directly benefit students in the classroom or were explicitly prohibited by the BAM. The categories that we selected included, but were not limited to:

- Honorariums
- Online games
- Table games
- Sports lottery
- Florists
- Boat dealers
- Clothing
- In-State travel, lodging, and meals
- Non-employee expenditures (e.g. travel for external trainer)

After judgmentally selecting school districts with the highest spending in the different categories above, we interviewed personnel and obtained supporting documentation from those school districts.

**Payment Voucher Review**

Our review of voucher transactions further demonstrated FSF’s coding discrepancies. We found several instances where the nature of the transaction did not align with the account code recorded in FSF, as shown in Table 2. Based on the supporting documentation, it appears that the inaccurate coding was a result of human error by the voucher preparer and reviewer(s).

<table>
<thead>
<tr>
<th>School District</th>
<th>Amount</th>
<th>Account Code Used in FSF</th>
<th>Transaction Description per Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>$2,155.60</td>
<td>In-State Lodging</td>
<td>Out-of-State Lodging</td>
</tr>
<tr>
<td>Indian River</td>
<td>$2,140.00</td>
<td>Table Games</td>
<td>Computer Services</td>
</tr>
<tr>
<td>Milford</td>
<td>$8,275.34</td>
<td>Online Games</td>
<td>Computer Services</td>
</tr>
<tr>
<td>NCC Vo-Tech</td>
<td>$5,565.00</td>
<td>Sports Lottery</td>
<td>Environmental Services</td>
</tr>
<tr>
<td>Cape Henlopen*</td>
<td>$200.00</td>
<td>Computer Supplies</td>
<td>Sticky Buns</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,335.94</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* This was a PCard transaction that was used to purchase sticky buns for an employee holiday breakfast, but was coded to “Computer Supplies” in FSF.

For school districts to maintain accurate accounting records, appropriate caution should be taken at all levels to ensure that the data is properly recorded in FSF. \(^R_2\)

\(^R_2\) Refer to the Recommendations section of the report.

7An honorarium is “a payment for a service (such as making a speech) on which custom or propriety forbids a price to be set.” https://www.merriam-webster.com/dictionary/honorarium, retrieved 5/16/2017
Legitimate Transactions That Appeared Suspicious

AOA also recognizes that coding alone does not determine the appropriateness of a transaction. We identified potentially suspicious transactions coded to areas such as boat dealers and clothing stores. However, upon review of the supporting documentation, we found that these purchases related to student curriculum or contributed towards the overall well-being of the students. In addition, approximately $2,000 in honorariums appeared to be paid to a former State Secretary of Education but was actually paid to a special needs community member of the same name who regularly assisted the custodial staff.

State Purchasing Card (PCard)

As described above, AOA identified a variety of PCard merchant category codes for further review that either did not appear to benefit students in the classroom or were expressly prohibited per the BAM. We then judgmentally selected transactions at various school districts to perform an in-depth review of the nature of the expenditures.

Food Consumed In-State

Using the Fiscal Year 2016 statewide PCard data, AOA extracted transactions paid to in-State food vendors (e.g. Georgia House, Wawa, Edible Arrangements), thereby excluding meals for out-of-State travel. Figure 1 below demonstrates the amount of in-State meal purchases by school district.

![Figure 1: PCard In-State Meal Purchases by School District](image)

* The “All Others” category includes the remaining 13 school districts, none of which charged over $5,000 to the PCard for in-State food vendors during Fiscal Year 2016.

We selected Lake Forest and Cape Henlopen School Districts for further review due to the high volume charged to their PCards. However, AOA understands that additional in-State meals may have been purchased through direct claim vouchers or personal reimbursements instead of with the PCard. The combined purchases for these two school districts accounted for over half of the amount spent by school districts statewide on the PCard for in-State meals during Fiscal Year 2016.
AOA judgmentally selected a sample of in-State meals to review and organized the transactions into the following categories:

<table>
<thead>
<tr>
<th>Description of Purpose for Food Purchase</th>
<th>Cape Henlopen School District</th>
<th>Lake Forest School District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board meetings, Citizens Budget Oversight Committee meetings, or holiday parties where attendees included non-State employees</td>
<td>16</td>
<td>1,053.97</td>
</tr>
<tr>
<td>Meetings of various natures that included school district personnel and individuals from other school districts or non-State employees such as parents or community members</td>
<td>1</td>
<td>27.98</td>
</tr>
<tr>
<td>Employee recognition purposes (see further discussion below)</td>
<td>8</td>
<td>3,276.38</td>
</tr>
<tr>
<td>Professional Development (see further discussion below)</td>
<td>13</td>
<td>5,041.24</td>
</tr>
<tr>
<td>Staff meetings or other occasions that were not directly related to Professional Development</td>
<td>9</td>
<td>2,254.09</td>
</tr>
<tr>
<td>Food for students</td>
<td>9</td>
<td>658.54</td>
</tr>
<tr>
<td><strong>Total in-State meal transactions tested</strong></td>
<td><strong>56</strong></td>
<td><strong>$12,312.20</strong></td>
</tr>
</tbody>
</table>

**Professional Development**

The BAM states that food provided to employees during normal working hours is permissible as long as the training event is held offsite. AOA did not differentiate between on-site and off-site events since some school districts interpret the “off-site” terminology differently. For example, if a...
middle school teacher attends a training offered at the high school in the same school district, some school district personnel consider that as “off-site” for that particular teacher. However, AOA views the school district as one entity. Regardless of the location, school districts should consider whether buying employees food during normal working hours is the most prudent use of those funds, or if those funds could be put to better use in the classroom.

**Employee Recognition**

While AOA could not identify any criteria in the Delaware Code or the BAM stating what amount school districts can spend for employee recognition activities, other State employees are limited by a State-sanctioned recognition program. These rules limit State dollars spent on employee recognition to $10 per person per year.8

In addition to the food purchases described above, AOA identified additional transactions for employee recognition, including charges for banquet rentals (see in-State lodging section below) or material gifts. For example, in May 2015, the Cape Henlopen School District paid for a district-wide “Retirement and Recognition Reception” honoring 35 retirees and 8 teachers of the year at the Atlantic Sands Hotel & Conference Center in Rehoboth Beach, Delaware. The invoice charged food for 207 guests and totaled $10,589.74. The invoice also included a $112.50 bartender fee; however, we did not identify any alcohol purchases. Of the total amount, only $1,289.74 was charged to the PCard and is included in the in-State lodging amount discussed in the next section. The remaining charges for this transaction were processed via voucher.

AOA did not focus this engagement on employee recognition activities; therefore, we did not identify nor inspect the full universe of transactions for this purpose. However, AOA recommends that all school districts develop a formal policy that mirrors the State’s policy and establishes a limit on the funds, either per person or in aggregate, spent for this purpose annually.R3

**Board Member Appreciation**

In December 2015, the Lake Forest School District held a holiday dinner for board members, administrators, and their spouses at The Rookery Golf Club in Milford, Delaware, totaling $1,899.30. (This amount is included in the in-State meal transactions described above in the “Employee Recognition purposes” category since administrators were recognized.) A handwritten note on the invoice stated it was approved at a special board meeting in executive session on October 14, 2015.

Since school districts are exempt from some State procurement rules and certain sections of the BAM (e.g. the travel policy), they have increased autonomy over the use of their funds, particularly the local portion. As a result, funds that could be spent in the classroom are being used for other purposes. School districts are encouraged to spend funds in the most prudent manner to ensure these funds are used efficiently in providing education for students.R4

---

In-State Lodging
Although school districts are excluded from the State travel policy found in Chapter 11 of the BAM, the State highly recommends that they also adopt and follow that policy.

AOA used data analytics to identify and isolate in-State lodging transactions. Throughout Fiscal Year 2016, Delaware school districts charged $18,589.11 to the PCard for in-State lodging, as seen in Figure 2 below.

Figure 2: PCard In-State Lodging Purchases by School District

* The “All Others” category includes the remaining 17 school districts, none of which charged over $3,000 in total to the PCard for In-State Lodging during Fiscal Year 2016.

---

9 BAM Section 11.1.2, v.4.22

**BAM Section 11.1.2, v.4.22**

The policy for in-State assignments requiring overnight lodging is established by the Agency. As a general rule, in-State lodging is not encouraged; however, there may be instances when it is deemed appropriate and cost effective. In such instances, in-State lodging must be approved by the Agency Head.

**BAM Section 11.4.4(1), v.4.22**

---

9 BAM Section 11.1.2, v.4.22
Together, the Red Clay and Cape Henlopen School Districts had 21 in-State lodging transactions, totaling $8,327.59. These two school districts accounted for approximately 45% of all in-State lodging transactions and were therefore selected for testing. Again, AOA understands that additional in-State lodging expenditures may have been processed through direct claim vouchers or personal reimbursements; however, our review of in-State lodging only focused on transactions paid by the PCard.

Per review of the supporting documentation, the majority of the transactions provided lodging for professional development conferences, student activities (e.g. competition finalists), and homeless families. Two transactions, totaling $1,289.74, at the Cape Henlopen School District, served as partial payment for a school district retirement dinner. (See previous discussion regarding employee recognition at the school districts.)

Prohibited Purchases
Since the State lacks oversight and enforcement over school district transactions, AOA found the following purchases of both flowers and gift cards that were prohibited by the BAM.

AOA did not take exception to flower purchases that were made using donated funds or for student activity purposes, such as graduation or agricultural programs. However, our data analysis identified the following flower purchases for staff or community members:

<table>
<thead>
<tr>
<th>School District</th>
<th>Number of Transactions</th>
<th>Total Amount Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caesar Rodney</td>
<td>3</td>
<td>$173.95</td>
</tr>
<tr>
<td>Cape Henlopen</td>
<td>1</td>
<td>$60.00</td>
</tr>
<tr>
<td>Lake Forest</td>
<td>3</td>
<td>$137.85</td>
</tr>
<tr>
<td>Sussex Technical</td>
<td>2</td>
<td>$209.90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
<td><strong>$581.70</strong></td>
</tr>
</tbody>
</table>

Since the BAM expressly prohibits the purchase of flowers, AOA recommends collecting donations from staff members if the school district wishes to provide flowers for recognition, well wishes, or other occasions.  

...No funds shall be expended for purposes such as gratuities, greeting cards, flowers and tickets to athletic events when unrelated to an agency's function....

BAM Section 7.2.2, v.4.28
AOA also identified the following gift card purchases that either were given to employees or did not have an inventory process in place.

- Cape Henlopen School District
  - $200.00 – 2 gift certificates for $100 each to Fish On! restaurant as retirement gifts

- Lake Forest School District
  - $50 – One gift card for Positive Behavior Support program giveaway for students
  - $100 – 4 gift cards for $25 each used as giveaways at their annual Winter Festival to benefit families in need

Considering that the BAM prohibits the purchase of gift cards for employees since they are considered cash advances, AOA recommends finding another source of gifts as a form of employee recognition. Or, if a school district prefers to continue with this practice, the school district may want to consider collecting private donations for this purpose.\textsuperscript{R6} In addition, any gift cards purchased for student activities should have an inventory system in place.

**Conclusion**

The sheer volume of available appropriations and account codes for use in FSF, combined with a lack of specific guidance from the State and DOE regarding how expenditures should be coded in FSF, has led to inconsistencies in expenditure coding across the 19 school districts. Due to these inconsistencies and the great number of potential combinations of these appropriations and account codes, it is extremely difficult and time-consuming to determine the amount that school districts spent for students in the classroom, which was the primary objective of this inspection.

Having a consistent accounting methodology across the 19 school districts will lead to more uniform data and greater transparency. As a result, school districts and oversight bodies can perform comparative analytics and identify areas for improved spending and efficiencies. In addition, consistent data will allow responsible parties to make more accurate financial decisions.
Table 5 summarizes the recommendations noted throughout the report:

<table>
<thead>
<tr>
<th>Reference</th>
<th>Recommendation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>School districts should work together and seek guidance from DOE and DOA regarding the best and most accurate way to code transactions. To increase transparency, school districts should request the creation of account codes that would more accurately reflect the nature of their transactions (e.g. school bus contractor).</td>
<td>3</td>
</tr>
<tr>
<td>R2</td>
<td>For school districts to maintain accurate accounting records, appropriate caution should be taken at all levels to ensure that the data is properly recorded in FSF.</td>
<td>3</td>
</tr>
<tr>
<td>R3</td>
<td>AOA recommends that all school districts develop a formal employee recognition policy that mirrors the State’s policy and establishes a limit on the funds spent on employee recognition activities, either per person or in aggregate.</td>
<td>6</td>
</tr>
<tr>
<td>R4</td>
<td>School districts are encouraged to use their discretion to spend funds in the most prudent manner to ensure these funds are used efficiently in providing education for students.</td>
<td>6</td>
</tr>
<tr>
<td>R5</td>
<td>AOA recommends collecting donations from staff members if the school district wishes to provide flowers for recognition, well wishes, or other occasions.</td>
<td>8</td>
</tr>
<tr>
<td>R6</td>
<td>AOA recommends finding alternate sources of gifts as a form of employee recognition instead of gift cards/certificates. Or, if a school district prefers to continue with this practice, the school district may want to consider collecting private donations for this purpose.</td>
<td>9</td>
</tr>
</tbody>
</table>

In coordination with DOE and DOA we suggest that local school districts consult the BAM and Delaware Code for guidance on the permissive and non-permissive uses of State and local funds. Although school districts are exempt from some State policies, they should ensure the funds they have been entrusted with are used in a prudent manner.
Responses to Findings

While DOE suggested some edits to the verbiage in the report for AOA’s consideration, they opted not to provide a formal response to our recommendations.

Division of Accounting’s Response to Findings

The Division of Accounting oversees the accounting system, First State Financials (FSF), which is utilized by all State Organizations to record their financial transactions. The chart of accounts must serve all Organizations and therefore as currently developed is more generic in nature rather than specific to any particular Organization or groups within the State. Due to the decentralization of accounting, each Organization is responsible for coding their transactions and maintain discretion over that coding. DOA is open to discussing limited additions to the chart of accounts, however adding accounts does not guarantee transactions will be properly coded. As long as accounting functions remain decentralized, challenges will exist with the proper coding of transactions.
TO: Thomas Wagner, Auditor of Accounts  
FROM: Oliver Gumbs, Director of Business Operations  
Robert S. Fulton, Superintendent  
DATE: November 20, 2017  
RE: FY 2016 School District Expenditure Inspection Response

The Cape Henlopen school district is strongly committed to financial transparency. The District has policies and procedures in place to ensure financial accountability and appropriateness of all expenditures to meet its goals and objectives. We will continue to evaluate our policies to ensure there is appropriate accountability and transparency. Our commitment is supported and governed by Board Policy and Internal Accounting Manual. Our Financial practices, procedures and policies are reviewed with our Citizens Budget Oversight Committee to ensure that there is full accountability and transparency related to our financial activities.

We appreciate the work performed by your team in evaluating various transactions as part of the School District Expenditures Fiscal Year 2016 Inspection; and, will review this information for future enhancements, where needed.

In regards to the items noted within the report, please accept the following as our formal response:

- In regard to the Employee Recognition/Retirement Dinner referenced in the report, it should be noted that of the $10,589.74 total cost, $2,884 of the amount was paid using funds received from paying attendees. (Supporting Deposit Documentation attached)
- In regard to gift card purchases, the District has an inventory policy in place to ensure proper accounting. (See the District Internal Accounting Manual on our Website)
- In regard to the prohibited purchase of flowers for an employee recognition, the District will seek to have a conversation with the Division of Accounting about the appropriateness of this prohibition.

Should you have any questions, comments or concerns regarding our response, please feel free to contact us.
MEMORANDUM

TO: R. Thomas Wagner, Jr., CFE, CGFM, CICA
    Auditor of Accounts
FROM: Brenda G. Wynder, Ed. D.
      Superintendent
DATE: November 16, 2017
SUBJECT: School District Expenditures Fiscal Year 2016 Inspection

The Lake Forest School District is committed to meeting the needs of our staff and students, as well as the expectations of our community in a transparent and accountable manner. Given this level of commitment, supported and governed by the District’s Mission, Values and Board Policy Manual, we appreciate the work performed by your team in evaluating various transactions as part of the School District Expenditures Fiscal Year 2016 Inspection.

In regards to the items noted within the report, released as a result of the inspection, please accept the following as our formal response:

1. Effective August 15, 2017, a moratorium was placed on the purchase of food, excluding child nutrition, vocational programs, parent/community involvement activities, employee recognition events and student/school activity accounts.

2. The District is in the process of developing a district-wide employee recognition policy and plan, with the intent to deploy this for School Year 2018 - 2019.

3. The District will evaluate the need for an inventory process surrounding gift cards provided to students to promote positive behavior and involvement, as well as promote the use of other alternatives to encourage positive behavior and student involvement.

Should you wish to discuss further and/or if you have any questions regarding our response, please do not hesitate to contact me.

Superintendent
Dr. Brenda G. Wynder
Central Business Office
5423 Killens Pond Road
Felton, DE 19943-9801
W: 302-284-3020 Ext. 104, Fax: 302-284-5831

Board of Education
James L. Rau, President
Andrea M. Miller, Vice President
Rhonda A. Swenson
Earl Dempsey
Phillip Thomas

The Lake Forest School District does not discriminate in employment or in educational programs, services or activities based on race, color, national origin, religion, gender, gender identity, sexual orientation, age, military/veteran status, disability, marital status or any other protected category in accordance with state and federal laws. Inquiries should be directed to the Director of Personnel, Lake Forest Central Business Office, 5423 Killens Pond Road, Felton, DE 19943. Telephone: (302)284-3020.
Appendix A: Background

School districts are governed by 14 Del. C., chapter 2, which states, “The system of free public schools throughout this State shall be general and efficient.”

The State currently has 19 public school districts, enrolling over 121,000 students during the year ended June 30, 2016 (Fiscal Year 2016).

Sources of School District Funding
During Fiscal Year 2016, the State appropriated $1.3 billion of its $3.9 billion budget to education through its Budget Appropriation Bill. In addition to funds appropriated through Delaware’s Budget Appropriation Bill, school districts also receive local tax collections (usually referred to as local funds), capital improvement funds from the State, and federal funding. The table below shows total school district spending by fund type.

10 14 Del. C. §201
11 See Table 7 “Fiscal Year 2016 Student Enrollment and Expenditures per School District” for student enrollment for each school district during Fiscal Year 2016.
13 House Substitute No. 1 for House Bill No. 225 of the 148th General Assembly
Table 6: Total Fiscal Year 2016 School District Spending by Fund Type

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll (Includes all Fund Types)</td>
<td>$1,378,227,140</td>
</tr>
<tr>
<td>State Funds</td>
<td>129,773,432</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>30,407,443</td>
</tr>
<tr>
<td>Local Funds</td>
<td>211,284,136</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>100,476,750</td>
</tr>
<tr>
<td>Local Debt Service</td>
<td>66,461,926</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,916,630,827</strong></td>
</tr>
</tbody>
</table>

This engagement focused on non-payroll expenditures from the State and local funds due to the audit coverage over other fund types (e.g. federal funds, capital project funds).

State Funding
The amount of State funds received by each school district is determined through various budget appropriations and funding formulas based largely on the student enrollment totals and special programs and services provided by the school district.14

There are three primary State funding types received by public school districts as a result of units15 generated through the September 30th Unit Count:16

- Division I funding pays the state share of salary and benefits. It is intended to provide approximately 70% of an employee’s salary with the balance provided by local funds.17
- Division II funding consists of All Other Costs (AOC) and Energy. AOC funding provides resources for the classroom which include textbooks, furniture, and other classroom equipment.18
- Division III funding, referred to as equalization funding, attempts to balance the disparity in funding received by school districts as a result of disproportionate property values. Equalization is intended to ensure that each school district has substantially the same level of resources with which to educate each student.19

Local Funding
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.20 To receive local funds, each school district’s school board approves and sends an annual tax warrant to its respective county, authorizing the levy and collection of taxes.21 Local fund revenues are typically collected

---

14 14 Del. C. §408
15 According to 14 Del. C. §1703, a “unit” is a collection of students that are grouped together by grade level and educational needs.
16 The number of units shall be calculated based upon the total enrollment of pupils in each school district as of the last school day in September, pursuant to 14 Del. C. §1704 (1).
17 14 Del. C. §1305 (b)
18 14 Del. C. §1702 and 14 Del. C. §1706
19 14 Del. C. §1707, 14 Del. C. §408(g)
20 According to 14 Del. C. §1912, the capitation tax is based upon all persons age 18 and older residing in a school district and is based on an amount set by the local school board.
21 14 Del. C. §1916
Fiscal Year 2016
State of Delaware
School District Expenditures Inspection

Appendix A: Background

22 School districts may also receive rollback tax revenue. 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.23

State and Local Fund Spending by School District

The table below identifies student enrollment for each school district and the amount of State and local fund spending per school district during Fiscal Year 2016.

<table>
<thead>
<tr>
<th>School District</th>
<th>Student Enrollment</th>
<th>State Fund Expenditures*</th>
<th>Local Fund Expenditures*</th>
<th>Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appoquinimink</td>
<td>10,378</td>
<td>$9,925,751</td>
<td>$11,381,135</td>
<td>$21,306,886</td>
</tr>
<tr>
<td>Brandywine</td>
<td>10,580</td>
<td>5,798,921</td>
<td>19,813,436</td>
<td>25,612,357</td>
</tr>
<tr>
<td>Caesar Rodney</td>
<td>7,731</td>
<td>12,213,273</td>
<td>7,514,885</td>
<td>19,728,158</td>
</tr>
<tr>
<td>Cape Henlopen</td>
<td>5,170</td>
<td>6,773,206</td>
<td>17,140,675</td>
<td>23,913,881</td>
</tr>
<tr>
<td>Capital</td>
<td>6,486</td>
<td>7,589,883</td>
<td>8,017,834</td>
<td>15,607,717</td>
</tr>
<tr>
<td>Christina</td>
<td>15,553</td>
<td>11,915,486</td>
<td>39,325,060</td>
<td>51,240,546</td>
</tr>
<tr>
<td>Colonial</td>
<td>9,763</td>
<td>7,642,840</td>
<td>14,482,277</td>
<td>22,125,117</td>
</tr>
<tr>
<td>Delmar</td>
<td>1,347</td>
<td>1,264,081</td>
<td>2,035,941</td>
<td>3,300,022</td>
</tr>
<tr>
<td>Indian River</td>
<td>10,171</td>
<td>11,149,869</td>
<td>18,937,184</td>
<td>30,087,053</td>
</tr>
<tr>
<td>Lake Forest</td>
<td>3,794</td>
<td>4,964,230</td>
<td>5,064,776</td>
<td>10,029,006</td>
</tr>
<tr>
<td>Laurel</td>
<td>2,221</td>
<td>2,357,027</td>
<td>2,304,498</td>
<td>4,661,525</td>
</tr>
<tr>
<td>Milford</td>
<td>4,119</td>
<td>4,658,411</td>
<td>5,371,092</td>
<td>10,029,503</td>
</tr>
<tr>
<td>NCC VoTech</td>
<td>4,698</td>
<td>11,493,907</td>
<td>8,601,013</td>
<td>20,094,920</td>
</tr>
<tr>
<td>Polytech</td>
<td>1,194</td>
<td>2,368,215</td>
<td>3,021,504</td>
<td>5,389,719</td>
</tr>
<tr>
<td>Red Clay</td>
<td>16,094</td>
<td>14,816,353</td>
<td>32,816,713</td>
<td>47,633,066</td>
</tr>
<tr>
<td>Seaford</td>
<td>3,473</td>
<td>3,240,567</td>
<td>3,590,058</td>
<td>6,830,625</td>
</tr>
<tr>
<td>Smyrna</td>
<td>5,233</td>
<td>5,445,605</td>
<td>5,610,716</td>
<td>11,056,321</td>
</tr>
<tr>
<td>Sussex Tech</td>
<td>1,444</td>
<td>3,111,007</td>
<td>2,567,962</td>
<td>5,678,969</td>
</tr>
<tr>
<td>Woodbridge</td>
<td>2,466</td>
<td>3,044,801</td>
<td>3,687,376</td>
<td>6,732,177</td>
</tr>
<tr>
<td>Total</td>
<td>121,915</td>
<td>$129,773,433</td>
<td>$211,284,135</td>
<td>$341,057,568</td>
</tr>
</tbody>
</table>

* These amounts include payments between school districts through intergovernmental vouchers (IV). State organizations use an IV to pay each other rather than having to process a physical check and subsequent bank deposit.26 Examples of these types of payments may include transferring dollars from one district to another as a result of a school choice.

22 14 Del. C. §408(i)
23 9 Del. C. §8335(d)
24 AOA obtained these figures by downloading each school district’s Fiscal Year 2016 DGL011 – Year to Date Cumulative Budgetary Report from the State’s accounting system and excluding all expenditure fund types listed in Table 6 except State and Local funds.
25 AOA gathered the data in this column from the November 30, 2015 Student Enrollment Report published by DOE and used the “Total Regular & Special Enrollment” count for each school district.
26 State of Delaware Budget and Accounting Policy Manual (BAM) Section 7.6.5, v.4.28

Appendix A: Background

16