Santora CPA Group

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

Fiscal Year Ended June 30, 2010

Fieldwork End Date: November 17, 2010
Issuance Date: January 21, 2011

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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:

Mervin B. Daugherty, Ed. D.
Superintendent
Red Clay Consolidated School District
1502 Spruce Avenue
Wilmington, Delaware 19808

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, Red Clay Consolidated 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 November 17, 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: We found no exceptions as a result of the procedures.

***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 $688,419.56 for the School District out of the population of $3,204,339 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: Our procedures disclosed one instance of noncompliance that resulted in the following finding:

Finding #10-01

Criteria

Proper administration of School District construction projects requires the following:

Title 29, §6504 of the Delaware Code, states *"Each agency shall keep a detailed account of all receipts and expenditures under such appropriate headings, classifications, and arrangements as may be prescribed by the Director of the Office of Management and Budget and used in the budget estimates. All bills, statements, letters, vouchers, and documents pertaining to these receipts and disbursements shall be preserved and systematically filed by each agency."*

Condition

During our testing of the aforementioned requirements, we noted that $3,618 in expenditures included on one payment voucher related to the Wilmington Campus project (appropriation 7726) was improperly charged to other unrelated projects, as detailed below:

Expenditure Charged to Project	Amount Charged to Project
Stanton Middle School (appropriation 7619)	$3,070
Heritage Elementary School (appropriation 7623)	86
Richardson Park and ILC (appropriation 7634)	99
H.B. DuPont Middle School (appropriation 7731)	363
Total	$3,618

Cause

The School District did not comply with Title 29, §6504 of the Delaware Code, referenced above, to ensure an accurate, detailed account of all receipts and expenditures under such appropriate headings, classifications, and arrangements.

Effect

Expenditures are not classified properly on the Schedule of Construction Projects, creating either an overstatement or understatement of expenditures by project.

Recommendation

The School District should ensure that all expenditures are appropriately classified by project in the DFMS.

School District Response

The vendor in question, StudioJaed, is the managing architect of the entire major capital improvement project. For each payment, depending upon the service, multiple projects may be assigned a portion of the bill as they relate to the overall capital project. This is especially true for the progress billing for the managing architect. The School District agrees the documentation for percentages by project is not included in each progress monitoring invoice.

Status of Prior Recommendation: In our June 30, 2009 report, we noted two findings related to Procedure 3:

Finding #09-01

Recommendation

It was recommended that the School District review expenditures to ensure that costs that should not be capitalized are properly excluded from the CWIP schedule, and that these costs are expensed as incurred.

Status

Implemented – We noted the School District made the necessary adjustments to remove costs improperly capitalized in the 2009 CWIP schedule. In preparation of the 2010 CWIP schedule, the School District reviewed costs to ensure that costs that should not be capitalized were properly excluded from the CWIP schedule, and that these costs were expensed as incurred.

Finding #09-02

Recommendation

It was recommended that the School District continue to exclude asbestos abatement from CWIP and fixed assets, and expense these costs as incurred in accordance with the directives of the Division of Accounting.

In addition, we recommended that the School District review adjustments to CWIP and fixed assets to ensure that they are accurate and complete, resulting in the proper balances being reflected in both CWIP and fixed asset records.

Status

Implemented - We noted the School District made the necessary adjustments to remove costs improperly capitalized in the 2009 CWIP schedule. In preparation of the 2010 CWIP schedule, the School District reviewed costs to ensure that costs that should not be capitalized were properly excluded from the CWIP schedule, and that these costs were expensed as incurred.

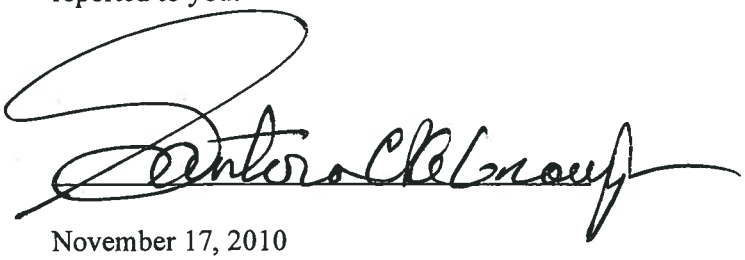
***Procedure 4*: Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2010. Ensure that completed projects have been appropriately closed out of construction and added to the State's Fixed Asset Accounting System (FAAS).**

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 included in **Appendix A** are active construction projects as of June 30, 2010.

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

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.



November 17, 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
Shortlidge Academy	2006	7608	$ 3,413,700	$ 425,797	$ 3,839,497	$ 8,749	$ 3,830,748	$ 3,839,497	$ -
Marbrook Elementary School	2006	7618	3,640,500	(123,399)	3,517,101	8,615	3,508,486	3,517,101	-
Richardson Park and ILC	2005	7534	461,700	(12,615)	449,085	-	449,085	449,085	-
Richardson Park and ILC	2006	7634	7,779,900	(332,440)	7,447,460	78,680	7,368,780	7,447,460	-
Wilmington Campus	2007	7726	14,364,500	(1,373,491)	12,991,009	2,314,258	10,408,850	12,723,108	267,901
Wilmington Campus	2008	7810	1,431,200	-	1,431,200	549,552	821,616	1,371,168	60,032
Stanton Middle School	2006	7619	5,309,400	160,940	5,470,340	169,579	5,280,778	5,450,357	19,983
Heritage Elementary School	2006	7623	4,290,700	(300,000)	3,990,700	31,695	3,959,005	3,990,700	-
H.B. Dupont Middle School	2006	7631	457,700	-	457,700	11,541	446,159	457,700	-
H.B. Dupont Middle School	2007	7731	7,713,200	(801,584)	6,911,616	31,670	6,879,946	6,911,616	-
TOTAL CONSTRUCTION PROJECTS EXAMINED			**$ 48,862,500**	**$ (2,356,792)**	**$ 46,505,708**	**$ 3,204,339**	**$ 42,953,453**	**$ 46,157,792**	**$ 347,916**

Distribution of Report

This report is intended solely for the information and use of the Red Clay Consolidated 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
Ms. 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. James Buckley, President, Red Clay Consolidated School District Board of Education
Ms. Leah F. Davis, Vice President, Red Clay Consolidated School District Board of Education
Ms. Cathy Thompson, Red Clay Consolidated School District Board of Education
Mr. Eric S. Randolph, Red Clay Consolidated School District Board of Education
Ms. Kim Williams, Red Clay Consolidated School District Board of Education
Mr. Martin A. Wilson, Sr., Red Clay Consolidated School District Board of Education
Mr. Kenneth R. Woods, Red Clay Consolidated School District Board of Education
Mervin B. Daugherty, Ed.D., Executive Secretary and Superintendent, Red Clay Consolidated School District
Mary Norris, Assistant Superintendent/Special Services, Red Clay Consolidated School District
Hugh T. Broomall, Jr., Ed.D., Assistant Superintendent/School Support, Red Clay Consolidated School District
Ms. Jill Floore, Chief Financial Officer, Red Clay Consolidated School District
Mr. Marcin Michalski, Manager of Facilities and Maintenance, Red Clay Consolidated School District

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