Santora CPA Group

State of Delaware
Colonial School District
Capital Projects Funds
Independent Accountant's Report on Applying Agreed-Upon Procedures

Fiscal Year Ended June 30, 2010

Fieldwork End Date: October 22, 2010
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Right, By Your Side

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Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Specified User(s) of the Report:

Dorothy A. Linn, Ed.D.
Superintendent
Colonial School District
318 E. Basin Road
New Castle, Delaware 19720

The Honorable Lillian Lowery, Ed.D.
Secretary, Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, Delaware 19901

We have performed the procedures enumerated below, which were agreed to by the Office of Auditor of Accounts (AOA) and the specified users of the report, as identified above, and as defined within the applicable laws of the State of Delaware (the State). The procedures were performed solely to assist the specified parties in evaluating the State of Delaware, Colonial School District's (the School District) compliance with criteria from the *State of Delaware Capital Asset Policy Manual*, the *State of Delaware Department of Education School Construction Technical Assistance Manual*, the *Delaware Code*, and the *State of Delaware Budget and Accounting Policy Manual* relative to the school construction projects administered by the School District for the year ended June 30, 2010. Management of the School District is responsible for their compliance with those requirements for the period July 1, 2009 through October 22, 2010.

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

Our procedures and results were as follows:

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

We obtained the written policies and procedures of the School District for identifying, tracking, and recording capital assets in effect during fiscal year 2010, and through interviews with School District personnel, documented an understanding of the School District's internal controls relating to construction, including the personnel responsible for financial transactions and management functions. We reviewed the content of the School District's policies, noting that the policies and procedures ensure compliance with the *State of Delaware Capital Asset Policy Manual*, the *State of Delaware Department of Education School Construction Technical Assistance Manual*, the *Delaware Code*, and the *State of Delaware Budget and Accounting Policy Manual.*

Results: We found no exceptions as a result of the procedures.

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

For all new construction projects listed in the Bond Bill for the School District, we created a new electronic file identifying the project, including the Certificate of Necessity, Construction Project Data, and Construction Project Checklist.

For new and existing projects included in **Appendix A**, we completed the Construction Project Checklist to the extent the checklist applies to the project and its activity during the year, to ensure construction project file compliance with the *State of Delaware Capital Asset Policy Manual*, the *State of Delaware Department of Education School Construction Technical Assistance Manual*, the *Delaware Code*, and the *State of Delaware Budget and Accounting Policy Manual.*

Results: Our procedures disclosed one instance of noncompliance that resulted in the following finding:

Finding #10-01

Criteria

Delaware Code, Title 29, §7419(a) - Approval of plans, specifications, estimates, and cash flows of projects states:

"(a) Delaware Technical and Community College, Delaware State University, and all state departments and agencies shall submit to Facilities Management of the Office of Management and Budget all proposed contracts for architectural services and all architectural, structural, electrical, and mechanical plans, specifications, and cost estimates. Facilities Management of the Office of Management and Budget shall be responsible for reviewing and approving such plans, specifications, and cost estimates prior to bid advertisement, and no such contracts nor contracts for construction and reconstruction of such projects (except highway construction and reconstruction contracts and school district minor capital improvements contracts) shall be executed without the prior approval of Facilities Management of the Office of Management and Budget. All such contracts shall be let on the condition, among others, that the contractor comply with the State's equal opportunity laws. Facilities Management of the Office of Management and Budget shall insure that approved projects are not inconsistent with any authorization of budget act."

Condition

During our testing of the aforementioned requirements for the John G. Leach and Colwyck projects, we noted that the architectural, structural, electrical, and mechanical plans, specifications, and cost estimates that the School District submitted to Facilities Management were not approved prior to the start of construction. As of the date of our procedures, these documents have still not been approved by Facilities Management. Total expenditures for the project incurred in fiscal year 2010 were $792,279.

Cause

The School District did not provide proper oversight regarding the review process to ensure that all proper approvals of architectural, structural, electrical, and mechanical plans, specifications, and cost estimates were obtained from Facilities Management for each project.

Effect

Funds may be expended on projects that have not received appropriate approvals, as required by the Delaware Code.

Recommendation

The School District should implement a procedure to ensure that all proper approvals of architectural, structural, electrical, and mechanical plans, specifications, and cost estimates are obtained from Facilities Management for each project before the start of construction.

School District Response

The aforementioned project was pushed forward under a previous administration. It is the policy of the School District's current administration that no projects will begin before proper approvals and reviews are obtained.

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

We obtained a detailed schedule of School District capital expenditures, by project, for fiscal year 2010 from School District management. We reconciled the schedule to the Delaware Financial Management System (DFMS) *Statement of Available Funds* report as of June 30, 2010 to ensure the accuracy of amounts reported in the School District's schedule. As part of our reconciliation procedures, we reviewed the above reports to ensure that the amounts reported did not include encumbrances or remaining appropriation balances.

We obtained June 30, 2010 Construction Work In Progress (CWIP) Generally Accepted Accounting Principles (GAAP) Package for the School District and completed the following:

a. Verified that the prior year (6/30/09) balance agreed to the June 30, 2009 Schedule of Construction Projects Examined in the final, issued June 30, 2009 construction agreed-upon procedures report for the School District.

b. Verified that the additions per the GAAP Package reconciled to DFMS and to the Expended Current Fiscal Year amounts reported in **Appendix A**.

c. Verified that deletions agree to detail of the construction projects closed during the year for the School District reported in **Appendix A**.

We reviewed and updated the Schedule of Construction Projects (for both old and new projects) at **Appendix A** based upon the activity recorded in the DFMS *Cumulative Year to Date Statement of Budgetary Activity and Account Balances* with the following information:

i. Project Name
ii. Fiscal Year
iii. Original Funding Amount
iv. De-authorization of funding, if any
v. Total Project Funding, life to date
vi. Expended – current fiscal year
vii. Expended – prior fiscal year
viii. Total Project Expenditures, life to date
ix. Total Unspent Balance, as of June 30 of current fiscal year

We verified that the total column on the Schedule of Construction Projects at **Appendix A** agrees with the total for each construction appropriation on the State's June 30, 2010 *Statement of Budgetary Activity and Account Balances Beginning July 1, 2009 and Ending June 30, 2010* report.

For a sample of 30 Fund 300 expenditures totaling $2,116,593.06 for the School District out of the population of $30,405,441 in current year expenditures, we performed the following:

a. Verified that the transaction information (vendor name, appropriation code, transaction amount) agrees to supporting documentation.
b. Verified that the expenditure was related to a capital project and was properly capitalizable.
c. Determined that the details of the transaction are mathematically accurate.
d. Determined that the transaction was appropriately coded in DFMS, based on the information included on the transaction.
e. Agreed the individual transaction amount into the School District expenditure detail for the related project.
f. Verified that the transaction is properly authorized, as evidenced by signature of appropriate individuals on the transaction form.

Results: We found no exceptions as a result of the procedures.

***Procedure 4*: Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2010. Ensure that completed projects have been appropriately closed out of construction and added to the State's Fixed Asset Accounting System (FAAS).**

We obtained a detail of the construction projects closed during the year for the School District and agreed both the amount and in-service date to the State's DFMS Fixed Asset Accounting System (FAAS).

We obtained detail of the construction projects closed during the year for the School District, and reconciled the closed construction projects to additions in the State fixed asset ledger. We noted that assets were added to DFMS at the appropriate amount and with the appropriate in-service date. We reviewed the activity for the projects included in the June 30, 2010 balance for aged projects meeting the following criteria: projects that have been ongoing for numerous years, projects near completion (greater than 90% complete), and projects with little or no spending in the current fiscal year for review. We noted that all projects in **Appendix A** are active construction projects as of June 30, 2010.

Results: Our procedures disclosed one instance of noncompliance that resulted in the following finding:

Finding #10-02

Criteria

The *State of Delaware Budget and Accounting Policy Manual,* Chapter XV - Fixed Assets, II - Organizational Responsibilities for FAAS states:

"B. State Organizational Responsibilities. All State organizations are responsible for executing and adhering to capital asset accounting and reporting policies, guidelines, and standards. Organization officials must:

...3. Ensure the timely, accurate, and complete processing and recording of all necessary transactions in conformance with prescribed capital asset accounting and reporting policies, guidelines, and standards."

"D. Construction-Work-In-Progress, 2. School Districts and Colleges. Each local school district and Delaware Technical and Community College is responsible for the reporting of construction projects as well as additions, betterments, and renovations to existing buildings. The Business Manager will report CWIP balances in the State's annual GAAP Package (see Appendix B) for inclusion in the State's financial statements. Completed projects will be removed from the CWIP and reclassified into the appropriate capital asset category; i.e., building and building improvements, land, and land improvements. Adding the completed project to the State's FAAS must be done in the same fiscal year that the project is removed from the CWIP report. Documentation to support the land/buildings/improvements and construction-in-progress will be maintained by the School District or College."

Condition

During our testing of the aforementioned requirements for Carrie Downie Elementary School, we noted that the total amount of the project closed out from CWIP of $246,400 did not reconcile to the asset value added in the FAAS of $125,830. The School District provided documentation of the fixed asset input screen showing that the value of $246,400 was assigned to the asset at the time of data entry; however, the June 30, 2010 fixed asset reports reflect the value at $125,830.

In addition, we noted that the School District adjusted their 2010 CWIP GAAP package to remove $144,800 related to asbestos abatement costs for the William Penn High School that are not capitalizable in accordance with the State of Delaware Capital Asset Accounting Policy Manual; however, the School District did not remove the corresponding asset in FAAS (William Penn Boiler, fixed asset number AUDIT1C).

Cause

The School District does not have a reconciliation process in place to ensure that amounts deleted from CWIP are reconciled to asset values added to the FAAS.

Effect

The value of assets added to the FAAS may be misstated if not reconciled appropriately to CWIP deletions.

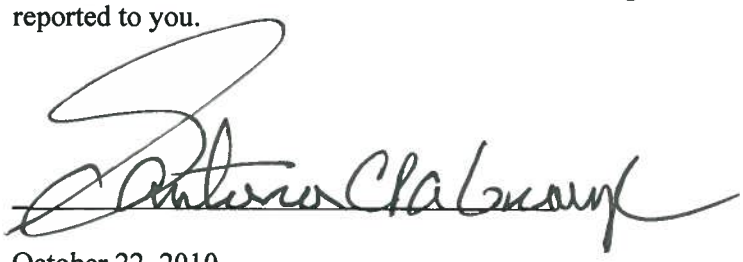
Recommendation

The School District should implement a procedure to reconcile all current year additions from the State's FAAS to deletions from the schedule of CWIP and project expenditures to ensure all assets are accurately recorded.

School District Response

The School District will develop a reconciliation process for additions to assets from CWIP to ensure all assets are accurately recorded. The process will be developed as we work with the new finance system asset module.

We were not engaged to, and did not conduct an audit, 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.



October 22, 2010
Newark, Delaware

Appendix A: Schedule of Construction Projects

Project Name	Fiscal Year	Appropriation	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current Fiscal Year	Expended Prior Fiscal Years	Total Project Expended to Date	Total Unspent as of 6/30/10
New Castle Middle School	2007	7721	$ 3,441,600	$ (3,000,000)	$ 441,600	$ 358,804	$ 67,021	$ 425,825	$ 15,775
New Castle Middle School	2010	7001	5,472,400	(800,000)	4,672,400	2,936,073	-	2,936,073	1,736,327
William Penn High School	2003	7315	9,019,000	1,225,981	10,244,981	-	10,239,071	10,239,071	5,910
William Penn High School	2008	7815	10,674,300	-	10,674,300	54,818	10,619,482	10,674,300	-
William Penn High School	2009	7910	10,674,200	(250,000)	10,424,200	6,717,866	2,899,608	9,617,474	806,726
Gunning Bedford Middle School	2008	7816/7850	4,034,000	698,100	4,732,100	1	4,732,099	4,732,100	-
Gunning Bedford Middle School	2009	7911	4,021,800	(300,000)	3,721,800	728,712	2,653,989	3,382,701	339,099
Wilmington Manor Elementary School	2008	7817	3,017,600	(482,711)	2,534,889	342,604	2,192,285	2,534,889	-
George Read Middle School	2008	7818	6,047,300	(450,000)	5,597,300	1,118,599	3,339,339	4,457,938	1,139,362
McCullough Elementary School	2007	7722	4,757,300	-	4,757,300	5	4,753,838	4,753,843	3,457
McCullough Elementary School	2008	7822	5,143,600	100,000	5,243,600	179,787	4,075,117	4,254,904	988,696
McCullough Elementary School	2009	7912	3,000,000	(3,000,000)	-	-	-	-	-
Carrie Downie Elementary School	2009	7920	-	2,500,000	2,500,000	303,712	2,086,113	2,389,825	110,175
Carrie Downie Elementary School	2010	7002	2,940,000	(2,200,000)	740,000	724,233	-	724,233	15,767
Pleasantville Elmentary School	2009	7921	-	2,650,000	2,650,000	1,687,133	958,879	2,646,012	3,988
Pleasantville Elmentary School	2010	7003	3,615,400	450,000	4,065,400	3,826,336	-	3,826,336	239,064
Castle Hills Elementary School	2009	7922	-	2,750,000	2,750,000	1,411,091	1,338,909	2,750,000	-
Castle Hills Elementary School	2010	7004	4,059,700	1,800,000	5,859,700	5,067,139	-	5,067,139	792,561
Eisenberg	2010	7005	4,236,700	232,711	4,469,411	4,150,363	-	4,150,363	319,048
John G. Leach School *	2010	7001	2,678,400	-	2,678,400	792,279	-	792,279	1,886,121
Wrangle Hill Elementary School	2006	7636	945,223	-	945,223	-	945,223	945,223	-
Wrangle Hill Elementary School	2007	7720/7723/7741	21,336,700	-	21,336,700	5,886	21,330,814	21,336,700	-
Wrangle Hill Elementary School (FDK)	2007	7740	4,276,800	-	4,276,800	-	4,276,800	4,276,800	-
Wrangle Hill Elementary School (Land)	2007	7742	1,650,000	-	1,650,000	-	1,650,000	1,650,000	-
TOTAL CONSTRUCTION PROJECTS EXAMINED			**$ 115,042,023**	**$ 1,924,081**	**$ 116,966,104**	**$ 30,405,441**	**$ 78,158,587**	**$ 108,564,028**	**$ 8,402,076**

Transactions for John G. Leach School are charged to appropriation 7001 within the school's own DDS Code, 95-53. All other projects included in the schedule above are charged to their respective appropriations within the School District's DDS Code, 95-34.

Distribution of Report

This report is intended solely for the information and use of the Colonial School District management and Board members, the Office of Auditor of Accounts, and the State of Delaware Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties. 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, the Department of Finance, and the Office of the State Treasurer.

Copies of this report have been distributed to the following public officials:

Executive Branch

The Honorable Jack A. Markell, Governor, State of Delaware
The Honorable Thomas J. Cook, Secretary, Department of Finance
The Honorable Ann S. Visalli, Director, Office of Management and Budget
Valerie Watson, Acting Director, Division of Accounting
The Honorable Lillian Lowery, Ed.D., Secretary, Department of Education
Ms. Karen Field Rogers, Associate Secretary, Financial Reform and Resource Management, Department of Education
The Honorable R. Thomas Wagner, Jr., State Auditor, Office of Auditor of Accounts

Legislative Branch

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

Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General
The Honorable Chipman Flowers, Jr., Esq., Treasurer, Office of the State Treasurer

Other

Mr. Joseph T. Laws, III, President, Colonial School District Board of Education
Mr. Richard W. Schiller, Jr., Vice President, Colonial School District Board of Education
Mr. Bobby Benjamin, Colonial School District Board of Education
Mr. Leo Magee, Sr., Colonial School District Board of Education
Mr. Gary P. Bennett, Colonial School District Board of Education
Mr. Ronald P. Pierce, Colonial School District Board of Education
Ms. Melodie Spotts, Colonial School District Board of Education
Dorothy A. Linn, Ed.D., Superintendent, Colonial School District
Ms. Karen Thorpe, Director of Business, Colonial School District

This report can be accessed online through the Auditor of Accounts (AOA) website at http://auditor.delaware.gov.