

APPOQUINIMINK SCHOOL DISTRICT

SPECIAL INQUIRY
AUGUST 2025

APPOQUINIMINK SCHOOL DISTRICT SPECIAL INQUIRY

Dear Fellow Delawareans,

Over the past two years, Delaware's three counties undergoing the property re-assessment process for the first time in decades has created an air of uncertainty surrounding our systems of taxation and school funding. School boards, county councils, and the General Assembly have taken action to reassure Delaware residents. Still, large and sudden changes to fiscal systems can often expose critical flaws that may not have been evident otherwise.


This July, an especially urgent issue was brought to my office's attention when Appoquinimink School District announced a critical funding shortfall in the wake of reassessment. My dedicated staff at the Office of Auditor of Accounts worked quickly and diligently to perform a Special Inquiry into this funding deficit. We have examined the results of past audits, systems of public school financial reporting, and the governance policies specific to Appoquinimink. Our findings reveal failures in budgeting, reporting, and review that have resulted in Appoquinimink running large deficits for several years running.

The issues revealed by this Inquiry can be rectified, and our recommendations in the enclosed report illustrate a path towards doing so. They also point towards an opportunity for further examination of the budgeting and financial reporting processes across all 19 Delaware school districts. There is a strong tradition of and need for local control in public education. However, the lack of standardization across school district fiscal departments may contribute to situations like the one at Appoquinimink evading the view of regulators and auditors until they become crises.

APPOQUINIMINK SCHOOL DISTRICT
SPECIAL INQUIRY

The enclosed report represents the best efforts of my office to find answers for the public in a short time, and the first steps Appoquinimink and the Delaware Department of Education (DOE) can take to move forward. I want to thank Appoquinimink for their assistance and cooperation in the creation of this report. In the coming months, my office will continue to work with DOE and stakeholders across Delaware's public education landscape to find ways we can help answer questions about classrooms, schools, and districts in our State.

Sincerely,



Lydia E. York
Auditor of Accounts

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Introduction

On July 8, 2025, officials from the Appoquinimink School District (the District) announced during a meeting of the District's Board of Education (ABOE) that the District faced a \$4.9 million budget shortfall. This shortfall, which was explained as the result of an error of accounting, was unforeseen by previous District financial reporting. ABOE subsequently voted to take advantage of a post-reassessment opportunity afforded to them by Delaware code to raise school taxes and increase Current Expense revenues by 10%.

In response to the District's announcement and related public outreach, the Delaware Office of Auditor of Accounts (AOA) began a Special Inquiry. This Inquiry examined the District's financial reporting and accounting practices to determine the conditions that led to the accounting error and makes recommendations for the District and Delaware Department of Education (DOE) to move forward.

Background

The Appoquinimink School District is a local school district located in southern New Castle County that serves more than 13,000 students and employs more than 2,000 faculty and staff. The District operates five early education centers, eight elementary schools, five middle schools, and three high schools, as well as provides adult continuing education services.

The Appoquinimink School District Board of Education is the governing body of the District. ABOE is composed of five elected at-large members who serve four-year terms, and Appoquinimink Superintendent of Schools serves as ABOE Executive Secretary. The Board is responsible for setting educational policy, approving curriculum changes, overseeing fiscal matters, and supervising the Superintendent.

The Appoquinimink Financial Advisory Committee (FAC) is an independent volunteer body that provides oversight on the District's internal financial controls, budgeting, accounting, reporting, and annual audits. The FAC is composed of up to seven members with financial expertise serving two-year terms and is led by the District's Chief Financial Officer (CFO). The FAC meets monthly and is responsible for verifying and approving the District's monthly financial report that is subsequently submitted to ABOE. In addition to monitoring District-level finances, the FAC advises on fiscal matters at the school level and offers consultation to the Board and Finance Director as needed.

Funding and Financial Reporting

The District is funded through several sources, including federal grants, State funding, capital funding, and “local funds,” (funding raised directly through taxation of District residents and smaller funds raised such as rental fees, merchandise sales, etc.). There are four categories of local funds taxes: current expense, debt service, tuition, and match taxes, summarized as follows:

- **Current Expense** - Current expense tax rates are levied for general operation expenses incurred by the school district. Rate increases are approved through referenda, or, *effective rates* may be raised without a referendum each time that a reassessment occurs in the County up to an increase in revenue of 10% (14 Del. C. §1916).
- **Debt Service** - Debt service tax rates are levied to cover the local share of the principal and interest payments on bonds funding major capital projects. Local school districts are required to maintain debt service reserves. The District keeps an amount equivalent to the full annual debt payment for the following year as the balance in its reserve at each year-end reviewed.
- **Tuition** - Tuition tax rates are levied to cover educational expenses for in-district and out-of-district placements of students in special programs and schools. The rate is set annually by the school board based on anticipated needs in the district and does not require a voter referendum.
- **Match** - Match funds provide a local match to State appropriations where required or allowed by law. Examples of Match programs include technology, minor capital improvements (MCIs), extra time, reading and math resource teachers, student success block grant, and opportunity funding.
- **Match - Continued Technology** - These funds are intended to support the purchase and replacement of technology, technology maintenance through personnel or services, professional learning, or other technology needs intended to improve the school district.

The District, as a constituent part of State government, is governed by all federal and State laws and regulations concerning fiscal operations and financial reporting, including the Delaware Budget and Accounting Manual (BAM). The District utilizes First State Financials (FSF), the State’s accounting system and system of record for financial information, to report its financial position to State agencies. Additionally, the District’s Board of Education has created internal policies regarding budgeting and financial reporting.

- According to *Appoquinimink BOE Policy § 5102*, the Superintendent is responsible for presenting ABOE with an annual budget. This budget is normally presented in February and should contain all proposed expenditures for the fiscal year (FY).
 - While the Superintendent is ultimately responsible for the annual budget, its creation is the main responsibility of the District's Finance Director and FAC. This process is outlined in *Appoquinimink BOE Policy § 5108*.
- In addition to an annual budget, the Superintendent is responsible for presenting ABOE with monthly revenue and expenditure reports. These reports are to be created and reviewed by the Finance Director and FAC.
- DOE has separate financial reporting requirements for the District in the form of financial position reports. These reports, submitted three times a year, contain actual and projected revenue and expenditures. DOE utilizes financial position reports to keep track of the fiscal health of local school districts.

Special Inquiry Approach

AOA utilized the following methods in the approach to this Special Inquiry:

- Reviewed past audit reports for any findings related to accounting and noncompliance.
- Reviewed District governance of fiscal controls, including internal policies and procedures and FAC board minutes for FY2023, FY2024 and FY2025.
- Reviewed, compared and analyzed the District's budget, monthly revenue and expenditure reports, and financial position reports with actuals in FSF for FY2023, FY2024, and FY2025.
- Reviewed the District's tuition tax expenditures for FY2023, FY2024 and FY2025.
- Interviewed District and DOE personnel.

Review of Past Audits

Delaware Code mandates audits of local school districts to ensure they are using funding according to its legal purpose. AOA has conducted various past audits conforming to these mandates that have reviewed the District either as a standalone entity or as a component of an overall audit opinion. AOA have taken these past audits into consideration when developing a plan for this Special Inquiry.

- AOA conducted performance audits of the District’s local funds for FY2021, FY2022, and FY2023. *These audits resulted in findings including accounting system approval issues, procurement policy compliance, and match tax expenses not meeting the purpose of the tax.*
- AOA conducts annual examinations of school construction funds. *The last completed examination for FY2023 identified findings related to lack of management review of the construction schedule.*
- AOA has conducted audits on unit count, authorized positions, Continuing Technical Education (CTE), and max student ratio for FY2023. *These engagements have not resulted in findings for the District.*
- AOA conducts the Delaware Annual Comprehensive Financial Report (ACFR). *There were no findings relating to the District in the reports for the last three fiscal years.*

Review of District Governance

AOA reviewed District policies governing fiscal controls and financial reporting. Based on our review, ABOE missed several opportunities for stronger governance to prevent or at least reduce the severity of their current revenue shortfall.

ABOE has tools including monthly reports, the FAC, reserve policy triggers, and statutory oversight authority, but did not exercise them. Tougher questioning of budget assumptions, proactive use of the FAC, and transparent communication with the public could have provided time to determine alternative solutions to avert their shortfall. In this fashion, ABOE failed to communicate the emerging shortfall to the community until after the fact, even though warning signs (like low reserve levels) were evident months earlier. By delaying disclosure, they not only blindsided families with a 10% increase of prior year current expense tax revenue but also damaged public trust. A more transparent, staged communication strategy could have helped residents understand the challenges and prepared them for necessary measures.

While ABOE is ultimately accountable for the fiscal health of the District, they depend greatly on the Superintendent and CFO for their operational responsibility.

Through District practice it is implied that the Superintendent has delegated fiscal duties to the CFO. However, the Superintendent cannot delegate his board-approved responsibility or accountability for these duties. Moreover, the Superintendent serves as Executive Secretary to ABOE, ensuring ABOE directives are implemented, and all financial information is accurately presented. By delegating duties to administration without strong questioning, ABOE and Superintendent allowed errors to accumulate unchecked. In summary, the Superintendent did not fully meet policy obligations regarding fiscal stewardship, accurate reporting, and transparent communication. Stronger accountability measures will be required to ensure fiscal health moving forward.

While The District's policies stop short of a formal job description for the CFO, they imply the position's scope of work. The CFO oversees District budget development, financial functions including compliance with State and Federal regulations, supports the FAC, and prepares a board financial package for action at board meetings. The finance office had no fiscal policies available to review to demonstrate compliance with the law, as required by the BAM. AOA found no segregation of duties associated with financial reporting. Instead, all reports were prepared and submitted by the CFO. The CFO provided summary reports to the FAC but did not include meaningful supporting documentation to demonstrate their appropriate beginning balance, or to compare the budget to actuals as recorded in FSF. The CFO failed to properly support the District's fiscal operations as intended.

The FAC exists specifically to review financial position reports, budgets, and internal accounts. If ABOE had better utilized this committee and ensured it had the capacity, training, and independence to spot discrepancies, the gap in budget might have been questioned earlier. AOA notes that there were no FAC meeting minutes available for review for FY2023, FY2024, or FY2025.

Review of Financial Reporting

AOA reviewed the District's **annual budget** as presented to ABOE for the FY2023, FY2024, and FY2025 and compared budgeted expenditures to actual expenditures as recorded in FSF. The resulting data shows a large variance between budgeted and actual expenditures for each fiscal year reviewed. The data shows that the District significantly under-projected expenditures in all three fiscal years reviewed.

Annual Budget
(dollars expressed in thousands)

	FSF	Budget		FSF	Budget		FSF	Budget	
	2023	2023	Variance	2024	2024	Variance	2025	2025*	Variance
Local Tax Expenses	\$68,402.3	\$77,455.4		\$74,957.2	\$79,407.1		\$83,401.2	\$91,189.6	
Other Local Expenses	10,753.8	-		10,660.3	-		14,944.6	-	
	<u>\$79,156.1</u>	<u>\$77,455.4</u>	1,700.7	<u>\$85,617.5</u>	<u>\$79,407.1</u>	6,210.4	<u>98,345.8</u>	<u>\$91,189.6</u>	7,156.20

* Tax referendum in effect

AOA also reviewed two **other categories of tax** that can change from year to year, including tuition tax revenue and debt service tax revenue.

Tuition

	<u>For the Year Ended June 30,</u>		
	2023	2024	2025
Beginning Balance Per FSF	\$2,739,533.18	\$606,392.05	\$724,389.35
Add: Revenue	18,997,948.65	20,822,546.95	23,220,943.08
Less: Expenses	18,941,796.18	19,188,274.37	19,355,835.81
Less: Transfers to Other Districts & Charters	2,189,293.60	1,516,275.28	3,652,731.04
Ending Balance Per FSF	<u>\$ 606,392.05</u>	<u>\$724,389.35</u>	<u>\$936,765.58</u>

Districts can adjust tuition tax rates without referendum per specific allowance in Delaware code. These taxes are used to support the education needs of special needs students.

The District increased its tuition tax rate in both FY2024 and FY2025 to support continuing increased expenses and transfers. In FY2025, the District transferred \$900,000 from the tuition tax line item to assist with tuition for 3-year-old program.

AOA reviewed a selection of expenses over \$10,000 for all years and did not find any questionable expenses with the selection. The transfers documents were not reviewed. Based on the change in the appropriation balance, AOA concludes that the tuition tax revenue and expenditures will continue to fluctuate until residential development in the District slows and the student population becomes more predictable year over year.

Debt

	<u>For the Year Ended June 30,</u>		
	2023	2024	2025
Beginning Balance Per FSF	\$10,236,385.28	\$10,052,187.73	\$10,320,880.66
Add: Revenue	9,800,810.10	10,170,246.11	11,088,489.24
Add: Interest	107,419.57	875,739.92	941,892.93
Less: Expenses	10,092,427.22	10,777,293.10	10,490,901.04
Ending Balance Per FSF	<u>\$10,052,187.73</u>	<u>\$10,320,880.66</u>	<u>\$11,860,361.79</u>

Debt service tax is calculated to cover upcoming bond payments based on a schedule set by the State Treasurer’s Office. This tax rate agrees to the amount needed for the upcoming bond payment. The District holds the amount of the next year’s balance in a reserve balance. Upcoming debt payments are \$11.3 million for FY2026 and \$10.5 for FY2027.

AOA reviewed the District’s end of year **monthly revenue and expenditure reports** as presented to ABOE for FY2023, FY2024, and FY2025 and compared them to the actuals as recorded in FSF.

Monthly Revenue & Expense Report Revenue Analysis

	2023	2024	2025
Current Expense	\$36,453,086.40	\$37,899,473.38	\$49,335,239.66
Debt Service	9,782,111.12	10,170,246.11	11,088,489.24
Tuition	18,962,000.21	20,822,546.93	23,220,943.08
MCI Match	1,777,354.43	800,654.08	1,705,802.07
RdgMath Match	1,103,185.51	1,479,409.27	1,700,519.12
Tech Match	397,040.20	412,793.97	404,255.61
Ext Time Match	362,399.10	376,778.39	368,985.02
	68,837,176.97	71,961,902.13	87,824,233.80
<u>FSF</u>			
Total Tax Revenues	68,967,482.68	71,961,902.13	87,824,203.80
Variance	\$(130,305.71)	\$ -	\$30.00

While AOA could compare revenues between the reports and FSF, a detailed comparison could not be made between the expenditures due to differences in report presentation. Instead, AOA compared the expenditures as presented in total with the total for the fiscal year in FSF. AOA found that the FSF balance for total expenditures did not agree for all three fiscal years reviewed.

Monthly Report Expenditure Analysis

	2023	2024	2025*
Expenses, Schools Report	\$226,537,474.87	\$249,682,131.65	\$266,157,920.02
Previous Budget Expenditures	53,700,418.74	43,557,592.67	49,427,981.83
Total Expenditures	280,237,893.61	293,239,724.32	315,585,901.85
FSF DGL 060 State Funds	154,864,807.05	164,701,754.98	182,284,695.26
FSF DGL 060 Special Funds	123,510,499.32	128,012,669.16	142,638,686.15
Total SF & GF:	278,375,306.37	292,714,424.14	324,923,381.41
Diff	\$1,862,587.24	\$525,300.18	\$ (9,337,479.56)

*Received System Report

AOA reviewed the District’s **Financial Position** reports as submitted to DOE for FY2023, FY2024, and FY2025 and compared them to actuals in FSF. The analysis of this data found several errors, including incorrect totals and underreported projected available balances.

As displayed in Appendix A, the amounts for the February submission in FY2023 and the amounts for the May submission for FY2024 do not sum correctly and the projected available balances were incorrect. The amounts in both cases were under reported and did not indicate the District could not meet their payroll for the month. The risk of errors of this type is that over reporting would put the District in a position of not being able to meet payroll requirements. AOA found that the District’s Financial Position report for May 2025 was short in the amount of \$2.1 million for monthly payroll. The payroll for the last month of 2025 should have been for three pays so the total one-month payroll should have been \$6.3 million.

When conducting an analysis of the District’s projections as recorded in their Financial Position reports to the ending balances in FSF for the same appropriations, AOA found variances for all three years, with large variances in FY2024 and FY2025.

Financial Position Report Analysis

	2023	2024	2025
Appropriations from FSF Ending Balance			
98000	\$ 2,527,543.73	\$1,423,278.42	\$567,167.39
98036	4,500,000.00	2,500,000.00	2,000,000.00
91325	3,665.00	4,165.00	722.40
91608	-	128,153.02	199,441.58
91603	484,828.65	151,600.45	15,161.08
91560	17,985.36	863.92	979.31
91301	412,553.73	336,006.22	272,153.34
91464	98,153.89	450.00	-
159	14,883.63	-	-
5165	-	-	-
5186	-	-	-
5194	-	-	-
5289	-	-	-
Total Appropriations from FSF	8,059,613.99	4,544,517.03	3,055,625.10
Financial Position Reports Ending Estimates	7,039,865.51	10,241,045.75	7,970,133.71
Difference	\$1,019,748.48	<i>\$(5,696,528.72)</i>	<i>\$(4,914,508.61)</i>

Governance Recommendations

- The District should establish better internal controls within the finance office and implement clear approval policies for financial documents, ensuring both the Superintendent's involvement and the CFO's oversight is documented.
- Training should be held with the school secretaries who manage financial and payroll functions to improve communication and consistency.
- A preparation and review process should be implemented for budgets and monthly revenue and expenditure reports, with the FAC receiving full documentation for meaningful discussions.
- FAC meetings should be documented to confirm approval of the CFO's presentations, and the Board should be kept informed through the FAC's Board representative.
- The District should provide training for Board members, the Superintendent, staff, and volunteers to strengthen financial knowledge.
- The District should present all financial and budget reports in a clear and easily understandable format.

Financial Reporting Recommendations

- The District should work with the DOE's Office of Finance and school finance experts to ensure program and fiscal stability for FY26 and FY27.
- A standardized format for budget reporting should be adopted, whether mandated by the DOE, developed at the district level, or modeled after similarly sized districts. Budget accuracy can be improved by comparing prior year actuals from the State's accounting system with budgeted amounts and by requiring that budget reports be prepared by staff, reviewed by the CFO, and vetted with the FAC before Board presentation.
- Reports should be presented to ABOE earlier in the budget cycle, ideally in November or December after the final unit count, instead of waiting until February.
- Policies should be adopted that define how reports are compiled, the sources of information used, reconciliation to FSF, and the FAC's review role.
- To improve transparency, additional reports grouping operating units by funding source should be required, either by the DOE or the district, to ensure tax revenues properly align with expenses.
- The DOE should work with FSF developers to add automated reporting features to reduce reliance on manual entry, which is inefficient and prone to error.
- The District should improve the accuracy of their Financial Position reporting by requiring the fiscal officers and the FAC to review information before Board submission, developing policies that define local expenses and projections tied to the approved budget, and ensuring all Board-approved reports are submitted to the DOE on time with documented reasons for any changes as required by Delaware Code.

Appendix A

Details of Financial Position Report Submissions

Financial Position Report	Detail Sheets FSF Report		Projected Income 3-month	Additional Projections for December Report		Additional Projections for December Report			Projected Available Balance	Difference (Error)	Payroll One Month
	Actual Unencumbered	Encumbered		Projected Income 6-month	Projected Salary	Projected Non-Salary	Projected Salary	Projected Non-Salary			
FY2023	(period ending)										
Totals (7/1/2022)	28,731,959.74	1,196,724.64	4,019,200.00		14,001,087.49	4,169,202.60			15,777,594.29		1,735,942.00
Totals (12/31/2022)	31,736,659.22	2,051,939.47	1,100,000.00	350,000.00	10,300,000.00	1,662,087.25	11,040,000.00	2,416,195.70	9,820,315.74 [^]		3,500,000.00
								As Submitted:	9,515,315.74[^]	305,000.00	
Totals (3/31/2023)	20,390,391.89	1,599,263.19	363,050.00		12,730,882.00	2,581,957.57			7,039,865.51		3,510,252.00
FY2024	(period ending)										
Totals (7/1/2023)	9,826,623.74	3,541,450.47	20,882,577.01		14,356,044.00	10,039,453.82			9,855,153.40		3,550,000.00
Totals (12/31/2023)	29,853,427.27	1,984,349.97	440,811.18	754,888.42	11,232,000.00	2,923,970.82	13,104,000.00	1,670,229.29	4,103,276.73		4,100,000.00
Totals (3/31/2023)	19,162,202.17	1,483,452.44	16,816,033.72		13,582,447.68	1,535,969.63		12,102,225.27 ⁺	10,241,045.75 [^]		4,050,000.00
								As Submitted:	4,389,602.03⁺	5,851,443.72	
FY2025	(period ending)										
Totals (7/1/2024)	24,740,283.77	1,148,609.14	3,880,000.00		17,288,000.00	6,747,204.69			5,733,688.22		4,300,000.00
Totals (12/31/2024)	33,031,014.80	2,424,821.32	610,000.00	405,000.00	12,300,000.00	2,032,687.36	12,360,500.00	1,530,000.00	8,247,648.76		4,100,000.00
Totals (3/31/2025)	18,948,863.76	1,752,637.42	696,500.00		11,739,913.42	1,687,954.05			7,970,133.71		4,230,000.00

[^] Corrected Total

^{*} Report submission erroneously calculated total

⁺ AOA Calculation (\$27 million for total projected expenditures less amounts included in projected salary columns)