



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

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TO: Mark Steele, Interim Superintendent, Indian River School District

FROM: R. Thomas Wagner, State Auditor, Office of Auditor of Accounts

DATE: February 27, 2017

SUBJECT: Special Investigation Follow-Up

During our exit conference held on December 8, 2016, for the Indian River School District Special Investigation, the District discussed changes that had already been implemented since the issuance of the final report. At that time, the Office of Auditor of Accounts (AOA) agreed to conduct a follow-up review in order to report to the public issues that have been addressed or are in the process of being addressed. AOA felt that the timeliness of this information was important due to the upcoming referendum being held on March 2, 2017. Our review was limited to interviews with district administration and a review of documentation provided. This review could not be conducted in accordance with Government Auditing Standards due to insufficient time available for the District to implement these new policies and procedures. AOA has summarized the findings from our original report dated November 17, 2016, and the status of corrective action taken.

AOA commends the District's efforts in developing policies and procedures addressing control issues in such a short amount of time. It is essential we give the District time to fully implement these policies and procedures before our office can perform an effective audit of their implementation. The District is discussing the possibility of conducting internal audits to ensure all financial transactions are in compliance with district, state, and federal regulations.

<i>Findings</i>	<i>Description</i>	<i>Results of Follow-Up</i>
Sharing Logins	AOA learned from multiple employees that it was common practice in the District Office to share login credentials for the State's accounting system, First State Financials (FSF).	The District is taking steps to address the finding by developing internal control policies and procedures which prohibit the sharing of passwords for the financial system. Employees are required to sign a Financial Information Internal Control Procedures Form stating violation of this rule may result in disciplinary action up to termination.
Lack of Policies and Procedures	<p>Throughout our investigation, we made multiple requests for a policy and procedure manual and were only provided one that the District was currently working on; therefore, it was not in effect during the period of our review. There were no written policies for travel expenses and reimbursements for items much as:</p> <ul style="list-style-type: none"> • Mileage • Business use of employees personal cell phones • Inventory tracking • Disposal for equipment and electronic devices. 	The District has developed internal control policies and procedures surrounding financial processes. They have implemented a travel policy and personal reimbursement procedures, and an inventory and fixed asset policy. They have provided documentation to show they have acquired a state fleet car to combat excessive mileage reimbursement. The District is in the discussion phases of addressing the cell phone policies. The District provided AOA with a newsletter demonstrating communication of policy changes.
District Office Environment	We believe that the Chief Financial Officer (CFO) had little oversight and was free to make decisions in certain areas, such as finances and salaries, as he saw fit.	AOA reviewed January 2017 Board minutes and found evidence that the newly hired Business Manager is being held accountable by the Board and has relayed the responsibilities of business office personnel. Other areas such as salaries are addressed in more detail in the findings below.

<i>Findings</i>	<i>Description</i>	<i>Results of Follow-Up</i>
Use of Facsimile Signatures	Our review of various financial transactions revealed that it was common practice to use the Board President's facsimile signature, in the form of signature stamps or digital signatures, as a second signature for approvals.	AOA reviewed the District's internal control policies and procedures for financial accounting which states no facsimile signature stamps will be used on financial documents.
Lack of Board Meeting Minutes Detail	We found that the minutes provided little documentation as to discussions during these meetings.	AOA reviewed the latest board meeting minutes and found an improvement in the level of detail. Additionally, the District is now including recorded meeting minutes on their website.
Payroll Processing	We found that the CFO not only single-handedly determined employees' salaries but also was responsible for the processing of payroll. The Director of Personnel was not involved in salary determinations and did not have access to the State's payroll system, Payroll Human Resource Statewide Technology (PHRST).	The District provided salary procedures that address previous issues with segregation of duties and incorporates management review procedures.
Absence of Local Salary Schedule	We found that the District does not have an administrative salary schedule for local funds.	District Administrators and the Board President stated that the District has decided to determine local salary pay for administrators based on individual performance and experience. According to the District, this decision was made after careful consideration.
Years of Experience	We found the District inconsistently documented years of experience.	The District has developed a new employee packet, modified the salary form to include both step and experience, and has given an example template to show how step versus experience should be calculated. Years of experience is also addressed in the new salary procedures.

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Lack of Documentation	The District lacked the appropriate documentation to account for employee salaries. We identified an Administrative Secretary who receives a \$7,500 annual stipend, approved by the CFO on June 9, 2011. AOA was unable to determine if it was a valid stipend, as the CFO's signature was the only approval on the supporting documentation. The District did not retain copies of documentation stating the amounts of salary increase recommendations, or the increases ultimately approved by the Board. Additionally, the Board did not keep a copy of the salary increases they approved, they did not sign documentation detailing the amounts they approved, nor did they document this in executive session meeting minutes. The new hire salary and salary increase recommendations were calculated by the CFO. He would then provide the calculations the financial secretary responsible for entering the salaries into PHRST. There was no documentation to demonstrate the Superintendent or Board reviewed the CFO's calculations actually agreed to the salaries approved by the Board.	The District has addressed the lack of documentation surrounding salaries through the development of detailed salary procedures and a new employee packet that includes documentation surrounding how salaries are determined.
Salary Disparities	AOA concluded that disparities exist with the administrative salary calculations. Our comparisons revealed that some employees, based on education and experience, are being overcompensated with local funding compared to their peers.	The District stated, "Local salaries are based on years of administrative experience and education level and are negotiated with the School Board." In addition, the District has made improvements to include negotiated salaries on employee pay sheets. However, AOA believes that a local salary scale could help to alleviate such questions in the future.

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Payroll Coding	AOA found that the District incorrectly coded payroll items. When employees earned overtime, the District would charge these payments to the Extra Pay for Extra Responsibility (EPER) payroll code.	The District's new salary procedures policy in which they have stated they will review pay earning codes to ensure that codes are being used correctly.
Administrators receiving EPER	AOA found that District administrators were also receiving EPER pay, which is not something typically paid to administrative employees.	Although AOA does not believe EPER should be used for administrators, the District has provided documentation showing this pay has been approved by the Delaware Department of Education (DOE) as part of the consolidated grant, and \$6,000 of EPER pay for administrators has been approved for 2016. The District stated that these administrators are being compensated for leadership training that benefits the district and goes above and beyond their normal duties.
Retro Pay	The Board takes too long to approve pay increases, which results in the District needing to issue retro pay. The employees were owed that pay from the effective date and should be receiving the retroactive pay in a lump sum. With no review and approval of the CFO's calculations, the District does not know if the retroactive pay was calculated and paid accurately.	The new salary procedures state that any retroactive salary payment will be paid in a lump sum unless requested by the employee to spread the pay over multiple pay periods.

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Positive Behavior Support Cluster	We found 5 pay periods in which an employee was incorrectly not paid for the cluster. This error totaled \$174.26.	The District provided documentation demonstrating that this employee did receive payment for the cluster during these 5 pay periods. This was not evident because the District used the regular pay earnings code during these 5 pay periods, which was inconsistent with the earnings code used during all other pay periods for this individual, and for all other recipients of the cluster.
Nepotism	Through review of the District Office's organizational chart and interviews, AOA confirmed that the CFO's sister-in-law is a secretary in the business office and reported directly to the CFO until he was placed on leave.	The District has updated the staff relationship policy to now include "close relative." In addition, all new applicants must disclose any relationship to current employees or board members upon applying.
Lack of Controls Surrounding Purchases	AOA found direct payment of the CFO's personal credit card through FSF, misuse of federal funds, multiple instances of purchases without support, and varying degrees of purchase and payment approvals, if any. There was also invalid use of Driver's Education and Homeless Program Funds.	The District provided internal control policies and procedures surrounding purchases, which includes multiple levels of review of supporting documentation and segregation of duties.
Related Organizations	AOA also found large payments to organizations that the CFO was directly affiliated with, including the Boys & Girls Club of Oak Orchard/Riverdale (B&G Club), where he serves as board president, and the Indian River Volunteer Fire Company (IRVFC), where he also serves as president.	The District has developed a written code of standards of conduct which "... prohibits conflicts of interest and actions of employees engaged in the selection, award, and administration of contracts..."

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Payment Voucher Review and Procurement Card (PCard)	<p>AOA found misuse of payment vouchers and PCard in the following categories:</p> <ul style="list-style-type: none"> • Not for Valid Purposes • Lack of Supporting Documentation • Use of Facsimile Signature Stamp • Credit Card Payments • IRHS Boys Basketball Boosters 	<p>The newly developed salary procedures state, "School board members are not eligible for payment for any service they provide to the district." The District also provided AOA with an internal control policy which states, "Each budget manager will be responsible for approving all purchases being charged to their budget funds" and "Two of the approving authorities will review the voucher to again verify the legitimacy of the purchase and the accuracy of the coding and dollar amount." The District has also developed policies and procedures specific to the appropriate use of PCard which also includes annual review of PCard user activity.</p>
Direct Reimbursements	<p>AOA found an unusual amount of mileage reimbursements being paid in FSF through direct reimbursements to CFO and other administrative staff in the District office. General Observations include in-state meal purchases and lack of supporting documentation. There were also purchases AOA deemed questionable.</p>	<p>The District provided documentation showing that limitations have been put on personal reimbursements, and restrictions have been placed on the purchase of food for staff. These changes were communicated through the Superintendent's Leadership Team Meeting in July 2016, and the Indian River Education Complex (IREC) Insider newsletter in August 2016.</p>

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Mary H. Bailey Scholarship	The Board was not following scholarship guidelines and there were instances of perceived conflicts of interest.	The District provided documentation demonstrating that they will be more widely advertising scholarships to obtain more applications for scholarships in general. They also determined that scholarship recipients will be announced at school board meetings for informational purposes only, and a vote will not be held. To address any conflicts of interest the District has stated, “Any staff member serving on the committee, whose child has applied for a scholarship, will recuse themselves from the committee while that scholarship is being determined.”