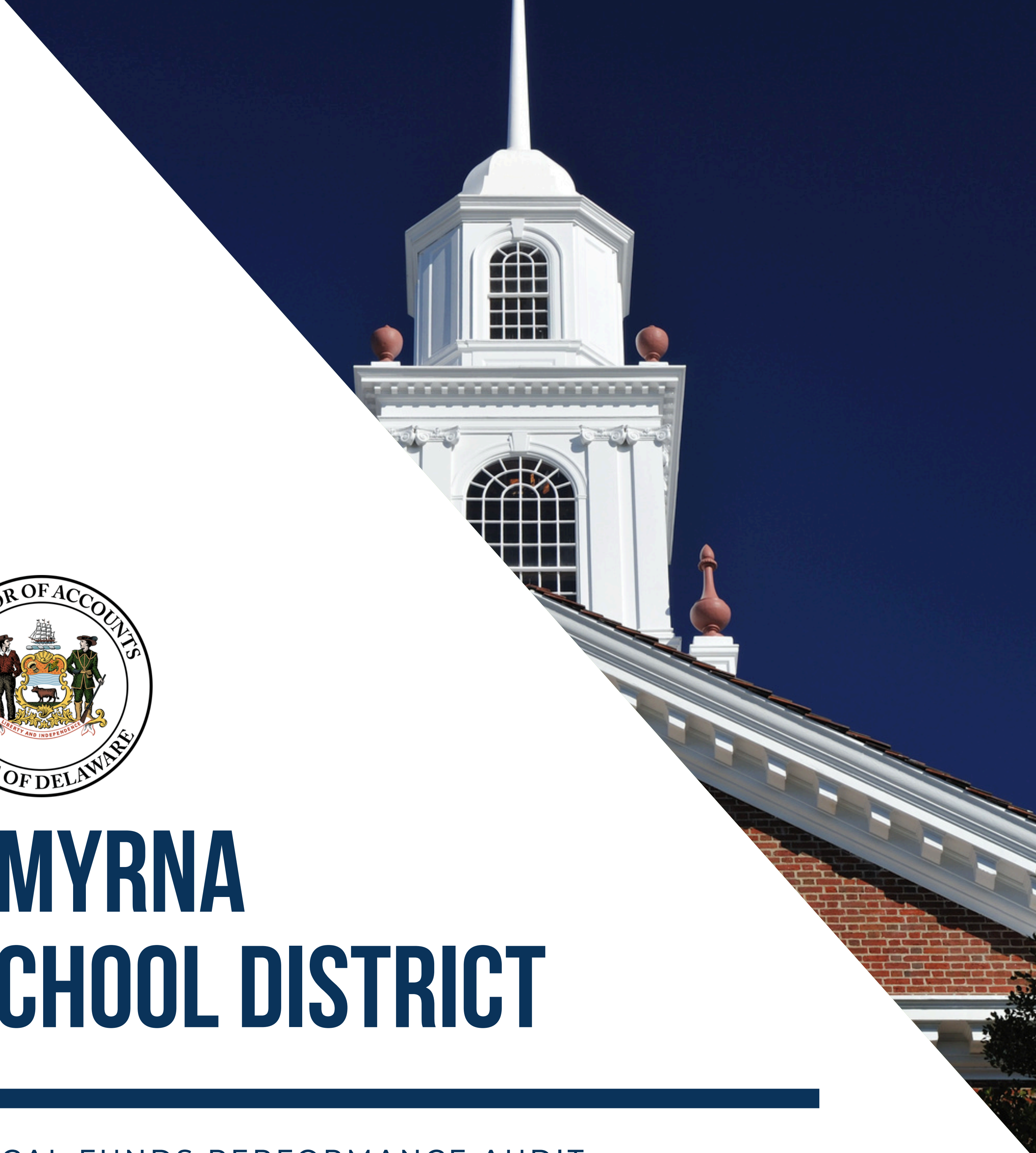


SMYRNA SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2024

SMYRNA SCHOOL DISTRICT LOCAL FUNDS PERFORMANCE AUDIT

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2024

BACKGROUND

Performance audits are used to evaluate the efficiency and effectiveness of an organization's operations. The objective of this performance audit is to provide management, the Smyrna School District Board of Education and the State of Delaware with information to improve performance, public accountability, and transparency.

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

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

The Auditor of Accounts is mandated by 29 Del. C., §2906(f) to perform annual audits of local school district tax funds. Under Delaware Code[1], school districts may levy and collect taxes for school purposes upon the assessed value of all taxable real estate in the district.

KEY INFORMATION AND FINDINGS

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

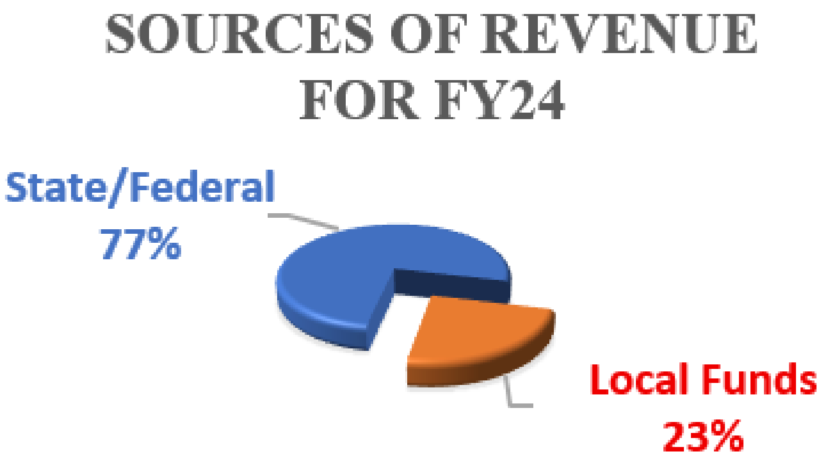
- The District's fiscal year 2024 current expense tax rate was set by referendum in 2021.
- Revenues from the District's debt service and tuition tax rates were consistent with expenditures.
- The District's debt service reserve of $1,521,221 as of June 30, 2024 complied with the State of Delaware requirements.

Smyrna School District Quick Facts

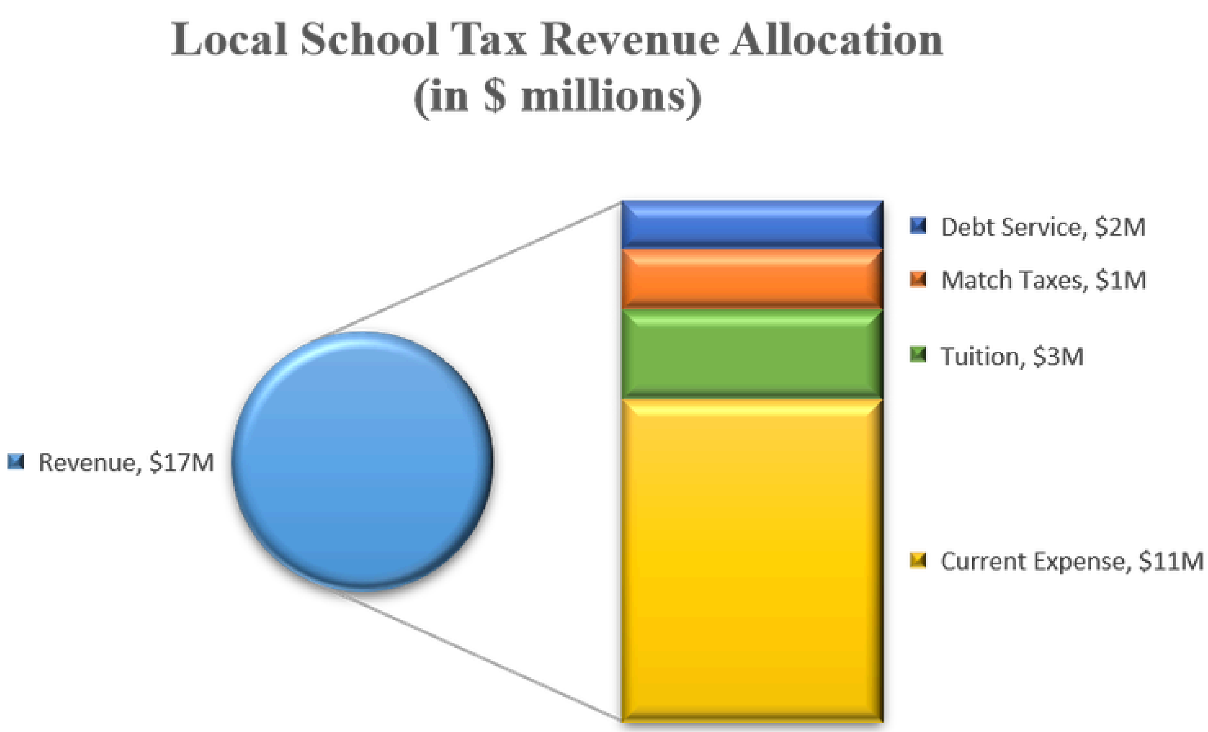
K-12 Schools	Students Served	Employees
8	6,010	700

SMYRNA SCHOOL DISTRICT
LOCAL FUNDS PERFORMANCE AUDIT
REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2024

KEY INFORMATION AND FINDINGS CONTINUED



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



KEY INFORMATION AND FINDINGS CONTINUED

Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud. Performance audit testing of the District's expenditures did not uncover fraud, waste or abuse. The audit relied on various sources of information and methods to obtain an understanding of and assess Local Funds' processes for the School District, including inquiry, document reviews, risk assessment, and identification and performance assessment of key controls.

Testing identified the following conditions that are reported as findings:

- District could not provide supporting documentation for pay change approvals.
- District does not document the review and approval of its bi-weekly payrolls.
- Purchases did not comply with State purchasing and procurement requirements.

The potential exposure to the District of the weaknesses in payroll internal controls, over documentation described above, is that they increase the risk of error and fraud occurring, and not being detected, in the payroll process. The potential exposure to the District of the lack of review of bi-weekly payrolls is an increase in the risk of errors, unauthorized payments and non-compliance occurring, and not being detected. The potential exposure to the District of the weaknesses in the purchasing internal controls is that they increase the risk that the District would make purchases without first obtaining the best prices and terms.

SMYRNA SCHOOL DISTRICT

LOCAL FUNDS PERFORMANCE AUDIT AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2024

SMYRNA SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2024

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants
www.belfint.com

Independent Auditor's Report

Ms. Deborah Judy, Superintendent
Smyrna School District
82 Monrovia Avenue
Smyrna, Delaware 19977

Dear Ms. Judy:

We present the attached report which provides the results of our performance audit of the Smyrna School District's Local Funds' design and operation of internal controls and compliance with applicable State and District regulations and policies during the year ended June 30, 2024. The Office of Auditor of Accounts engaged Belfint, Lyons & Shuman, P.A. to conduct a Performance Audit of the Smyrna School District's Local Funds under OAOA Contract Number 22-CPA01_SDLOCALFUNDS.

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

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

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

This report is intended solely for the information and use of the Smyrna School District, the Delaware Department of Education, and the Office of Auditor of Accounts, and is not intended to be, and should not be, used by anyone other than these specified parties. Under 29 Del. C. §10002(o), this report is a matter of public record, and its distribution is not limited. This report, as required by statute, will be provided to the Office of the Governor, Office of the Controller General, General Assembly, Office of the Attorney General, and Office of Management and Budget.

Belfint, Lyons & Shuman, P.A.

April 15, 2026
Wilmington, Delaware

cc: Lydia E. York - State Auditor
Steven Gott - Director of Finance

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

PERFORMANCE AUDIT OVERVIEW

Performance audits are audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

BACKGROUND

Overview - Any Delaware School District may, in addition to the amounts apportioned to it by the Delaware Department of Education (DOE) or appropriated to it by the General Assembly, levy and collect additional taxes for school purposes upon the assessed value of all taxable real estate in the district except real estate exempt from taxation per 14 Del. C., §1902[1]. The purpose of this performance audit is to determine whether internal controls over the collection and use of these real estate tax funds were designed and operated in accordance with Delaware law and District policy. For purposes of this report, real estate taxes levied for school purposes are referred to as "Local Funds." Although there are other types of Local Funds, they are not included in the scope of our performance audit.

Laws and Regulations - The School District's authority to levy taxes is governed by 14 Del. C., Ch. 19 for nonvocational districts. The legislative provisions and other policies relevant to local school taxes are summarized below. There are four categories of local school taxes: current expense, debt service, tuition, and match taxes summarized as follows:

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

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

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Debt Service - Continued

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

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

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

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

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

Technology - These funds are intended to support the purchase and replacement of technology, technology maintenance through personnel or services, professional learning, or other technology needs intended to improve the school district. The FY 1999 Bond and Capital Improvements Act authorized appropriations for education technology and authorized school districts to indefinitely levy up to one half of the rate required to meet the district's match. Technology match taxes are currently set by a DOE memo issued in December 1998.

BACKGROUND - CONTINUED

Laws and Regulations - Continued

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

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

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

Extra Time and Reading Resource and Math Resource Teachers - In accordance with 14 Del. C., §1902(b), the FY 2024 Operating Budget Epilogue Sec. 348 authorizes school districts to levy a local match for Extra Time as well as Reading Resource Teachers and Mathematics Resource Teachers which were originally established by the following:

- Per the FY 2008 Operating Budget Epilogue, the extra time appropriation is intended for additional instruction for low achieving students and school districts were encouraged to match on a 70% state and 30% local basis.

- Per the FY 2010 Operating Budget Epilogue, the reading and math resource teacher appropriations are intended to fund state salaries for resource teachers in each school and districts were encouraged to match on a 70% state and 30% local basis.

Student Success Block Grant - The FY 2024 Operating Budget Epilogue Sec. 357 authorizes school districts to assess a local match for costs relating to the Student Success Block Grant appropriations, which are intended for reading assistance in grades K through 4.

BACKGROUND - CONTINUED

Laws and Regulations - Continued

Match - Continued

Opportunity Fund - The FY 2024 Operating Budget Epilogue Sec. 354 authorizes school districts to assess a local match for costs associated with the Opportunity Fund appropriations intended to enhance services and provide additional supports to English Learner and low-income students, as well as be used for mental health services and/or for additional reading supports for grades K through 5. Per a June 2019 DOE Memo, schools are allowed to match on a 70% state and 30% local basis.

Substitute Teacher Block Grant - The State of Delaware FY 2024 Operating Budget Epilogue Sec. 370 authorizes school districts to assess a local match for costs associated with the Substitute Teacher Block Grant appropriations, which are intended to fund salaries for full-time substitute teachers in high need elementary, middle and high schools, with populations of 50 percent or more low-income students.

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

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

DISTRICT SPECIFIC SUMMARY

The Smyrna School District, located in Kent and New Castle County, operates Pre-K to12 schools with over 6,000 students. The Smyrna School District employs over 700 employees to educate and support its students. Smyrna has four elementary schools, two intermediate schools, one middle school, and one traditional comprehensive high school. The Smyrna School District Board of Education is the governing body of the District. The School Board includes five elected members who serve four-year terms. For the purposes of this report, the Smyrna School District is referred to as the “School District” or “District.”

AUDIT OBJECTIVES

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

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

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

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

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

AUDIT SCOPE

The period covered by the Performance Audit was July 1, 2023 through June 30, 2024. We sampled and examined transactions from the populations of expenditures and receipts of Local Funds for the period from July 1, 2023 through June 30, 2024. In sampling these transactions, we relied on documentation provided by the School District, the DOE, and the State of Delaware's financial accounting and human resources systems.

AUDIT METHODOLOGY

To address the audit objectives of this performance audit, we performed the following procedures:

A. Planning Phase: The audit relied on various sources of information and methods to properly plan the audit and to obtain an understanding of and assess Local Funds' processes for the School District, including the following:

   1. Reviewed the applicable sections of the *Delaware Code*, State of Delaware *Administrative Code*, State of Delaware *BAM*, School District Accounting Policies, and the School District Budget to gain an understanding of the legal and policy requirements governing Local Funds.

   2. Inquired about whether there were any findings and recommendations in reports resulting from previous audits that relate to the objectives of this audit and whether the recommendations have been implemented.

AUDIT METHODOLOGY - CONTINUED

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

4. Identified and reviewed contracts, agreements, and other important documents.

5. Performed risk assessment procedures such as:

    a. Obtained and documented an understanding of the School District and its environment.

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

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

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

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

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

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

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

AUDIT METHODOLOGY - CONTINUED

B. Performance Assessment: Based on the information gathered, we developed the following risk-based approach to assess the design and operation of internal controls over Local Funds with respect to the audit objectives and the requirements as defined previously. The following chart provides a summary of the Performance Assessment procedures performed:

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

AUDIT METHODOLOGY - CONTINUED

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

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

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

    b. District Purchasing Procedures

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

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

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

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

AUDIT METHODOLOGY - CONTINUED

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

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

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

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

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

   a. Employee hiring and approval.

   b. Salary determination.

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

AUDIT METHODOLOGY - CONTINUED

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

d. Payroll preparation and approval.

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

a. Selected a sample of payroll transactions from the population of current year payroll change events[4] funded by Local Tax appropriations. We tested the selected payroll change events for the following:

i. Employees' annual salary increases agreed to published and approved salary tables.

ii. Changes to payroll, other than annual salary increases, agreed to supporting documentation and DOE approvals, as appropriate.

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

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

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

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

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

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

---

[4] Payroll change events include promotions, new hires, position changes, salary changes for the achievement of additional education or certification.

[5] A judgmental sample was selected for this testing. This sampling approach is sufficient because the payroll control testing addressed controls over this requirement. This additional testing is to provide additional evidence that the District complied with the Tuition Tax requirements during the year.

AUDIT METHODOLOGY - CONTINUED

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

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

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

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

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

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

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

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

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

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

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

AUDIT RESULTS

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

<u>Results</u> - We found the key internal controls over payroll, non-payroll, and debt expenditures of Local Funds were designed in accordance with the requirements during the period from July 1, 2023 through June 30, 2024. The following summarizes the results of the testing performed and conclusions reached for the period of July 1, 2023 through June 30, 2024.

Non-Payroll Expenditures - To assess the operation of the internal controls over non-payroll expenditures of Local Funds, we selected two significant transactions and a random sample of 35 disbursement transactions of 1,442 transactions (excluding transactions from tuition Local Funds tested in Objective 4). Our review of the selected transactions determined that the purchases complied with both State and District requirements and that the transactions were properly approved by the District as evidenced by approvals on invoices and receipts as well as in First State Financials (FSF), the Delaware State accounting system.

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

Procurement - To assess the District's compliance with both State and District procurement requirements, we analyzed the District's total FY 2024 disbursement population, including purchasing card expenditures by vendors using a risk-based approach.

- A judgmentally selected a sample of two from the population of 15 vendors with cumulative expenditures exceeding the $50,000 procurement threshold per the *BAM* (this is the lowest threshold that requires competitive purchasing).

- There were no vendors with purchasing card purchases made by the District that exceeded $50,000 in aggregate; therefore, a sample of these transactions was not selected.

AUDIT RESULTS - CONTINUED

Objective 1 - Continued

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

Procurement - Continued

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

We examined documentation for each of the transactions selected and found that the purchasing process for goods and services purchased from the two vendors during the fiscal year was in compliance with State and District procurement requirements.

Payroll Expenditures - To assess the operation of the internal controls over payroll expenditures, made from Local Funds, we selected a random sample of 40 from the population of 550 Local Funds pay rate changes, processed during the fiscal year, other than annual salary increases. Our examination of the transactions determined that the transactions were properly supported; however, management's review and approval of 36 of 40 transactions examined was not properly documented and retained. Refer to the Schedule of *Findings and Recommendations* for details of the deficiencies identified and related recommendations.

To test employees' annual pay increases, we selected a random sample of 10 out of 717 annual step increases and agreed each employee's salary profile in the State's payroll system, Payroll and Human Resource Statewide Technology (PHRST), to the District's approved FY 2024 salary schedules.

We reviewed evidence of the District's bi-weekly payroll reconciliation and approval process for a random sample of five selected from the population of 26 bi-weekly payroll cycles. As further described in the *Schedule of Findings and Recommendations,* we found the authorized District personnel did not maintain evidence that a review of bi-weekly payroll expenditures was performed.

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

AUDIT RESULTS - CONTINUED

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

Results - We obtained the New Castle and Kent County Reports of Local Property Tax Collections. We selected a sample of six of 24 monthly receipts of Local Funds from Kent and Sussex County. We found the District's records included evidence that the receipts were recorded and reviewed by the District.

We recalculated the District's Local Tax Receipts, by category, for the year ended June 30, 2024 with a negligible difference.

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

Results - To determine if real estate taxes were approved and calculated in accordance with the requirements, we obtained the official tax warrant for FY 2024 and concluded the following:

- The District's current expense rate was supported by a referendum passed in March 2021.

- The District assesses a local match tax for the following: Minor Capital Improvements, Technology, Reading and Math Resource Teachers, Student Success Block Grants, Opportunity Fund, and Substitute Teacher Block Grant. We found the District's aggregate local match tax revenues were consistent with the prior year and were immaterial in relation to total Local Fund revenues.

- We compared debt service tax collections based on the debt service rate to principal and interest schedules for FY 2024 and FY 2025 and determined that the rate was sufficient to cover debt service expenditures in FY 2024 and provide the District with a reserve equal to approximately 41% of its FY 2025 debt payments, as summarized below. District debt service reserves held as of June 30, 2024, were within the range set by the State of Delaware Attorney General.

AUDIT RESULTS - CONTINUED

Objective 3 - Continued

Results - Continued

July 1, 2023 Debt Service Reserve Balance	$	1,187,599
FY 2024 Debt Service Activity		
Receipts		2,725,513
Expenditures		(2,391,890)
June 30, 2024 Debt Service Reserve Balance	$	1,521,221
Budgeted FY 2025 Debt Service	$	3,705,000
Reserve to Expected Future Payments Ratio		41%

We accumulated information from the following sources to meet this audit objective - The FY 2024 Debt Service Tax Collections and FY 2024 Debt Service Reserves were obtained from the June 30, 2024 Daily Validity Report (Document Direct Report DGL060), which is a daily report on the status of appropriations. The FY 2024 and FY 2025 Debt Service Principal and Interest were obtained from debt service schedules presented in the FY 2024 Final Budget and the District's debt service amortization schedule, respectively.

- We compared actual tuition tax expenditures and funds transferred out to special programs and other districts to both actual revenues and budgeted expenditures and determined that the rate appeared to be sufficient to meet the District's obligations. Actual expenditures and revenues were obtained from the June 30, 2024 Daily Validity Report and budgeted expenditures from the District's FY 2024 Final Budget.

- We compared the District's local tax funded reserves, held as of June 30, 2024, and 75% of its expected preliminary State equalization funds to its local tax funded payroll obligations during the period of July 1, 2024 through October 15, 2024. We determined that the carryover balances and preliminary State equalization funds were sufficient to meet the District's local payroll obligations during the period of July 1, 2024 through October 15, 2024, with a surplus equal to one month's additional payroll expenditures as required by 14 Del. 1507. The District did not receive any communications from the DOE indicating any potential deficiencies in its local reserve balances.

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

AUDIT RESULTS - CONTINUED

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

Results - We examined 13 significant transactions and a random sample of seven transactions out of the remaining population of 69 disbursement transactions made from tuition tax funds and determined that the purchases complied with State and District requirements and that the transactions were properly approved by the District, as evidenced by approval on invoices and receipts, as well as in FSF.

We also examined the District's compliance with State and District procurement requirements, in conjunction with procedures performed over nontuition Local Funds. Results are reported in Objective 1.

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

We also examined employee files for a random sample of 12 of 199 tuition tax funded employees and determined that the employees' responsibilities were consistent with the functions of the District's special education programs and that the employees' salaries and wages were appropriately funded with tuition Local Funds.

We examined tuition tax fund calculations in conjunction with procedures performed over the nontuition Local Funds. Results are reported in Objective 3.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding Number 1 - Supporting Documentation for Pay Change Approval

Condition: We found the following deficiencies in the operation of the District's payroll controls:

- The District did not provide evidence of management's review and approval of pay rate transactions for 36 of 40 transactions selected for testing.

- District provided documentation does not clearly evidence who performed the request and approval steps for the sampled pay rate transactions and as a result we could not determine if required segregation of duties was being maintained.

A similar finding regarding the documentation of managements' review and approval of payroll was reported in the previous year's audit.

Context: The District's Finance Director indicated pay rate transactions are entered as comments in an internal payroll database it maintains, and the Finance Director or Finance Supervisor reviews the changes in that database.

Criteria: The District's Internal Control Procedures document includes the following:

> "*The payroll staff enters all data in PHRST. This would include changes for new hires, employment status, education, pay and benefits. Changes are initiated based upon information received from the Personnel Office, or the employee, and reviewed by the Finance Director. At no time does payroll staff enter or modify their own information.*" - Smyrna School District, Internal Control Procedures, Payroll Section - dated March 17, 2020.

Cause: The District does not retain supporting documentation showing the Director of Finance's review of transactions prior to entry into PHRST as required by the District's Internal Control Procedure documents.

Effect: Due to the lack of documentation, it cannot be determined if required review procedures were performed, or adequate segregation of duty controls were maintained.

Recommendation: We recommend that the District ensure that contemporaneous documentation of the preparation, review and approval of changes be created and maintained.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement Requirements

Condition: We found the district's purchasing decision for purchases of technology and equipment from one vendor did not comply with the State's and District's procurement requirements. Purchases of electronic whiteboards and related equipment totaling $109,270 that were procured through the use of a GSS contract were not included in the items in the scope of the GSS contract.

Criteria:

- 29 Del. C., §6902(18) defines "Materiel" as materials, equipment, tools, supplies, or any other personal property.

- *BAM*, Chapter 5, *Procurement*, Section 5.3.1, *Material and Non-professional Services Purchases Thresholds, Section* 5.3.2 required the following during FY24:

Procurement Requirement	Materiel Thresholds
Open Market	Less than $50,000
3 Written Quotes	$50,000 - $99,999.99
Formal Bid	$100,000 and Over

Cause: The district did not procure the materials in accordance with the State Code and *BAM* requirements because the items acquired (whiteboards and related equipment) were not included in the GSS contract used for their purchase.

Effect: By not following State and District purchasing and procurement requirements to obtain competitive pricing through multiple quotations, the District may not have gotten the best prices and terms available.

Recommendation: We recommend the district implement policies and procedures to properly evaluate the use of GSS contracts to ensure only qualified items and services and procured through them.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 3 - Lack of Formal Documentation for Payroll Cycle Authorization

Condition: The District does not document the Finance Director's review and approval of its bi-weekly payroll cycles. While the District completes necessary payroll processing steps, there is no formal "sign-off" or other retained evidence to prove that the Finance Director (or an authorized designee) approved the bi-weekly payroll.

Criteria: The District is required to establish and maintain effective internal controls over financial reporting and compliance as follows:

- **State of Delaware Budget and Accounting Manual Chapter 14, Section 14.2.1 - Payroll Expenditure Controls & Authorizations - 14.2.2 Expenditures**

  "All payroll-related expenditures must be certified by an approving authority that the charges for the current pay period for the Organization meet all federal and State, legal and regulatory requirements and that the represented expenditures do not exceed the remaining balance of funds appropriated by the General Assembly."

- **District Internal Control Policy:** The District's internal policies require that all financial commitments and disbursements undergo a formal authorization process. This process is intended to ensure funds are used for approved purposes and that personnel costs, the District's largest expense, are accurately reflected in the financial records.

Cause: Management indicated that the Finance Director performs a review but that it is not documented by the District.

Effect: The absence of a documented authorization increases the risk of:

- **Unauthorized Payments:** Disbursements could be made to "ghost employees" or terminated staff without timely detection.

- **Accuracy Errors:** Significant errors in salary rates may go uncorrected.

- **Audit Non-Compliance:** Without a physical or electronic "audit trail," the District cannot demonstrate to oversight bodies that it is fulfilling its fiduciary duty to verify each payroll cycle.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number 3 - Lack of Formal Documentation for Payroll Cycle Authorization - Continued

Recommendation: We recommend that the Finance Director (or an alternate authorized signer) review and execute the final payroll registers and retain them internally (either physically or digitally) as a permanent record of authorization, signifying that the payroll transactions have been approved.

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

CONCLUSION

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

Objective 1 - Except as described in *Findings Numbers 1, 2, and 3*, the School District's internal controls over the expenditure of Local Funds were designed and operated in accordance with the requirements.

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

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

Objective 4 - Except as described in *Findings Numbers 1, 2, and 3*, the School's District's tuition tax funds were calculated and spent in accordance with the requirements.

SMYRNA SCHOOL DISTRICT
82 Monrovia Avenue, Smyrna, Delaware 19977
Telephone (302) 653-8585
Fax (302) 659-6290

April 15, 2026

Belfint Lyons & Shuman, P.A.
1011 Centre Road, Suite 310
Wilmington, DE 19805

This letter serves as response to the findings identified in the FY 2024 Local Funds Performance Audit for the Smyrna School District.

Finding Number 1 - Supporting Documentation for Pay Change Approval

The District acknowledges the preparation and approval for the pay change process has not been completely and consistently documented in the FY 2024 audit. In reviewing the internal process, for each payroll change form, the individual that prepares the form and the individual that approves the form will be identified. This update has been updated and the timing of the audit review for FY 2024 was prior to the changes in the process. These updated processes have been created to provide adequate segregation of duties.

Finding Number 2 - Purchases Did Not Comply with State Purchasing and Procurement

The District acknowledges that, while whiteboards were included in the GSS contract for the identified vendor, the specific model purchased was not explicitly listed. This resulted from miscommunication between exclusive guidance provided by the Department of Education and the details outlined in the GSS contract, particularly given that the vendor is one of only three state-certified SMART vendors approved for such purchases.

The District will develop procedures to ensure that all future procurements include clear verification that specific models and product details are explicitly documented within applicable contracts.

SMYRNA SCHOOL DISTRICT
82 Monrovia Avenue, Smyrna, Delaware 19977
Telephone (302) 653-8585
Fax (302) 659-6290

Finding Number 3 - Lack of Formal Documentation for Payroll Cycle Authorization

The Finance Director will implement and maintain standardized procedures to review and monitor payroll cycles during each pay period. This review will be performed using multiple payroll reports to ensure accuracy and compliance. Documentation of each review will be retained to demonstrate consistent oversight and adherence to established payroll processes.

Sincerely,

Steven Gott
Finance Director