

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

**School District Authorized Tax Rate
Agreed-Upon Procedures Engagement**

**Fiscal Years Ended
June 30, 2015 and 2016**

Issuance Date: May 2, 2017

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Abbreviations:

AOA	Office of Auditor of Accounts
DOE	Department of Education
MCI	Minor Capital Improvement

Background

This engagement focused on whether the local tax rates charged by Delaware's school districts were adequately supported and properly approved through referenda or by the school board.

Local Tax Rates

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.¹ Sussex County school districts also receive rollback tax revenue.² These revenues are commonly referred to as local funds.

To receive local funds, each school district's school board approves and sends an annual tax warrant to their respective county,³ which authorizes the levy and collection of taxes. The tax warrant shows a separate tax rate for a combination of the following categories:

- **Current Expense:** costs associated with the general operation of the school district as well as specific voter-approved programs. This tax rate can only be increased with taxpayer approval through a referendum. Vocational-technical school districts⁴ do not require a referendum to increase their current expense rate. Rather, this rate is established by the State Legislature at 14 Del. C. §2601.
- **Debt Service:** the principal and interest payments on capital improvement bonds used to fund new construction, additions, and major renovations. Voters must authorize the issuance of bonds through a referendum. Thereafter, the school district's school board annually sets the debt service tax rate to meet the authorized obligations. Vocational-technical school districts do not require a referendum to increase their debt service rate. Rather, this rate is established by the school district according to 14 Del. C. §2601.
- **Tuition:** the cost of providing in-district and out-of-district placements for students who must attend special schools within and outside of the State (e.g. Sterck School for the Hearing Impaired and Intensive Learning Centers). The school board sets this tax rate annually based upon anticipated needs of the student body. A voter referendum is not required to adjust this rate and there is limited guidance regarding the methodology behind the amount of tuition funding needed. As specified in 14 Del. C. §2601(b), vocational-technical school districts are not authorized to collect taxes for this purpose.
- **Match:** provides a local match to State appropriations where required or allowed by law. According to the Fiscal Year 2015 and Fiscal Year 2016⁵ State Budget Bills,⁶ examples of match

¹ Per 14 Del. C. §1912, capitation taxes are collected based on the number of adult residents in a school district.

² 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.

³ The Milford, Polytech, Smyrna, and Woodbridge School Districts traverse county boundary lines; therefore, they collect a tax in two counties under the authority of 14 Del. C. §1913(b).

⁴ The Delaware vocational-technical school districts include New Castle County Vocational-Technical, Polytech, and Sussex Technical.

⁵ The State's Fiscal Year is from July 1 through June 30.

⁶ The Fiscal Year 2015 Budget Bill was passed by the 147th General Assembly as Senate Bill No. 255 and the Fiscal Year 2016 Budget Bill was passed by the 148th General Assembly as House Substitute No. 1 for House Bill No. 225.

programs include minor capital improvements (MCI), technology, reading resource teachers, math resource teachers, and extra time programs. Although the State only provides its portion of the MCI match funds, school districts are still permitted to collect taxes for their local portion of other match programs. An explanation of each match program is provided below:

- MCI – These funds are used to keep real property assets in their original condition and are reserved for projects that cost less than \$500,000.⁷ School districts are required to pay 40% of this amount through local tax collections, according to 29 Del. C. §7528(b), while the State provides the remaining 60%.
- Technology – These funds are intended to support the replacement or purchase of (1) equipment that supports classroom instruction, (2) technology maintenance in schools either through the use of technology personnel or contractual services, or (3) other technology needs that could enhance or improve the technology capabilities of the school district. According to Section 348 of the Fiscal Year 2015 Budget Bill Epilogue and Section 345 of the Fiscal Year 2016 Budget Bill Epilogue, all school districts are eligible for a technology match. Currently, all school districts that collect a technology tax base their rate on an internal memorandum issued by the Delaware Department of Education (DOE) on September 16, 1998.
- Reading and Math Resource Teachers – Each school district⁸ shall be entitled to one Reading Resource Teacher for each school which has a grade configuration of grade kindergarten through fifth. Each school district shall be entitled to a Mathematics Resource Teacher/Specialist for each school with a grade configuration containing both seventh and eighth grades. As specified in the Fiscal Years 2015 and 2016 Budget Epilogues, all school districts shall be allowed to assess a local match based on their Fiscal Year 2010 Reading and Math Resource Teachers.
- Extra Time – This match provides additional instruction for low achieving students. As specified in the Fiscal Years 2015 and 2016 Budget Epilogues, all school districts shall be allowed to assess a local match based on their Fiscal Year 2008 Extra Time funding.

To ensure equal disbursement of funds, DOE has taken responsibility for allocating local tax revenues to the four restructured school districts: Brandywine, Christina, Colonial, and Red Clay.⁹ Although these four school districts operate separately, they share a current expense tax rate as part of the restructuring plan. Each school district's student enrollment unit count is used as the basis for dividing the tax revenue attributed to current expense.

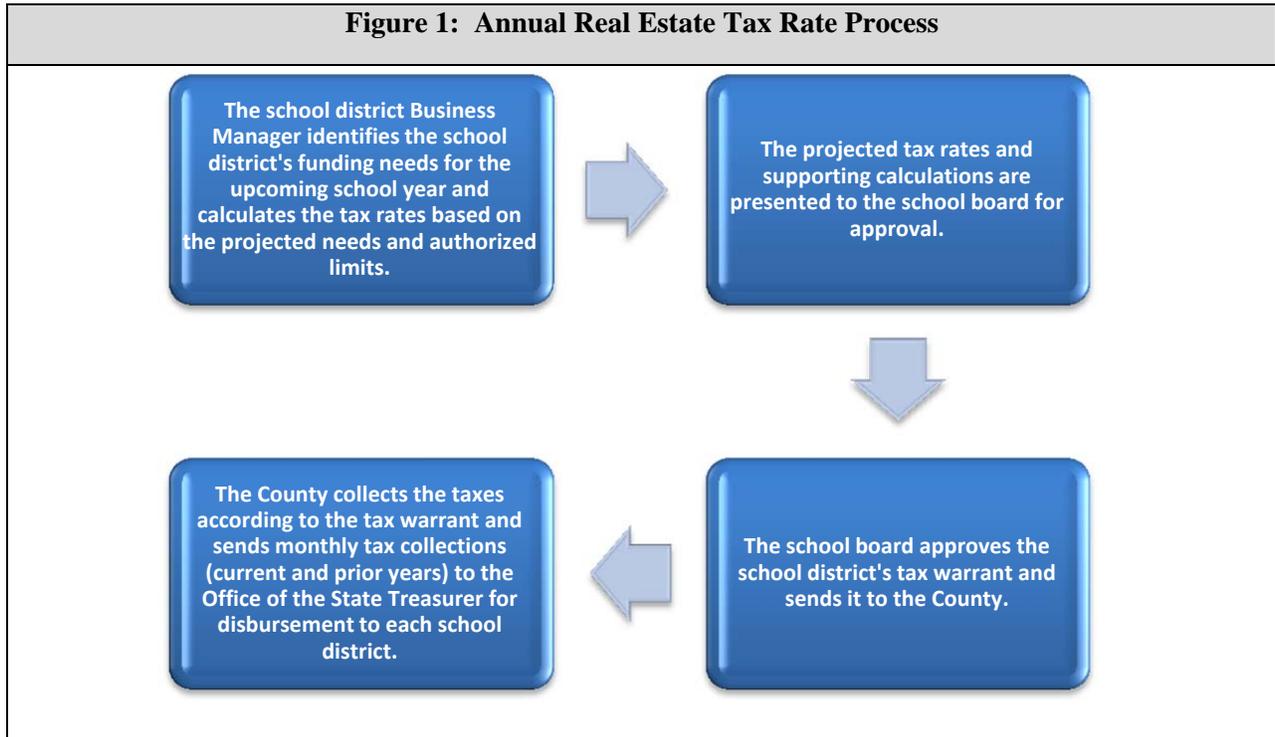
The tax rate process is summarized in Figure 1 below.

⁷ Section 7.1 of the State of Delaware *School Construction Technical Assistance Manual*, last updated November 17, 2014.

⁸ State-approved special schools are not entitled to Reading and Math Resource Teachers.

⁹ These four districts were formerly the New Castle County School District but were divided in 1981 in accordance with 14 Del. C. §1924. Each of the four districts shares a local tax rate for the current expense appropriation, which is distributed by DOE to ensure the funds are disbursed objectively.

Figure 1: Annual Real Estate Tax Rate Process





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Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Specified Users of the Report:

The Honorable Susan Bunting
Secretary of Education
Department of Education
401 Federal Street, Suite 2
Dover, Delaware 19901

Superintendents, All School Districts
Business Managers, All School Districts

We have performed the procedures enumerated below, which were agreed to by the Office of Auditor of Accounts (AOA) and the specified users of the report, as identified above, and as defined within the applicable laws of the State of Delaware. The procedures were performed solely to assist the specified users in evaluating the school districts' compliance with the criteria listed in each procedure below. Management of each school district is responsible for their school district's compliance with that criteria for the periods July 1, 2014 through June 30, 2015 (Fiscal Year 2015) and July 1, 2015 through June 30, 2016 (Fiscal Year 2016).

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures described below is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results were as follows:

Procedure 1: For each school district, obtained the tax warrants for Fiscal Years 2015 and 2016, and ensured the tax rates were approved by the Board of Education (Board) as documented in the Board meeting minutes. [14 Del. C. §1913]

Results: We found no exceptions as a result of applying this procedure.

Current Expense

Procedure 2: Compared the Current Expense rate to the most recently approved referendum to ensure that it did not exceed the voter approved rate. [14 Del. C. §1902, 14 Del. C. §1903, 14 Del. C. §1908]

Results: We found no exceptions as a result of applying this procedure.

Procedure 3: Reviewed supporting Current Expense documentation for each of the four restructured school districts¹⁰ in New Castle County to ensure the shared Current Expense rate, established in the Desegregation Consent Order, was included in each tax warrant. [14 Del. C. §1027, Desegregation Consent Order]

Results: We found no exceptions as a result of applying this procedure.

Debt Service

Procedure 4: Compared the principal value of local bonds outstanding or the Debt Service tax rate, depending on how the school district presented the vote, to the most recently approved referendum to ensure that it did not exceed the voter approved rate. [14 Del. C. §1902, 14 Del. C. §1903, 14 Del. C. §1908]

Results: The Colonial School District was approved by the General Assembly during the period July 1, 2006 through June 30, 2007 (Fiscal Year 2007), to issue local debt that exceeded the authorized debt service referendum amount by \$394,000; however, the taxpayers were not provided the opportunity to approve the debt. This finding was carried forward from previous engagements.

For the remaining school districts, we found no exceptions as a result of applying this procedure.

Procedure 5: Reviewed supporting calculations for the Debt Service tax rate of each school district to ensure the projected revenue was sufficient to pay the principal and interest on bonds outstanding, and confirmed that the rate was calculated on the basis of the outstanding bonds issued by the school district, if applicable. [14 Del. C. §2121, 14 Del. C. §2601(d)]

Results: We found no exceptions as a result of applying this procedure.

Vocational-Technical School Districts¹¹

Current Expense

Procedure 6: Compared the Current Expense rate for each vocational-technical school district to ensure it did not exceed the vocational-technical Current Expense rate within each respective County, approved by the State Legislature. [14 Del. C. §2601(a)]

Results: We found no exceptions as a result of applying this procedure.

¹⁰ The four districts (Brandywine, Christina, Colonial, and Red Clay) were formerly the New Castle County School District but were divided in 1981 in accordance with 14 Del. C. §1924. These school districts share a local tax rate for the current expense appropriation, which is distributed by DOE to ensure the funds are properly disbursed.

¹¹ The Delaware vocational-technical school districts include New Castle County Vocational-Technical, Polytech, and Sussex Technical.

Tuition

Procedure 7: Reviewed the tax warrant of each vocational-technical school district to ensure the school district was not collecting a tax for tuition. [14 Del. C. §12601(b)]

Results: We found no exceptions as a result of applying this procedure.

Tuition

Procedure 8: Reviewed estimates for tuition expenditures to ensure the taxes levied were sufficient to cover expected tuition costs, plus 10% for delinquencies. [14 Del. C. §602(e), 14 Del. C. §1913(a)]

Results: We found no exceptions as a result of applying this procedure.

Match Taxes

Minor Capital Improvement (MCI)

Procedure 9: Reviewed supporting MCI calculations to ensure the rate was based on the maximum local share amount in the corresponding Fiscal Year's Bond Bill. [29 Del. C. §7528(e)]

Results:

1. According to the Fiscal Year 2015 Bond Bill, the Brandywine School District was authorized to collect a total of \$528,941: \$526,748 for MCI and \$2,193 for Vocational Equipment. The school district collected \$9,661 more than the approved total.

Also, according to the Fiscal Year 2016 Bond Bill, the Brandywine School District was authorized to collect a total of \$518,893: \$516,436 for MCI and \$2,457 for Vocational Equipment. The school district collected \$19,546 more than the approved total.

The Brandywine School District attributed the overage to the use of projected Bond Bill amounts when calculating the tax rate, not final amounts as passed by the State Legislature.

2. According to the Fiscal Year 2015 Bond Bill, the Indian River School District was authorized to collect a total of \$463,344: \$461,053 for MCI and \$2,291 for Vocational Equipment. The school district collected \$140,658 more than the approved total.

In addition, according to the Fiscal Year 2016 Bond Bill, the Indian River School District was authorized to collect a total of \$475,889: \$473,481 for MCI and \$2,408 for Vocational Equipment. The school district collected \$91,067 more than the approved total.

The Indian River School District explained that the rate was calculated by the previous business manager; therefore, the school district could not provide justification. According to the school district, a large portion of the additional amount was used to lower the MCI tax rate in the next fiscal year. The school district confirmed that the issue would be resolved in the future.

3. According to the Fiscal Year 2015 Bond Bill, the Milford School District was authorized to collect a total of \$208,674: \$207,919 for MCI and \$755 for Vocational Equipment. The school district collected \$12,290 more than the approved total.

The Milford School District stated they accounted for delinquencies in their calculation, which is permissible under 29 Del. C. §7528(e).

4. According to the Fiscal Year 2015 Bond Bill, the Woodbridge School District was authorized to collect a total of \$114,738: \$114,225 for MCI and \$513 for Vocational Equipment. The school district collected \$41,655 more than the approved total.

Also, according to the Fiscal Year 2016 Bond Bill, the Woodbridge School District was authorized to collect a total of \$116,803: \$116,237 for MCI and \$566 for Vocational Equipment. The school district collected \$42,677 more than the approved total.

Once a school district demonstrates that its local match funding is available, the State provides its share of the MCI funds. The Woodbridge School District explained that its MCI rate was higher in order to build a carryover balance so that the State portion of the MCI revenues could be matched with local funds in the beginning of the fiscal year.

For the remaining school districts, we found no exceptions as a result of applying this procedure.

Technology

Procedure 10: Ensured the Technology rate calculated by each school district was appropriate based on the epilogue language in the Fiscal Year 2015 and Fiscal Year 2016 Budget Bills, and in accordance with the rates listed in the 1999 Department of Education (DOE) Memo or new technology rate amounts for the Technology Block Grant found in the annual Budget Bill. [147th General Assembly Senate Bill 255 Section 348, 148th General Assembly House Bill 225 Section 345, the 1999 Technology rate memo provided by DOE]

Result: The Woodbridge School District's approved Technology Match tax rate is \$0.0186 for Kent County and \$0.0365 for Sussex County. In Fiscal Year 2015 and Fiscal Year 2016, the school district levied a Technology Match tax rate of \$0.0141 in Kent County and \$0.0428 in Sussex County. The school district's total technology rate is \$0.0018 higher than the total authorized rate. This unauthorized rate generated \$2,696 in additional revenue in Fiscal Year 2015 and \$2,755 in additional revenue in Fiscal Year 2016 for the school district.

For the remaining school districts, we found no exceptions as a result of applying this procedure.

Reading and Math Resource Teachers

Procedure 11: Absent any specific criteria for the Reading and Math Resource Teachers tax rate, reviewed school district calculations for Fiscal Years 2015 and 2016, and ensured the school district's methodology was consistent with Fiscal Year 2010. [147th General Assembly Senate Bill 255 Section 362, 148th General Assembly House Bill 225 Section 362]

Results:

1. The Brandywine School District's Fiscal Year 2016 methodology was not consistent with their methodology from Fiscal Year 2010. In Fiscal Year 2010, the Reading and Math Resource Teacher Match tax rate was \$0.01663 and, in Fiscal Year 2016, the Reading and Math Resource Teacher Match tax was \$0.01806, a difference of \$0.00143. The unauthorized rate generated \$49,074 in additional revenue.

According to the Brandywine School District, a higher rate was used to sustain Reading and Math Resource Teacher expenditures until the majority of tax revenues arrived in the fall of the next fiscal year.

2. The Colonial School District’s Fiscal Year 2015 and Fiscal Year 2016 methodology is not consistent with their methodology from Fiscal Year 2010. In Fiscal Year 2010, the Reading and Math Resource Teacher Match tax rate was \$0.0143, and in Fiscal Years 2015 and 2016, the Reading and Math Resource Teacher Match tax was \$0.0154 and \$0.0151, respectively. The difference of \$0.0011 in Fiscal Year 2015 generated \$30,392 in additional revenue, and the difference of \$0.0008 in Fiscal Year 2016 generated \$22,665 in additional revenue.
3. Based on the support provided by the Woodbridge School District, we were unable to determine if the Fiscal Year 2015 and Fiscal Year 2016 Reading and Math Resource Teacher Match tax methodology was consistent with Fiscal Year 2010.

For the remaining school districts, we found no exceptions as a result of applying this procedure.

Extra Time

Procedure 12: Absent any specific criteria for the Extra Time tax rate, reviewed school district calculations for Fiscal Years 2015 and 2016, and ensured the school district’s methodology was consistent with Fiscal Year 2008. [147th General Assembly Senate Bill 255 Section 362, 148th General Assembly House Bill 225 Section 362]

Result: Based on the support provided by the Woodbridge School District, we were unable to determine if the Fiscal Year 2015 and Fiscal Year 2016 Extra Time Match tax methodology was consistent with Fiscal Year 2008.

For the remaining school districts, we found no exceptions as a result of applying this procedure.

Capitation Tax

Procedure 13: Compared the Capitation rate to the most recently approved referendum to ensure that it did not exceed the voter approved rate. [14 Del. C. §1912]

Results:

The following school districts could not provide documentation to support their Capitation Tax as the Capitation Tax referenda dates back to the 1980’s or earlier:

School District	Capitation Tax Rate
Caesar Rodney	\$12.00
Delmar	\$13.00
Indian River	\$12.00
Lake Forest	\$15.00
Laurel	\$24.30
Woodbridge	\$8.82

The school districts listed above were the only school districts collecting a Capitation Tax; therefore, we found no additional exceptions as a result of applying this procedure.

We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of DOE and the management of the school districts. It is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del. C. §10002(1), this report is a public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, the Office of the Controller General, the Office of the Attorney General, and the Office of Management and Budget.

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April 25, 2017