

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

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**Indian River School District**

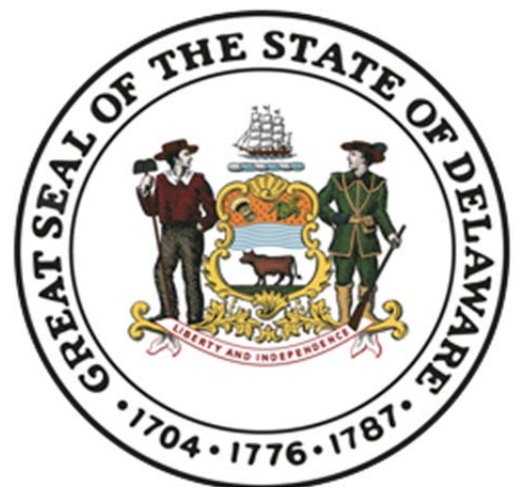
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**Special Investigation**

Report Issued: November 17, 2016



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





**State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr., CFE, CGFM, CICA**

# At a Glance

*Working Hard to Protect YOUR Tax Dollars*

## Why We Did This Investigation

In January 2016, the Office of Auditor of Accounts (AOA) received various complaints on the Indian River School District (the District) that alleged financial misconduct by their Chief Financial Officer (CFO). The District also had human resource-related concerns about their business office, which was supervised by the CFO. The CFO was placed on administrative leave on April 24, 2016, and he subsequently retired on June 30, 2016.

As a result of these concerns, AOA opened an investigation on the District to review their activities from July 1, 2011 through June 30, 2016.

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

For further information on this release, please contact:

**R. Thomas Wagner, Jr.**  
CFE, CGFM, CICA  
(302) 739-5055

## What We Found

For the entire period of our investigation, the District lacked formal policies and procedures for any of their financial processes. Not only did the District lack appropriate oversight and internal controls to prevent and detect financial improprieties, the blind faith placed in the CFO allowed him to create an environment ripe with intimidation tactics, favoritism, and nepotism.

Examples of unacceptable practices we found were unauthorized use of the Board Presidents' facsimile signatures to approve transactions, and a payroll process controlled entirely by the CFO that severely lacked documentation and review. Also, several employees stated they were forced to share log-in credentials into the State's accounting system. While employees should never feel pressured into providing their supervisors with user names and passwords, this is also a blatant violation of the State's computer usage security policies.

AOA also identified several types of purchases that were deemed inappropriate or questionable based on a lack of supporting documentation. These purchases included a Teacher of the Year ceremony held at Baywood Greens for approximately \$7,000, Alex and Ani bracelets totaling \$352.80 for certain District Office staff, and a Tiffany & Co. bracelet for \$380.00 as a recognition gift to the Superintendent. In addition, the District paid for an abundance of in-State meals that did not appear to meet the criteria provided by the State of Delaware *Budget and Accounting Manual*. Further, the CFO made \$20,343.40 and \$32,500.00 in payments to the Indian River Volunteer Fire Company and the Boys & Girls Club of Oak Orchard/Riverdale, respectively. The CFO served as Board President for both of these organizations.

The argument that other districts may spend their money similarly does not justify the practice, especially since, amidst all of our findings, the District has expressed ongoing budget concerns. With the assistance of the new, experienced Director of Business, AOA encourages the District to develop sound operating practices and scrutinize purchases to ensure they are good stewards of taxpayer dollars while still maximizing benefits to students.

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Abbreviations

<b>AOA</b>	Auditor of Accounts
<b>ATV</b>	All-Terrain Vehicle
<b>BAM</b>	Budget and Accounting Manual
<b>B&amp;G Club</b>	Boys and Girls Club of Oak Orchard/Riverdale
<b>CFO</b>	Chief Financial Officer
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>DOA</b>	Division of Accounting
<b>DOE</b>	Delaware Department of Education
<b>DTI</b>	Department of Technology and Information
<b>FSF</b>	First State Financials
<b>IDEA</b>	Individuals with Disabilities Education Act
<b>IRHS</b>	Indian River High School
<b>IRS</b>	Internal Revenue Service
<b>IRVFC</b>	Indian River Volunteer Fire Company
<b>JPMC</b>	JPMorgan Chase
<b>MCC</b>	Merchant Category Code
<b>PBS</b>	Positive Behavior Support
<b>PCard</b>	Procurement Card
<b>PE</b>	Personal Expense Reimbursement
<b>PHRST</b>	Payroll Human Resource Statewide Training
<b>TOY</b>	Teacher of the Year
<b>WCPS</b>	Worcester County Public Schools

## ***Background***

The Indian River School District (the District) is a public school district within the State of Delaware (the State) providing educational instruction for students, grades pre-kindergarten through twelfth, in southeastern Sussex County. The District was formed in 1969 through the consolidation of several smaller districts and is now the fifth largest school district in the State. The District is comprised of 8 elementary schools, 3 middle schools, 2 high schools, and 3 special service schools. A total of 10,171 students were enrolled in the 16 schools as of September 30, 2015.

According to the District's Policy Manual,<sup>1</sup> the Indian River School District Board of Education (the Board) shall be comprised of ten members chosen by election of the constituents of the District. Each member serves a term of five years, or until resignation or removal.

Delaware Code states that no person shall be elected or serve as a school board member who holds a paid position which is subject to the rules and regulations of such school board.<sup>2</sup>

Per the District's Policy Manual,<sup>3</sup> the Superintendent "has the responsibility for the successful operation of every facet of the school system." The Superintendent may delegate responsibility but is still responsible for the operation of the school system.

### ***State of Delaware Budget and Accounting Manual***

Section 1.7 of the State of Delaware Budget and Accounting Manual (BAM) defines organizations as "[State] agencies (both merit and non-merit), school districts, charter schools, and higher education." Therefore, school districts are required to abide by the policies and procedures in the BAM, unless otherwise specified in the Delaware Code or throughout the BAM.

#### ***State Procurement Card (PCard)***

The State, through the Division of Accounting (DOA), has contracted with JPMorgan Chase (JPMC) Bank to provide State organizations with a Visa card program for procurement and travel purchases. The State manages the PCard program through JPMC's online card administration software.<sup>4</sup>

The State is liable for use of the PCard; therefore, only State employees are eligible to participate in the PCard program. Employees may enroll in the program, without the completion of a credit check, by completing a PCard Enrollment Request form and receiving proper approval from their organization.

Chapter 12 of the BAM provides rules governing the PCard, and all PCard transactions must comply with accounting procedures and State laws governing purchases. Section 12.4.1 places restrictions on PCard usage and specifically states that it is not to be used for personal or unauthorized purchases, such as alcoholic beverages or other expenses not authorized for State business. The BAM also states, "The PCard may not be used to charge expenses for family members or others who may be accompanying the employee on official State business, even if the intention is to reimburse the State."

Any cardholder who intentionally makes unauthorized purchases or accidentally uses the PCard is liable for the total dollar amount of such unauthorized transactions and is subject to both disciplinary and

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<sup>1</sup> [http://www.irsd.net/parents\\_students/policy\\_manual](http://www.irsd.net/parents_students/policy_manual)

<sup>2</sup> 14 Del. C. § 1051(b)

<sup>3</sup> [http://www.irsd.net/parents\\_students/policy\\_manual](http://www.irsd.net/parents_students/policy_manual)

<sup>4</sup> BAM Section 12.1, v. 5.12

criminal actions for those transactions. Any personal or unauthorized transactions must be reimbursed by the employee within 30 days of the transaction, and a copy of the reimbursement check and deposit slip should be filed with the monthly PCard statements in case of an audit.

The BAM also details each organization's PCard monitoring requirements. Regardless of the reason or type of purchase, all PCard receipts must be kept for reconciliation purposes. PCard activity is included in the State's accounting system, First State Financials (FSF), and is also a part of each organization's monthly FSF reconciliation process.

Further, the BAM states, "Agencies and school districts may not use credit cards registered in the name of employee, agency, school district, or State which could create an obligation of the State, except as specifically and duly authorized by the Secretary of Finance."<sup>5</sup>

### *Personal Expense Reimbursements*

Although the PCard is the State's preferred choice for travel expenses, direct reimbursement is also acceptable. Delaware's travel policy states that in cases where the PCard was not used for travel-related expenses, those expenses would be reimbursed using a Personal Expense Reimbursement (PE) voucher.<sup>6</sup>

### *Food Consumed In-State<sup>7</sup>*

State employees<sup>8</sup> shall not be provided or reimbursed for food consumed in-State during normal working hours, with the exception of the following:

- Employees of State agencies who regularly receive wages-in-kind in addition to their salaries;
- Employees of the Delaware Economic Development Office;
- Food provided as part of employee recognition events as established by 29 Del. C. §5950;
- Food provided during agency training events held away from the agency's home location;
- State Police recruits during the period of their training; or
- Circumstances where the Director of the Office of Management and Budget and the Controller General has granted approval.

## *Security (General and Information Technology)<sup>9</sup>*

All State employees are required to abide by the State's policies for the safeguarding of proprietary and personal information and the Department of Technology and Information's (DTI) computer usage security policies. Employees are expected to safeguard and secure information, such as employee identification numbers, social security numbers, computer and software passwords, State credit card account and personal identification numbers (e.g., fleet services card, PCard), building access badges, and other identifiers and access instruments distributed as State issued security measures. Employees are also prohibited from sharing any of this information. Any questions regarding this policy should be directed to DTI.

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<sup>5</sup> BAM Section 7.5.8, v 4.26

<sup>6</sup> BAM Section 7.6.6.1, v. 4.26

<sup>7</sup> 29 Del. C. §5112 and BAM Section 7.6.6.2, v. 4.26

<sup>8</sup> According to BAM Section 12.1, v. 5.12, State employees are defined as individuals who receive a paycheck through the State's payroll system, Payroll Human Resource State Technology (PHRST). Therefore, District employees are considered State employees for this purpose.

<sup>9</sup> BAM Section 2.7, v. 4.10

*Code of Conduct*

29 Del. C. §5806(a) states, “Each state employee, state officer and honorary state official shall endeavor to pursue a course of conduct which will not raise suspicion among the public that such state employee, state officer or honorary state official is engaging in acts which are in violation of the public trust and which will not reflect unfavorably upon the State and its government.” Additionally, the State of Delaware’s Public Integrity Commission has issued opinions based on this codification with the respect of nepotism and conflicts of interest.<sup>10</sup>

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<sup>10</sup> <http://www.depic.delaware.gov/sections/conduct/opinion/1991-2015PersonalorPrivateInterest.pdf>

## ***Allegations and Results***

The Office of Auditor of Accounts (AOA) received various Fraud Hotline tips in January 2016 about financial wrongdoings committed by the Chief Financial Officer (CFO) at the District. Additionally, the District contacted AOA as a result of human resource-related issues in the District's business office, which was supervised by the CFO. On April 24, 2016, the Board placed the CFO on administrative leave. He then officially retired on June 30, 2016.

These factors led to the opening of our investigation, during which we interviewed a broad spectrum of District employees. Through those interviews we discovered various issues during the period July 1, 2011 through June 30, 2016, which is State Fiscal Years 2012 through 2016. Our review did not encompass the entire District nor all District transactions and employees during this period. However, our review of judgmentally selected transactions, employees, and documents led to the results discussed below.

### ***Control Environment***

Our review of the issues disclosed via the Fraud Hotline allegations and through interviews with District employees found a flawed control environment.<sup>11</sup> From the lack of financial policies and procedures to the sharing of login credentials, various problems existed among District Office employees.

#### ***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). Employees explained that the CFO specifically requested these credentials from his subordinates, so that he could initiate financial transactions using their credentials and then approve those same transactions using his business manager role<sup>12</sup> credentials. Several employees explained that they were not comfortable providing their login credentials but felt they had no other choice since the CFO was their supervisor. Employees also disclosed that they would share each other's credentials when another employee needed assistance in processing transactions.

This practice violates DTI's security policies and is contrary to the information provided to all State employees during DTI's annual cybersecurity training.

#### ***Lack of Policies and Procedures***

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

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<sup>11</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) explains that the control environment, "...sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops and its people; and the attention and direction provided by the board of directors."

<http://www.coso.org/documents/Internal%20Control-Integrated%20Framework.pdf>, retrieved November 7, 2016

<sup>12</sup> According to the BAM Section 6.3.2 v. 3.16, the business manager role has ultimate authority in committing the organization (in this case, the District) to purchase and approve transactions. Business managers are also expected to follow their Organization's practices, with the understanding that all federal and State legal and regulatory requirements must be met, and the authority of the State's policies and procedures supersedes the authority of Organization directives.



period of our review. We were told in multiple interviews that employees did not want to take on additional responsibilities without the existence of a comprehensive policy and procedure manual that detailed financial processes. Employees explained that they were given the BAM as a policy and procedure manual; however, the BAM only provides the State's financial rules, not specifics on individuals' roles, responsibilities, and procedures when processing financial transactions. We found a policy manual on the District's website<sup>13</sup> but it only contained a generic page and a half policy on fiscal management and budgeting that mainly referenced back to Delaware Code and the BAM.

In addition, during our review of payment vouchers, direct reimbursements, and PCard transactions, we found that the District did not have written policies specific to travel expenses and reimbursements for items such as mileage and business use of employees' personal cell phones. The District also did not have policies and procedures related to inventory tracking and disposal for such items as equipment and electronic devices (i.e. tablets).

### *District Office Environment*

Several current and past employees interviewed explained that anyone who questioned the District's CFO was subject to his intimidation and bullying. They further explained that the CFO used department budgets to control and manipulate both people and the District's financials, using funds however he wished to cover costs, and making some people look as if they were coming in over or under budget when they really were not. We were unable to substantiate these claims due to the timing of our investigation.

Although employees stated that they complained to other District officials about their work environment, the CFO's behavior went unpunished. AOA confirmed this by reviewing his personnel file and annual performance evaluations, for which he received glowing reviews and accolades. During AOA's interviews, we inquired, with both the Superintendent and Director of Personnel, as to whether there were any formal complaints made regarding the CFO's behavior; however, we were told that none had ever been made. We later learned that a District employee had filed a discrimination lawsuit against the District and the CFO was specifically named as a defendant in the case. This was contradictory to what we were told in our interviews. Based on review of various aspects of the District's processes and as discussed throughout this report, we believe that the CFO had little oversight and was free to make decisions in certain areas, such as finances and salaries, as he saw fit.

### *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. In fact, we found \$21,197.37 of transactions during voucher testing with a facsimile signature. As discussed in the *Direct Reimbursements* section of this report, we found reimbursements for the CFO that only contained his own approval and a facsimile signature. While the State does not prohibit the use of facsimile signatures,<sup>14</sup> financial secretaries explained that they would enter transactions in FSF and place the signature on the document themselves before it went to the CFO for his approval. Therefore, these signatures provide absolutely no approval control. Further, no one should have access to a facsimile signature, except for the person whose signature it is. Based on an interview with the current Board President, AOA does not believe he, or previous Board Presidents, were aware that their facsimile signatures were being used for this purpose.

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<sup>13</sup> [http://www.irsd.net/parents\\_students/policy\\_manual](http://www.irsd.net/parents_students/policy_manual)

<sup>14</sup> BAM Section 6.4 v.3.16 discusses the State's Uniform Electronic Transaction Act (6 Del. C. Chapter 12A), which provides a framework for the creation and validation of electronic signatures. It states, "In cases where manual (hardcopy) signatures are used to authorize transactions, the hardcopy signature is the legally binding and acceptable record for the transaction."



*Lack of Board Meeting Minutes Detail*

At the onset of our investigation, we reviewed the Board’s executive, finance committee, building and grounds, and regular session meeting minutes to gain an understanding of the District’s business and processes. However, we found that the minutes provided little documentation as to discussions during these meetings.

*Conflicts of Interest and Nepotism*

During our investigation, we found that the CFO and the Board both acted in contradiction with opinions published by the Delaware Public Integrity Commission regarding State employees and officials not being involved in matters in which they have a personal or private interest.

District employees also had numerous complaints that nepotism was a common practice by the District. Examples of both conflicts of interest and nepotism will be discussed in the *Issues Regarding Salaries*, *Purchases*, and *Mary H. Bailey Scholarship* sections of this report.

*Issues Regarding Salaries*

AOA received feedback from various District employees who were concerned that their salaries were incorrectly calculated; hence, we included procedures to review various components of salaries and found numerous issues with the District’s processing and recording of payroll. Most notably, we found that the CFO not only single-handedly determined employees’ salaries but also was responsible for the processing of payroll. Typically, a strong control environment would allow for the segregation of duties of this process: The Director of Personnel would determine the salary, while the CFO would process those payments during bi-weekly payroll. We found that 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). It seemed that the majority of her job responsibilities consisted of traveling around the United States to recruit teachers for the District.

*Lack of Documentation*

Preliminary data analysis surrounding salaries indicated there were several highly-paid administrative staff members in the District office, most notably the CFO. As we began to request salary documentation from the District’s Human Resources Department, it became very apparent that the District lacked the appropriate documentation to account for employee salaries.

Further, the District’s process for the local fund portion of administrative salary increases<sup>15</sup> consists of a 12-category scoring rubric. AOA reviewed the scoring rubrics and determined that numeric scores are assigned to each of the 12 categories and a final score is determined by summing the 12 categories. We found that numeric scores are assigned without explanation. Once scoring is complete, the administrative staff are placed into seven groups based on their scores. Individuals with the highest scores are placed together in the first group and receive the highest salary increase; conversely, individuals with the lowest scores are placed in the last group and receive the lowest increase or, at times, no increase.

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 to

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<sup>15</sup> See *Absence of Local Salary Schedule* section of this report for additional information related to local funding.

the financial secretary responsible for entering the salaries into PHRST. There was no documentation to demonstrate that the Superintendent or Board reviewed the CFO's calculations for accuracy, nor was there any documentation to demonstrate that the CFO's calculations actually agreed to the salaries approved by the Board. We also noted that the employee contracts excluded salary amounts; therefore, the contracts could not be used as appropriate supporting documentation during our investigation.

Without proper documentation from the District, AOA cannot conclude whether employee salaries were, and continue to be, accurately paid.

### *Absence of Local Salary Schedule*

The State provides funding for District positions, which is intended to be approximately 70% of the total salary. Therefore, the District is responsible for covering approximately 30% of the salary using local funds collected through the county tax process. While the District's administrative employees (e.g. directors and supervisors), with the exception of those paid entirely with local funds, were subject to the State's salary schedule for the State-funded portion of their salaries, we found that the District does not have an administrative salary schedule for local funds.<sup>16</sup>

We reviewed two employees whose salaries the District paid entirely from local funds and found that both employees were paid less than their peers. Because there is no local salary schedule and the District does not maintain appropriate supporting documentation, there may be additional disparities with employees paid entirely with local funds.

### *Years of Experience*

As part of our salary review, we examined employees' years of experience, as this is a driving force behind employee salary calculations. We found the District inconsistently documented years of experience. The State salary schedules consider 0 years of experience as Step 1, 1 year of experience as Step 2, so on and so forth. The District's documentation confused "years of experience" with "step" and incorrectly used those terms interchangeably. For example, two of four employees reviewed were being underpaid due to a miscalculation of years of experience. One employee had 7 years of experience documented in his personnel file but was paid at Step 7, which is 6 years of experience. Another employee had 24 years of experience documented in her personnel file but was paid at Step 24, which is 23 years of experience. The District's first explanation for this was that the District's salary schedule used the term "years of experience" but it should have been "step." We continued to review salaries and found that this explanation did not fit with other employees' salary calculations. Once we showed the District the discrepancies, they admitted that the salary calculations were incorrect for certain employees.

### *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 State-funded portion of these salaries agreed to the State salary schedule. The District does not have a local salary schedule (see *Absence of Local Salary Schedule* section), which would ensure staff members in the same work capacities are being compensated comparably based on their education, experience, and evaluations.

Table 1 below compares Directors' salaries in correlation with education and experience levels for Fiscal Years 2012 through 2016. Our review shows that Director of Instruction, with 26 years of experience and a Doctorate degree, was paid a salary of \$119,743 as of Fiscal Year 2016; whereas, the Director of Personnel has similar experience and education levels but was paid a salary of \$137,021, a difference of approximately \$17,000. Also, as shown in Table 1 below, the Director of Special Services, having 10

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<sup>16</sup> See previous section labeled *Lack of Documentation* for details regarding local funding and salary increases.

years less experience and a lower education level, was paid a comparable salary to Director of Instruction in Fiscal Year 2016. The CFO, possessing 31 years of experience and a Masters+30 education level, was the highest paid director in Fiscal Year 2016, with a salary of \$162,258. The CFO was paid approximately \$25,000 more than the second highest paid director, the Director of Personnel, in Fiscal Year 2016. The Director of Leadership Development has the most experience of 33 years with a Doctorate degree and was paid approximately \$34,000 less than the CFO in Fiscal Year 2016.

**Table 1: Director Salary Comparison<sup>17</sup>**

Employee Name	Fiscal Year:					Years of Experience as of 2016	Education as of 2016 <sup>18</sup>
	2012	2013	2014	2015	2016		
Director of Leadership Development	N/A**	N/A**	N/A**	N/A**	\$127,912	33	D
Director of Instruction	\$101,870	\$113,598	\$114,583	\$116,698	\$119,743	26	D
Director of Personnel	\$119,249	\$126,498	\$128,818	\$132,048	\$137,021	24	D
Director of Special Education	\$105,093	\$114,197	\$115,231	\$116,155	\$118,372	34	M+45
Director of Special Services	N/A**	N/A**	N/A**	\$114,976	\$119,621	16	M+45
CFO	\$138,083	\$149,291	\$152,215	\$155,445	\$162,258	31	M+30
Director of Instruction	\$111,054	\$115,381	\$116,553	N/A**	N/A**	43*	M+15*

\* As of 2014 date of retirement

\*\* The N/As in this table represent periods in which these employees were not Directors.

Additionally, through our salary comparison review we identified an Administrative Secretary who receives a \$7,500 annual stipend because she is considered an essential employee that has to report to the District even during inclement weather. This stipend was 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. Because we did not review all employees, there may be other employees receiving a similar stipend.

**Payroll Coding**

AOA found that the District incorrectly coded payroll items. When employees earned overtime, the District would charge these payments to the ‘EPER’ payroll code. ‘EPER’ stands for Extra Pay for Extra Responsibility, which is traditionally used for extra assigned duties such as coaching and mentoring, rather than extra hours for normal job duties. In fact, PHRST contains several payroll codes strictly for the payment of overtime.

Additionally, AOA found that District administrators were also receiving EPER pay, which is not something typically paid to administrative employees. The District explained that these employees received annual stipends in the form of EPER for completing 40 hours of professional development. The professional development included research, reading professional books, increasing knowledge, and

<sup>17</sup> Salary data was extracted from the List of Authorized Positions report from PHRST at June 30 of each Fiscal Year.

<sup>18</sup> D = Doctorate; M+45 = Masters + 45 credits; M+30 = Masters + 30 credits; M+15 = Masters + 15 credits

discussions. We determined \$40,000 of EPER was paid to 14 administrators during the period of our review.

AOA discussed this issue with the long-time business manager of another Delaware school district. He explained that District administrative staff are not paid EPER or a stipend for any professional development offered because it is a part of their normal job duties and, therefore, already included as part of their salaries. AOA concludes it is not prudent for highly-paid administrative district employees to receive EPER for something that is part of their regular job duties.

We found most administrative employees we reviewed received retroactive pay in each pay period. District officials explained that this occurred because the Board would take a long period of time to approve annual salary increases. These increases would be approved back to a past date; therefore, the District would have to calculate the retroactive pay. AOA has several concerns with this practice: (1) the employees were owed that pay from the effective date and should be receiving the retroactive pay in a lump sum, not spread over many pay periods; (2) the Board and District officials should work together to ensure these increases are approved in a timely manner, thereby reducing the need for retroactive pay as a normal practice; and (3) with no review and approval of the CFO's calculations, as discussed above, the District does not know if the retroactive pay was calculated and paid accurately.

### *Positive Behavior Support (PBS) Cluster*

According to the Delaware Department of Education (DOE), the PBS Cluster is a professional development course designed for school staff to participate in training and guided activities that result in the creation of a support and intervention program for students with challenging behavior. Educators who participate in this training receive an additional 2% of their base salary, which is valid for five years. DOE provides the District with this funding.

AOA received an allegation that one employee's PBS Cluster payments ended before the expiration date. After AOA's review, we determined this was not the case; however, we found 5 pay periods in which the employee was incorrectly not paid for the cluster. This error totaled \$174.26. While the dollar amount of the error is not substantial, it further demonstrates the District's challenges in calculating salaries correctly.

### *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. Although AOA did not find disparity when comparing her salary to that of her peers, AOA believes that this relationship in the workplace violates 29 Del. C. §5806(a) and constitutes nepotism as described in opinions published by the State of Delaware's Public Integrity Commission.<sup>19</sup>

## *Financial Transactions*

AOA also noted a lack of controls surrounding purchases at the District. As detailed below, we found direct payment of the CFO's personal credit card through FSF, multiple instances of purchases without support or explanation that could have been used for business or personal reasons, and varying degrees of purchase and payment approvals, if any.

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<sup>19</sup> <http://www.deplic.delaware.gov/sections/conduct/opinion/1991-2015PersonalorPrivateInterest.pdf>

**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. See Table 2 below for total payments from the District to these organizations from Fiscal Year 2012 through Fiscal Year 2016. Transactions between the District and these organizations are discussed in further detail below.

<b>Fiscal Year</b>	<b>IRVFC</b>	<b>B&amp;G Club</b>
2012	\$ 110.00	\$ 12,000.00
2013	110.00	12,000.00
2014	323.40	-
2015	150.00	8,500.00
2016	19,650.00	-
<b>Totals</b>	<b>\$ 20,343.40</b>	<b>\$ 32,500.00</b>

**IRVFC**

Allegations were brought to AOA regarding the District's purchase of an all-terrain vehicle (ATV) from IRVFC. Our review of the District's vendor payments and supporting documentation found a \$19,500 payment to IRVFC for an ATV that is used by the Sussex Central High School Athletics Department. (See Figures 1 and 2 below.) AOA found documentation showing the District's CFO, on behalf of the IRVFC, purchased the ATV in June 2015 for \$14,500, paid \$435 to a local sign company to have it wrapped in personalized Sussex Central High School graphics, and sold it to the District for \$19,500 in July 2015, a month later. IRVFC received \$4,565 more than they paid for it, a markup of 31%. Through research on the manufacturer's website, AOA determined the District could have purchased the same ATV brand new for \$13,999.

During testing of reimbursements, we also found that the District reimbursed the CFO for mileage for four trips, totaling 160 miles, or \$64, to the sign company during this same time period.

AOA obtained documentation showing the Sussex Central High School Athletics Department requested a small utility vehicle, such as a golf cart or ATV, for multiple years prior to this purchase, but were not granted permission to do so until the CFO initiated this purchase through the IRVFC.

The other payments to IRVFC consisted of a \$173.40 purchase discussed in the *Driver's Education and Homeless Program Funds* section below and \$670.00 in IRVFC discount cards purchased and distributed by the CFO to certain employees as employee recognition gifts. Employees thought these were personal gifts from the CFO.



**Figure 1: ATV as Originally Purchased**



**Figure 2: ATV with Addition of Graphics**



**B&G Club Grant**

During our investigation, it was brought to our attention that the District gave an annual “grant” to the B&G Club and that the District’s CFO also served as President of the B&G Club. Letters written by the District for Fiscal Years 2012, 2013, and 2015 state the grant funds were from the District’s Part B of the Federal Individuals with Disabilities Education Act (IDEA) grant. IDEA Part B is to be used for special education and related services to children with disabilities. Further, the DOE expressed surprise that the

District was sending these grant funds outside of the District since the District did not specify such use in their grant application and the source of funds does not lend itself to subrecipients.

Letters from the B&G Club for Fiscal Years 2012 and 2013 stated that the annual grant of \$12,000 was used for, "...extra educational and tutoring activities offered during the spring and summer months. These activities include: Education and Career Development, Character and Leadership Development, Health and Life Skills, The Arts, Sports, Fitness, and Recreation." For the Fiscal Year 2015 grant, the District sent a letter to the B&G Club stating that the \$8,500 grant was to provide "...staff training and purchase of hardware and software for the students." Contrary to the customary practice of grants federal funds to subrecipients, the District did not provide any information regarding the spending and reporting requirements of the federal grant.

Further review of the Fiscal Year 2015 grant funds showed that the District processed payment to the B&G Club through the State’s accounting system, FSF, and indicated that the hardcopy check be sent directly to the District once processed. The District then stamped the back of the check as "For Deposit Only" into the "IRSD Operations" account, even though the check payee states, "Boys & Girls Club of Delaware, Oak Orchard/Riverdale Chapter." FSF shows the District put the funds into a local grant revenue appropriation, thereby changing the use of the funds and convoluting any limitations associated with federal funds. The District, in turn, purchased 15 iPad Air tablets and cases, totaling \$6,271.89, and provided those to the B&G Club. The District provided no explanation as to where the remaining \$2,228.11 was spent. We discussed this matter with the District’s Technology Systems Manager who stated that, to his knowledge, the tablets have never been returned to the District for a yearly inventory and updating.

We conclude that, not only was it inappropriate for the District to use the federal grant funds for something other than special education services within the District, the transactions are questionable given the CFO’s role at both the District and the B&G Club.

***Payment Voucher Review***

The District processed payment vouchers through FSF to pay vendor invoices. We judgmentally selected 196 transactions, totaling \$574,289.79, to review during the investigation. The results of our payment voucher review are detailed in Table 3 below. Explanations for certain categories, as necessary, follow the table.

<b><i>Table 3: Payment Voucher Review</i></b>		
<b>Category</b>	<b>Amount</b>	<b>Number of Transactions</b>
Not for Valid Purposes <sup>20</sup>	\$ 79,755.92	26
Lack of Supporting Documentation	24,871.22	10
Use of Facsimile Signature Stamp	21,197.37	16
Credit Card Payments	31,911.45	34
IRHS Boys Basketball Boosters	2,179.00	18
Valid Purpose	414,374.83	92
<b>Totals</b>	<b>\$ 574,289.79</b>	<b>196</b>

<sup>20</sup> This amount includes \$32,500 spent with the Oak Orchard B&G Club and \$19,500 spent with the IRVFC. See *Related Organizations* section regarding the details of those transactions.



*Not for Valid Purposes*

The transactions we deemed as not for a valid purpose were because they either violated the State's accounting rules as discussed below or they were not a prudent use of the District's funds. These transactions included:

- Fiscal Year 2012:
  - \$1,218.75 spent for desserts for a District Teacher of the Year (TOY) ceremony
  - \$3,395.52 spent for a recognition event at Sussex Pines Country Club for the District's Superintendent being selected as Superintendent of the Year and a National Superintendent Finalist
    - This transaction included a \$75.00 bar fee and no detailed receipt. Therefore, we were unable to determine whether alcohol was purchased by the District.
- Fiscal Year 2013:
  - \$1,287.50 spent for desserts for a District TOY ceremony
- Fiscal Year 2015:
  - \$1,037.76 spent for breakfast for an administrators' brainstorming meeting for the upcoming school year
  - \$7,248.00 spent for a District TOY ceremony,<sup>21</sup> held at Baywood Greens;
    - The payment included \$100.00 for 2 bartenders to work the cash bar. The District did not pay for the bar.
    - The cost of invitations for this event is included in the *PCard* section of this report.
- Fiscal Year 2016:
  - \$8,930.47 spent for breakfasts and lunches at an administrators' brainstorming meeting for the upcoming school year and new teacher orientation
  - \$2,030.42 spent for "elegant glass clocks" for District employees who retired during Fiscal Year 2015
  - \$2,607.50 paid to Worcester County Public Schools (WCPS)
    - WCPS told AOA that the payment was for tuition for a special needs student who could not be accommodated by the District. We discussed this situation with both DOE and the student's previous Delaware school; however, neither could provide evidence that this student's needs could not be met. WCPS also told AOA that the student's father is a WCPS employee and the rest of his children also attend WCPS. We received an allegation that this student was related to a Board member, but were unable to confirm this relationship.

Our review of the documentation for funds spent on breakfasts and lunches showed that the meals were consumed at a District building. As discussed in the *Background* section of this report, Section 7.6.6.2 of the BAM states employees are not to receive food during normal working hours unless certain criteria are met. We found no evidence that any of the exceptions listed in the BAM pertained in these situations.

*Credit Card Payments*

Our review found \$30,789.17 in direct payments to the CFO's personal American Express credit card and \$1,122.28 in payments to Lowes Home Centers, LLC for a District credit card. As discussed in the *Background* section of this report, Section 7.5.8 of the BAM prohibits this practice. The payments made to American Express were for various charges, including airfare for students and administrators; meals and other travel expenses; \$286.09 for food and candy from BJ's Wholesale Club and a sheet cake from Dairy Queen with a note that states the items are for mentoring supplies, materials, and activities; \$83.50

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<sup>21</sup> Of the \$7,248 spent on the TOY ceremony, \$2,968 was spent with State funding, \$500 with local funding, and \$3,780 was spent with donation money and revenue generated from ticket sales. AOA did not receive supporting documentation for the ticket sales; however, this information was communicated to AOA by the District.

from Dollar Tree Stores, Inc. for Christmas socks, play pads, and other items labelled as student recognition and appreciation items; and \$352.80 for Alex and Ani bracelets purchased by the CFO as gifts for certain District Office staff.

In addition, we found \$972.09 in charges for meals purchased during a conference attended by the CFO and three other District employees. One meal, totaling \$358.87, was at a Ruth's Chris Steak House for four District employees, which equated to \$89.72 per person. While not formally documented, the District's travel meal policy was approximately \$46 per person per day. One employee on that trip stated that she knew the total bill exceeded the District's daily meal limit so she gave the CFO \$300 for the meal. However, the documentation showed the CFO was reimbursed for the full amount of the meal. During interviews, other District employees discussed how their travel receipts were scrutinized by the CFO and payments sometimes reduced for even the smallest of infractions.

#### *Indian River High School (IRHS) Boys Basketball Boosters*

Through our review of vouchers, AOA discovered the District's current Board President simultaneously served as the treasurer of the IRHS Boys Basketball Boosters. He was paid in his capacity as score keeper for the basketball games, but those payments were made directly to the basketball boosters, instead of the Board President himself. From Fiscal Year 2012 through Fiscal Year 2016, these payments totaled \$2,179. The method of these payments seemed to be an attempt to conceal the Board President as the true recipient. Documentation stated he donated this income back to the basketball boosters, but AOA was unable to validate this because the booster bank account is held outside of FSF and the District, as it is a separate organization not under the District's purview.

To follow proper accounting, these payments should have been made to the Board President. If he so desired, he could then personally donate the funds to the boosters. Direct payment would have been more transparent for the public, and would have triggered the Board President to receive an Internal Revenue Service (IRS) Form 1099-MISC when he earned over \$600 in a calendar year. To our knowledge, he never received a 1099-MISC for these payments. Not only does this practice potentially violate IRS rules, it also violates Delaware Code. 14 Del. C. §1051(b) states, "No person shall be elected or serve as a school board member who holds a paid position which is subject to the rules and regulations of such school board."

#### *Driver's Education and Homeless Program Funds*

In addition to the payment vouchers discussed above, we also reviewed the District's Driver's Education and Homeless Program funds due to specific allegations received.

Of the \$212,891.84 in transactions AOA reviewed for Driver's Education, \$173.40 was not a valid use of the funds. The District, through the CFO, purchased traffic cones from IRVFC for use in the Driver's Education program. However, the traffic cones were not appropriate for the program so the District had to purchase additional cones. In addition, the District could not provide supporting documentation for another \$4,184.40 in transactions. Therefore, we could not determine whether the funds were used appropriately.

Our review of purchases made from the Homeless Program appropriation found \$1,400.49 out of \$7,368.83 in transactions were not a valid use of funds for this appropriation or the District could not provide supporting documentation. Table 4 below details these invalid transactions.

<b>Table 4: Homeless Program Appropriation Invalid Transactions</b>	
<b>Item</b>	<b>Amount</b>
Mini blinds purchased for District Office’s basement, which included offices other than the homeless program	\$ 1,028.00
Fuel used by an employee not working in the homeless program	92.18
Verizon Wireless MIFI Jetpack used for substitute teacher assignments	30.01
No documentation provided	250.30
<b>Total</b>	<b>\$ 1,400.49</b>

**State Procurement Card (PCard)**

As part of our procedures, AOA evaluated the District’s use of PCard for the scope of our investigation. While we found that the CFO was not assigned a PCard, the District had a total of 12 PCard users during this time, spending a total of \$365,719.73. Table 5 below details the amount of PCard spending by user for the scope of our investigation.

<b>Table 5: PCard User Spending from April 1, 2012<sup>22</sup> through March 31, 2016<sup>23</sup></b>	
<b>PCard User</b>	<b>Total Spending</b>
Superintendent	\$ 133,808.04
Administrative Secretary to the CFO	107,343.85
Director of Instruction	28,282.08
Nine Additional Users	96,285.76
<b>Total</b>	<b>\$ 365,719.73</b>

AOA requested and reviewed PCard activity for the three individuals listed above based on their high usage and position within the District. In total, we identified 32 transactions, totaling \$7,590.72, that we could not determine the true nature of the purchases based on a lack of supporting documentation.

Some examples of inappropriate expenditures included:

- Infinity bracelet from Tiffany & Co. for the Superintendent in recognition of being a 2012 National School Superintendent Finalist as well as the 2012 State School Superintendent of the Year – \$380.00
- Personalized tray as gift for departing Board member – \$140.00
- TOY ceremony invitations, RSVP cards, and programs – \$1,183.26
- Various in-State meals for committee meetings and professional development trainings. (See further details below.)

In addition, for all PCard activity during our scope, we performed an analysis on the Merchant Category Code (MCC)<sup>24</sup> to determine how the District was spending their money. Although we did not perform an

<sup>22</sup> AOA was only able to obtain PCard data from the third party system, Payment Net, as far back as April 1, 2012.

<sup>23</sup> AOA only extracted PCard data through the last quarter of the CFO’s tenure since he did not have a PCard.

in-depth review of all transactions, we found that the District spent significant amounts in categories that are specifically prohibited by the BAM during the scope of our engagement.

- In-State Food (includes restaurants and grocery store purchases) – **\$20,353.06**
  - BAM Section 7.6.6.2, v. 4.26, states that “employees are not provided or reimbursed for food consumed in-State, during normal working hours” with the exception of certain criteria.
- Greeting cards – **\$2,807.40**
  - BAM Section 7.2.2, v. 4.27, states that “No funds shall be expended for purposes such as ... greeting cards...”
  - The District purchased several varieties of greeting cards (e.g. holiday, birthday, sympathy), many of which were personalized with the Superintendent’s name on them.

### Direct Reimbursements

#### Mileage

Preliminary data analysis procedures identified an unusual amount of mileage reimbursements being paid in FSF through direct reimbursements to the CFO and other administrative staff in the District office. We reviewed mileage for eight District office employees and two board members and found that over \$76,000 was spent on mileage reimbursement for Fiscal Years 2012 through 2016. Based on the volume of mileage reimbursement, the District should consider the use of State Fleet vehicles in lieu of mileage reimbursements. (See Table 6 below.)

<b>Table 6: Fiscal Years 2012 through 2016 Mileage</b>		
<b>Employee</b>	<b>Total Miles</b>	<b>Total Amount</b>
Director of Personnel*	65,769.00	\$ 26,307.60
Superintendent	43,206.00	17,282.40
CFO	25,610.40	10,244.16
Supervisor of Alternative Programs	15,720.40	6,288.16
Assistant Superintendent	15,256.00	6,102.40
Secretary, Business Office	9,161.00	3,664.40
Board President	8,714.00	3,485.60
Technology Systems Manager	4,685.40	1,874.16
Federal Program Analyst	2,535.00	1,014.00
Board Member	574.00	229.60
<b>Totals</b>	<b>191,231.20</b>	<b>\$ 76,492.48</b>

\* As discussed previously, the Director of Personnel is responsible for recruiting for the District, which entails a significant amount of travel.

The validity of the CFO’s mileage reimbursements could not be determined due to the lack of documentation and support, and the confirmation from District administrators that he was not involved in certain assignments he claimed mileage for, or they were unaware of why he was traveling so much. For example, he claimed mileage for weather-related road conditions and observations; however, he was not part of the team that makes that assessment.

<sup>24</sup> MCC is a four-digit number assigned to a business by credit card companies that reflects the primary category in which the merchant does business, according to Wikipedia ([https://en.wikipedia.org/wiki/Merchant\\_category\\_code](https://en.wikipedia.org/wiki/Merchant_category_code)) on November 7, 2016.

We identified multiple instances in which the CFO's mileage calculations were inaccurate based on the travel locations provided in the supporting documentation. Additionally, AOA identified one instance in which the CFO submitted a duplicate reimbursement for mileage whereby he was overpaid 410 miles, or \$164.

AOA notes a secretary in the business office was reimbursed for mileage to make the daily bank deposits in Georgetown, a task that was given to her by the CFO, her brother-in-law. (Also, see *Nepotism* section of this report.) According to several District Office administrators, custodians used to take the locked bank bag to the bank in a State Fleet vehicle, so they never received mileage reimbursements. There are also several District office staff members that live much closer to the bank that could make the deposits on their way home. AOA noted for several months the secretary's bank mileage changed between 16 to 25 miles per day, with no explanation as to why. AOA recalculated the mileage from the bank in Georgetown to her home address and determined she was overpaid by \$928.80.

#### General Observations Surrounding Direct Reimbursements

AOA expanded our review of direct reimbursements for those individuals identified in Table 6 above to include all reimbursements received during Fiscal Years 2012 through 2016. Through our review, we identified \$3,086.26 paid for in-state meals. Additionally, we identified \$8,624.49 in which we could not conclude the appropriateness of the expenditure due to a lack of supporting documentation. We also found facsimile signatures on direct reimbursements, which is consistent with what we found during our review of payment vouchers.

#### Questionable Purchases

The CFO was reimbursed \$2,029.18 for postage. We were told that the CFO purchased postage for District locations that did not have postage machines; however, we were unable to determine if all postage purchased benefited the District.

The CFO also purchased a projector and other presentation equipment totaling \$339.98, and we confirmed with several administrators that the equipment was not at the District. AOA received an anonymous tip that the CFO brought a brand new projector into the IRVFC. AOA located the projector at the IRVFC. The model matches the description on the receipt for the projector that cannot be located at the District. Additionally, IRVFC board members had no knowledge of a projector being purchased. Unfortunately, the receipt did not provide a serial number for the projector, and AOA made several phone calls to determine the serial number for the projector sold, to no avail.

Of the \$17,727.35 in direct reimbursements reviewed for the CFO, we identified \$797.85 in reimbursements in which the CFO was the only approver on the voucher, and \$4,658.13 in reimbursements in which only the CFO's signature and a facsimile signature were used as approval. The remaining reimbursements were approved by various District administrators. When AOA interviewed the various approvers, we were told that the CFO would often times only provide the voucher cover sheet for approval with no supporting documentation and would try to distract the approver with multiple questions and subject matters.

Through our review of the Superintendent's direct reimbursements, we identified one purchase that we deemed questionable: White House Christmas ornaments from the White House Historical Association Museum Shop, totaling \$478.40.

AOA identified a direct reimbursement made to the Director of Personnel in Fiscal Year 2012, totaling \$210.98, for the purchase of a cell phone, and another made in Fiscal Year 2015, totaling \$583, for the purchase of an iPhone 6s, iPhone accessories, and snacks from Walgreens. We determined through our review that she is also reimbursed for her data plan. Typically, an employee is issued a State-owned

phone and the State directly pays the phone bill. If the employee elects not to carry a State-issued phone, the State will reimburse a portion of the bill; however, the employee is expected to pay for the purchase of the phone and accessories.

### *Mary H. Bailey Scholarship*

The Mary H. Bailey Scholarship Trust (the Trust) was created to provide college scholarships to all students graduating from Sussex Central High School. An advisory committee is responsible for an annual recommendation of scholarship recipients based on academic achievement, extracurricular activities, financial need, nature of advanced education and type of institution, community service, and other appropriate criteria.

We received an allegation that the board members were awarding these scholarships to their relatives. Upon review of documentation provided by the District, we determined that, of the 22 scholarship recipients for the years 2012 through 2016, five recipients were, in fact, related to board members, as detailed in Table 7 below.

<b>Recipient</b>	<b>Year</b>	<b>Relationship</b>
1	2013	Son of Board Member/Advisory Committee Chair
2	2015	Great Niece of Board Member
3	2015	Niece of Board Member
4	2015	Nephew of Board Member
5	2016	Daughter of Board Member/Advisory Committee Chair

The Trust documents clearly state, “The Advisory Committee shall not derive a private benefit, directly or indirectly, from recommending one potential scholarship applicant over another. A board member shall disqualify himself or herself from consideration as to the qualification of any applicant who is related to the Board member by blood or marriage.”

District officials told us that the Advisory Committee selects the recipients and the Board votes to accept their decision, without being given a list of the recipients’ names. However, we have no way of proving that the Board is not given the recipients’ names. Board meeting minutes did show that, for Recipient 1, the Board Member abstained from voting to accept the Advisory Committee’s decision; however, he was the chair of the Advisory Committee that year.

We were told by the 2016 Advisory Committee Chair that the Chair does not participate in the selection process. The Advisory Committee does not keep formal meeting minutes; therefore, we are again unable to determine whether that statement is valid. The 2016 Chair told us that the Chair is responsible for facilitating the application process, which includes picking up the submitted applications and delivering them to the committee for review. However, there is no process in place to ensure that all applications submitted are delivered to the committee. Upon delivering the applications, the Chair stated that he explained that his daughter was an applicant and that the committee should not feel obligated to select her. While we are unable to determine, due to the lack of documentation provided, whether conflicts of interest in fact exist, there are several issues that give the appearance of conflicts of interest. The District must ensure that this process is transparent and fair to all applicants.

District officials also explained that, in the past four years, there are so few applicants that, unless the student did not complete the application in its entirety or had disciplinary issues, the student received the

scholarship funds. Based on the stipulations of the Trust, the District should reconsider whether they are appropriately awarding scholarships in accordance with the scholarship criteria.

### *Conclusion*

Overall, we found the District's processes centralized around the CFO's review and approval of financial transactions due to the District's complete trust in him. This blind trust resulted in the CFO's work not being reviewed and the complete absence of policies and procedures, amongst other issues discussed in this report. Because of these deficient internal controls, an environment in which employees were intimidated and afraid to speak up or report concerns was created. The District should develop comprehensive policies and procedures and hold all employees accountable for non-compliance. The District also needs to review employee salaries for accuracy and consistency. The District also should support the State's PCard program by requiring all employees to use the PCard for purchases instead of personal credit cards and direct reimbursements. Further, based on some purchases we found during our review and the District's current budget concerns, the District ensure funds are used prudently.



District Response<sup>25</sup>

INDIAN RIVER SCHOOL DISTRICT
"A Model of Excellence"



Susan S. Bunting, Ed.D.
Superintendent

Mark. L. Steele
Assistant Superintendent

Mr. R. Thomas Wagner, Jr.
Auditor of Accounts
Office of Auditor of Accounts
Townsend Building, Suite #1
401 Federal Street
Dover, DE 19901

Dear Mr. Wagner:

The Indian River School District is in receipt of the draft report regarding the Special Investigation of its financial operations during the past five years. As you mentioned in your report, we self-reported the initial concern and have fully cooperated with AOA representatives. We appreciate the opportunity to respond. In order to facilitate clarification, the page and paragraph numbers are referenced.

Page 5, Paragraph 3

In the past few years, the State of Delaware has not required the evaluation of all central office administrators. DPAS II only pertains to curriculum/instruction connected directors and supervisors. However, the superintendent annually requires all administrators to set goals and participate in mid-year and end-of-year conferences. The CFO, for example, annually established Balanced Scorecard targets, which included "Auditors will confirm that the district has fully complied with State and District internal control procedures." During each summative evaluation conference, he could provide documentation that the district, according to audits, was "in full compliance." In addition to the Balanced Scorecard, the mid-year and summative evaluation conference resulted in a written recap that included three sections - "Topics Discussed," "Accomplishments and Commendations," and "Targets for Growth/Areas of Focus." Staff efficiency, collaboration, and effectiveness were frequent topics of discussion and suggestions for change. Personnel issues were also addressed. However, since there was no indication via audit that the financial operation of the district was less than stellar, there appeared to be no need for "punishment", and CFO was commended for doing his job well.

On any given day, any one of the more than 1500 IRSD employees may deem other staff members irascible, rude, or aloof. In such instances, the employees including the CFO were counseled by his/her immediate supervisors. When concerns were voiced, employees were informed that the district has a formal complaint process. (See attachment A) Although some staff members had commented about finding the CFO difficult to deal with, not one employee exercised his or her right to follow the district's formal complaint process. No district employee completed the form, thus filing a "formal complaint" as recognized by the district. Both the superintendent and the personnel director responded truthfully when questioned about a formal complaint.

31 Hosier Street, Selbyville, Delaware 19975 • (302) 436-1000 • Fax (302) 436-1034

The Indian River School District is an Equal Opportunity Employer and does not discriminate or deny services on the basis of race, color, national origin, sex, disability, or age in its programs and activities.

25 Due to the volume and sensitive nature (e.g. employee names, employee identification numbers) of information provided in the attachments, AOA did not include those attachments referenced in the District's response below. We also redacted employee names included in the District's response.

The personnel director informed the auditors that one employee had filed a discrimination lawsuit against the district which, in part, involved the CFO. As evidenced in an October 25, 2016 email, the auditors reached out requesting additional documentation in addition to the information previously provided by the personnel director. (See Attachment B)

Page 6, Paragraph 3

“Nepotism was a common practice by the district” is a strong statement since the only provided example of such practice relates to the CFO.

Page 6, Paragraphs 4, 5, and 6

Although the CFO was “responsible for the processing of payroll”, he did not have access to PHRST to enter any information. There was a segregation of duties that gave him “view only” access. The employees with access to enter data into PHRST are physically housed in the Department of Personnel but until July 2016 were part of the Department of Business and reported directly to the CFO. Because salaries are a financial item, the CFO had the responsibility for making sure the district had the funds required to make payroll. Many personnel directors do not have access to PHRST as they have staff who handle all entries. There is specially trained staff who maintain PHRST.

It is the responsibility of the Department of Personnel to maintain transcripts, certifications, licensures and documentation of prior years of experience in personnel files. Payroll files are independent of the personnel files and until July 2016 were under the control of the Department of Business and the CFO. Beginning in July 2016, the specialized payroll staff now report to the personnel director.

The district acknowledges that there was a lack of documentation for administrative salaries due to the fact that there was no local administrative salary scale developed and sanctioned by the Board.

the CFO was hired in 1998. Consequently, the current superintendent, assistant superintendent, and directors “inherited” both the CFO and the processes for handling the district’s financial affairs. Due to the fact that the business managers are the only district employees to attend meetings and trainings at the state level, IRSD Board members and staff relied on the CFO for guidance and policy/procedure development and adherence.

For many years, the Board of Education had depended upon the CFO to calculate the salaries of employees and to provide spreadsheets if raises for staff were warranted. The Board has had no administrator salary determination scale for several years. However, the 12-category rubric was used to calculate administrative raises for the 2015-2016 school year. Not only did an explanation for each category exist, but the superintendent also met with each individual administrator to discuss his/her rating according to the scale which had been fully explained during the summer administrative workshop and which was primarily based on the administrator’s DPAS II evaluative score.

There is no regulation that requires a local salary scale for administrators. In many instances, one's salary is negotiated with the Board of Education. The only set regulation is that the state can only be charged for the amount of administrator's salary as noted in Title 14, section 13.

Page 6, Paragraph 7

Traditionally, no IRSD contract includes a salary amount. However, each individual annually receives a sheet detailing salary and is sent an updated form if a salary change occurs. (An example is enclosed as Attachment C.)

Page 8, Table 1

- Director of Instruction became a director on 7/1/2012 which was FY13 and earned her doctorate effective 2/1/2013. During FY2012 she was still the Millsboro Middle School principal, not a director.
- Director of Human Resources became a director in September 2006 (FY07) and earned her doctorate effective 6/1/2000.
- The table does not reflect years of experience as a director, which does impact salary.

Page 8, Paragraph 1

The administrative secretary is the lead payroll secretary and essential employee and is expected to be available at all times for salary issues and salary input. She must be available during holidays and inclement weather as needed. She is thus awarded one of the approved stipends for secretaries.

Page 8, Paragraph 2

During initial PHRST training, school districts were instructed to not use the over-time codes available in PHRST because they only worked accurately with merit employees. It is standard practice to not use the available over-time codes for schools.

Page 8, Paragraph 3

District administrators' participation in professional learning opportunities during evening Administrative PLC sessions was one of the Race to the Top approved initiatives. In recent years the Administrative PLC has since been included in the Title II section of the Consolidated Application, which was not only approved but lauded by the Department of Education. Completion required forty hours of professional reading, project completion, and face-to-face leadership and/or curriculum knowledge-expanding activities designed to enhance administrators' effectiveness in promoting students' academic success. Stipends varied from \$750 - \$1000 annually. (See Attachment D for a sample PLC roster.)

The payroll earnings code EPER has been used for different types of pay.

Page 9, Paragraph 2

The "Professional Staff Salary Increases" policy that was passed on 5/19/15 assures that administrative raises will be determined and implemented in a manner that eliminates retroactive pay. (Refer to Attachment E)

Page 13, Paragraph 1

Fiscal Year 2015

- Some of the Teacher of the Year costs were paid by the school's donation accounts, which are not district funds. The cost to attend was \$35.00. The schools would collect money from their staff and subsequently deposit it in their donation accounts. The business office then paid the bill using both district funds and the school donation funds.

Page 14, Paragraph 2

██████████ President of the Board of Education, has been the scorekeeper for the Indian River High School Boy's Basketball team since the early 1970's. The President has always donated his payment for serving as the scorekeeper to the basketball boosters program. These monies, along with other fundraising events, were used to purchase various items for the team, such as shoes, jackets, equipment and awards for the players. These monies also helped offset the cost of the annual banquet held at the end of the season. There was never any intention to violate state regulations. Neither the district nor The President was aware that this practice violated state policy. The district will change the procedure on how donations of this sort are handled in the future. The employee will first be paid directly by the district. The employee may then make a donation to a school organization.

Page 15, Paragraph 1

Few parties had PCards since their requests had been denied by the CFO, who frequently conveyed that the state did not want multiple PCards to be used in the district. Consequently, the superintendent's card was used by multiple parties to cover student/employee travel expenses, materials purchases, professional development presenters' lodging and travel arrangements, DART bus transportation arrangements, etc. At the end of every month documentation was gathered to verify expenditures, and the account was reconciled in collaboration with the CFO's Business Department.

Page 15, Paragraph 3

The infinity bracelet from Tiffany & Co. was purchased by the Board of Education and presented to the superintendent at the surprise Superintendent of the Year event to celebrate her National Superintendent of the Year finalist recognition.

Page 16, Bullet 1

Some student programs involve cooking and serving activities. Supplies for such activities are purchased at grocery stores.

Page 16, Bullet 2

With sanction by the CFO, Indian River has a longstanding custom of purchasing and sending "greeting cards" to employees who are ill, who have deaths in their families, who have outstanding accomplishments, etc. Although many have the superintendent's name as well as the Indian River School District's name, they bear live superintendent signatures and are sincerely appreciated by district employees both in times of crisis and memorable events.



Page 16, Paragraph 1

Mileage - A Fleet vehicle was discussed and requested by District staff on numerous occasions throughout the years, but the CFO repeatedly declined the requests.

Page 17, Paragraph 6

With the CFO's approval, the team that organized one of the Summer Administrative Institutes ordered a Lincoln ornament for each of the administrators to symbolize the *Lincoln on Leadership* principles that the administrative staff was expected to operationalize during the next year. At the CFO's advice, the ornaments were purchased and subsequently distributed to each principal and assistant principal during the Institute.

Page 17, Paragraph 7

The personnel director submitted reimbursement for a cell phone and accessories upon the advice and approval of the CFO, who handled the acquisition, distribution and management of cell phones in the district. According to the CFO, the state allows options for cell phone use for state purposes. The first option is for the employee to use a state-issued phone and itemize each phone call. A second option is for the employee to be reimbursed for a cell phone purchase and accessories, which would not require itemization. The personnel director is an essential employee who is expected to be available 365 days a year due to personnel issues that arise. She is the sole district DELJIS contact for Attorney General reports involving arrests of district employees; consequently, she is required have data access at all times.

Page 18, Paragraph 1

Please see the statement read at the April 23, 2013 Board of Education meeting by Board member, [REDACTED]. (See Attachment F)

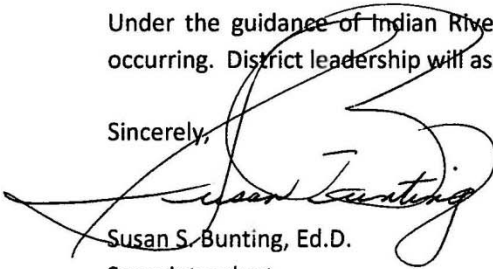
On behalf of the district, we sincerely appreciate your revision of the draft to reflect the clarifications detailed in the above section. To reiterate, since all previous Auditor of Accounts Office audits failed to include findings or to expose questionable handling of state funds by the district's CFO, we had no reason to doubt his credibility or accountability. Current efforts to ensure broader knowledge of and implementation of BAM procedures include

- The district has hired an experienced, well-reputed Director of Business.
- All employees will be notified that they are prohibited from sharing passwords; violations will result in disciplinary action.
- Effectively FY17, the district will encourage the use of P-Cards.
- The business director and the personnel director will work collaboratively to develop and ensure that salaries are correctly and consistently calculated.
- All current salaries will be reviewed by the new business director.
- The creation of policies and procedures that explicitly outline financial transaction steps will be reviewed with all IRSD employees.
- The district has already secured a fleet vehicle for district employee use, thus reducing mileage reimbursement claims.


- All approvals are electronic in the FSF system. With the use of the First State Financial system, it is no longer required to have any signatures, live or facsimile on the actual vouchers being paid. Therefore facsimile signatures are not being used.
- Beginning with FY18, employee sheets will have a line for years of experience and another line for step in order to avoid any confusion.
- The Board of Education has already begun approving every administrative salary change that is made via a formal vote at the Board meetings.
- Payroll coding will be reviewed to make sure that the most accurate earnings code is being used for additional pay.
- Any and all salary adjustments will be paid to IRSD employees in a lump sum and in a timely manner.
- Effective FY17, the district notified all administrative staff that there are to be no food purchases made with district funds unless it is for student instructional purposes.
- No direct payment will be made to an organization on behalf of any community member.
- Greater detail regarding discussions will be included in meeting minutes.

Under the guidance of Indian River's new Director of Business, close examination of all spending is occurring. District leadership will assure that funds are more prudently expended in the future.

Sincerely,



Susan S. Bunting, Ed.D.  
Superintendent



Charles M. Bireley  
President  
IRSD Board of Education

## ***Auditor Response***

While AOA appreciates the cooperation we received from the District and its employees during the course of the investigation, we disagree with some of the points in the District's response. We believe that our report is accurate and is supported by interviews with District employees and documentation we gathered. However, there are certain issues we feel must be addressed:

- While the CFO may have established his own target regarding audit results showing “full compliance,” audit opinions never give full assurance on compliance or any other matter. Further, the District is subject to audits of various topics, not one audit that will encompass all District operations. Therefore, previous audits conducted by AOA or its contractors may not have revealed all areas of noncompliance or questionable practices.
- The discrimination lawsuit was brought to our attention after our initial interviews with the Superintendent and Director of Personnel, where the CFO's behavior and interaction with employees was discussed. It was not until AOA asked specific questions regarding the lawsuit that the Superintendent and Director of Personnel confirmed the situation.
- Even though the CFO was “inherited” by the current administration, changes to the District's processes could have been made to ensure compliance with State rules. Additionally, there are various trainings held by both AOA and other organizations that discuss topics, such as internal controls and accounting rules, which could help the District.
- Our experience with other Delaware school districts has demonstrated that administrative salary scales are used to ensure consistency and appropriateness of salaries.
- If the District continues to not include salary amounts in employee contracts, they need to ensure that the salary sheets are dated and have evidence of approval from appropriate District officials. The personnel files we reviewed contained multiple, undated salary sheets with no indication of approval.
- To be clear, the Board President's signature was included in the supporting documentation for the Tiffany & Co. purchase. The purchase was made by the District, not by the Board.
- The District's reimbursement for the cell phone and accessories was not consistent with State policy (i.e. State policy consists of a State-issued phone or a personal phone with a specific reimbursement amount based on data package) and was not consistent with other employees reimbursements we reviewed (i.e. we found no evidence that other employees were reimbursed for the full cost of their personal cell phone).

AOA hopes that the District will continue addressing the issues we have brought to their attention. AOA is willing to meet with the District to discuss remedial efforts moving forward.