

MCBRIDE SHOPA & COMPANY, P.A.

**SMYRNA SCHOOL DISTRICT
CONSTRUCTION PROJECTS**

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

JUNE 30, 2008

FIELDWORK END DATE: FEBRUARY 26, 2009

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Deborah D. Wicks
Superintendent
Smyrna School District
82 Monrovia Ave
Smyrna, DE 19977

The Honorable Dr. Lillian Lowery,
Secretary, Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, DE 19901

We have performed the procedures enumerated below, which were agreed to by Smyrna School District, the Office of Auditor of Accounts, and the State of Delaware Department of Education on the District's construction projects. The procedures were performed solely to assist the specified parties in evaluating the School District's compliance with criteria from the State of Delaware Fixed Asset Policy Manual, the State of Delaware Department of Education Construction Technical Assistance Manual, the Delaware Code, and the State of Delaware Budget and Accounting Manual. Smyrna School District's management is responsible for compliance with those requirements.

This agreed-upon procedures attestation engagement was performed in accordance with *Government Auditing Standards* (2003), issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.

Our procedures disclosed no instances of noncompliance that resulted in findings and recommendations.

2. Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Our procedures disclosed three instances of noncompliance (Findings 08-1 through 08-3) that resulted in findings and recommendations. See *Appendix A* for detail regarding findings, including our recommendation and management's responses.

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3. Determine if expenditures are accurately stated and are made in accordance with the State Fixed Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

Our procedures disclosed two instances of noncompliance (Finding 08-4 and Finding 08-5) that resulted in findings and recommendations. See *Appendix A* for detail regarding findings, including our recommendation and management's responses.

4. Determine whether the School District's construction project records and files include only active construction projects as of June 30 of the Current Fiscal Year. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

Our procedures disclosed no instances of noncompliance that resulted in findings and recommendations.

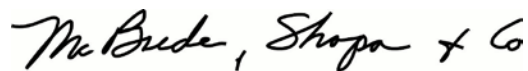
5. Prepare the School District's Schedule of Construction Projects for Fiscal Year 2008.

See *Appendix C*.

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

This report is intended solely for the information and use of Smyrna School District management and Board Members and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, the State Treasurer's Office, and the Office of Auditor of Accounts.

Sincerely,



Wilmington, Delaware
February 26, 2009

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Procedure Agreed Upon #1:

Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.

Finding:

None

Recommendation:

Not applicable

School District Response:

Not applicable

Procedure Agreed Upon #2:

Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Finding: 08-1

The Code for the State of Delaware, Title 29, Section 6903 (b) states "that each contract entered into by an agency for professional services shall contain a prohibition against contingency fees." Smyrna School District has professional services contract with its architects for each of its construction projects. Each of these contracts has an addendum – **Attachment "A" Owner and Architect Agreement B151**. The addendum states "this attachment amends AIA Document B151-1997 as follows: Section 6904, Chapter 29 of the Delaware Code requires a 'prohibition against contingent fees' statements." This addendum states the wrong code section in the first amendment. The code section should be Section 6903, not Section 6904. This addendum comes directly from the Division of Facilities Management. This misstatement may cause confusion in the architect's contract as to which code section is being referenced. Code section 6903 refers to violations and penalties, section 6904 refers to exceptions. This misstatement can be seen in all the architect contracts signed over the last several years.

Recommendation:

The District should work with the Division of Facilities Management to revise **Attachment "A" Owner and Architect Agreement B151** to reference Section 6903 rather than Section 6904 of the Delaware Code.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

School District Response:

The district will bring this issue to the attention of the Division of Facilities Management. The district will also communicate this clarification to architects currently under contract.

Finding: 08-2

The School Construction Manual, Section 2, Paragraph 6 states that all purchase orders (PO's) for any Major Capital Improvement project should be approved by both the Department of Education(DOE) and the Director of Capital Budget and Special Projects prior to submission to the Division of Accounting (DOA). Once the PO has been approved by the School District, it is then sent to DOE and the Director of Capital Budget and Special Projects for their approval, prior to being sent to the DOA. The School District has very little control over the POs documents once they leave the District.

We examined all the POs initiated in FY 2008. Three of the POs from Smyrna School District did not have the signature from the Director of Capital Budget and Special Projects. One of these three POs also did not have the signature from the Department of Education. This oversight could result in capital expenditures being made that were not approved by the Director of Capital Budget and Special projects.

Recommendation:

The District should work with the Division of Accounting to establish procedures to ensure that proper approvals from both the Department of Education and the Director of Capital Budget and Special Projects are obtained in accordance with the guidelines established by the State of Delaware for all major capital improvement projects.

School District Response:

The district will bring this issue to the attention of the Division of Accounting.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding: 08-3

Section 2.0, Paragraph 7.2.1 of the State of Delaware Department of Education School Construction Technical Assistance Manual, states “submission of a Change Order (CO) must include the following documents: Completed purchase order as applicable; local board of education minutes identifying and approving the changes; completed AIA document G701, and correspondence which gives a breakdown in materials mark-up and other expenses.” The School Construction Technical Assistance manual states that the minutes of the Local Board of Education should document the discussion and approval of all COs.

For Fiscal Year 2008, there were 23 COs issued for Sunnyside Elementary and Smyrna Middle Schools for a total of \$240,432. Only one of the 23 COs was found in the board of education minutes, CO #11 for Sunnyside Elementary School for \$35,409. Failure to document the discussion of the approval of the COs in the Board of Education meetings minutes could result in executing COs without the knowledge and approval of the Board.

Recommendation:

Change Orders should be discussed at the local Board of Education meetings, and the identification and approval of change orders should be recorded in the minutes of those meetings.

School District Response:

In November 2005, approval authority for change orders less than \$25,000 was delegated by the Board to the administration. At their monthly meeting, the board receives a construction update for each project which includes a discussion of change orders as well as the status of work progress. Prior audits have not questioned this practice. The district will amend its current process for notifying the board of these change orders and request their approval. The approvals will be duly noted in the board meeting minutes.

Procedure Agreed Upon #3:

Determine if expenditures are accurately stated and are made in accordance with the State Fixed Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

Finding: 08-4

The amount recorded as additions to the Construction Work in Progress (CWIP) in the GAAP package for fund 300 for should agree to the current year expenditures in fund 300 according to AUP #3-2b. The detailed listing of capital expenditures from Smyrna School District totals \$7,877,660, which is 22% less than the amount recorded as capital expenditures in fund 300 in

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

the Delaware Financial Management System (DFMS) reports, \$10,098,353. The additions to CWIP for Smyrna School District were prepared by the Division of Accounting (DOA). The DOA has made adjustments to the District's GAAP package, causing the additions to the CWIP and the current year expenditures to differ by 22%. As a result, these differences may not be capitalized to the States' CAFR.

Recommendation:

The school district should establish procedures to reconcile the additions reported on the GAAP Construction Work in Progress (CWIP) package to the expenditures reported in DFMS.

School District Response:

The district has and will continue to work collaboratively with the Division of Accounting both pre and post submittal to ensure CWIP and fixed assets are properly recorded.

Finding: 08-5

Completed projects deleted from CWIP in the GAAP package should be reconciled to DFMS Report F25F4105 and the other supporting schedules according to AUP #3-2b and #4-1. The School District's detailed listing of construction projects closed during the year was less than the amount recorded in DFMS report F25F4105 - Fixed Asset Purchases for Fiscal Year 2008. The DFMS report for 2008 included renovations that were completed in the fiscal year 2007. In addition, the DFMS 2008 report included land that was recorded twice. This oversight caused the amount recorded in DFMS Report F25F4105 to be overstated for Fiscal 2008.

Recommendation:

The School District should establish procedures to ensure that the amounts on the Delaware Financial Management System (DFMS) reports are reconciled with the School District's documents.

School District Response:

The district has and will continue to work collaboratively with the Division of Accounting both pre and post submittal to ensure CWIP and fixed assets are properly recorded.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Procedure Agreed Upon #4:

Determine whether the School District's construction project records and files include only active construction projects as of June 30 of the Current Fiscal Year. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

Finding:

None

Recommendation:

Not applicable

School District Response:

Not applicable

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
None		

Status Key:

Implemented

The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented

The corrective action has not been initiated

Partially Implemented

The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

SCHEDULE OF CONSTRUCTION PROJECTS

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-Auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 6/30/08
Smyrna Middle School	2006	7,500,000		7,500,000	326,050	7,166,548	7,492,598	7,402
Smyrna Middle School	2007	2,755,000		2,755,000	1,042,740	1,578,983	2,621,723	133,277
Sunnyside Elementary	2006	1,040,938		1,040,938	9,246	1,028,169	1,037,415	3,523
Sunnyside Elementary	2007	10,440,900		10,440,900	5,030,381	4,774,691	9,805,072	635,828
JB Moore Middle School	2003	7,812,900		7,812,900	43,963	7,759,460	7,803,423	9,477
Smyrna High School	2003	4,276,300		4,276,300	7,500	4,268,800	4,276,300	-
Smyrna High School	2008	10,000,000	(36,314)	9,963,686	3,277,382	-	3,277,382	6,686,304
District Office	2003	167,600		167,600	1,478	160,198	161,676	5,924
Clayton Elementary School	2006	1,919,000	(67,045)	1,851,955	75,390	1,776,565	1,851,955	-
Clayton Elementary School	2008	350,000		350,000	154,120	-	154,120	195,880
North Smyrna Elementary	2006	3,536,000	67,045	3,603,045	43,343	3,536,000	3,579,343	23,702
Smyrna Elementary School	2006	2,294,000		2,294,000	86,760	2,190,861	2,277,621	16,379
TOTAL		52,092,638	(36,314)	52,056,324	10,098,353	34,240,275	44,338,628	7,717,696

Copies of Smyrna School District's Agreed-upon Procedures Attestation Engagement will be distributed to the following public officials:

Executive Branch

The Honorable Jack A. Markell, Governor, State of Delaware
The Honorable Gary M. Pfeiffer, Secretary, Department of Finance
The Honorable Ann S. Visalli, Director, Office of Management and Budget
The Honorable Dr. Lillian Lowery, Secretary, Department of Education
Ms. Trisha Neely, Director, Division of Accounting

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General
The Honorable Velda Jones-Potter, Treasurer, State Treasurer's Office
The Honorable R. Thomas Wagner, Jr., State Auditor, Office of Auditor of Accounts

Other

Ms. Deborah D. Wicks, Superintendent, Smyrna School District
Mr. Jerry Gallagher, Finance Director, Smyrna School District
Ms. Dorcell S. Spence, Associate Secretary, Finance and Administrative Services Branch, Department of Education