Jefferson, Urian, Doane & Sterner, P.A.

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

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Fiscal Year Ended June 30, 2010

Fieldwork End Date: August 30, 2010

Issuance Date: May 5, 2011

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Jefferson, Urian, Doane & Sterner, P.A.

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DAVID C. DOANE, CPA
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JAY M. STEVENS, CPA, PFS
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TRUITT W. JEFFERSON, CPA, DIRECTOR
RETIRED

ANITA Y. SMITH, MEd, DIRECTOR

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Specified User(s) of the Report:

Dr. David J. Ring
Superintendent
State of Delaware, Delmar School District
200 N. Eighth Street
Delmar, Delaware 19940

The Honorable Lillian M. 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 procedures were performed solely to assist the specified parties in evaluating the State of Delaware, Delmar 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 State of Delaware, Delmar School District is responsible for their School District's compliance with those requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those 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:

Agreed-Upon Procedure 1 - Adequacy of the State of Delaware, Delmar School District's policies and procedures for identifying, tracking, and recording capital assets:

1. We obtained the School District's written policies for identifying, tracking, and recording capital assets and evaluated them for compliance with the *State of Delaware Budget and Accounting Policy Manual*, the *State of Delaware Department of Education School Construction Technical Assistance Manual*, the *State of Delaware Capital Asset Policy Manual*, and the *Delaware Code*.

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

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2. We documented an understanding of the School District's process relating to construction, including the personnel responsible for financial transactions and management functions and evaluated them against controls requirements as detailed in the Construction Project Checklist.

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

Agreed-Upon Procedure 2 - Accuracy of the State of Delaware, Delmar School District's construction project records and files for current and prior fiscal years:

1. We obtained the June 30, 2010 Bond Bill (Senate Bill No. 190) to identify any new construction projects in order to create a new electronic file that would include information from the Certificate of Necessity, the Construction Project Data, and the Construction Project Checklist.

   Results:
   There was no new funding for construction projects identified as of June 30, 2010.

2. For new and existing construction projects, which are all identified in Appendix A, we completed a Construction Project Checklist (the Checklist) to ensure construction project file compliance with the *State of Delaware Budget and Accounting Policy Manual,* the *State of Delaware Department of Education School Construction Technical Assistance Manual,* the *State of Delaware Capital Asset Policy Manual,* and the *Delaware Code.*

   Results:
   The procedures resulted in Finding 10-01 presented in Agreed-Upon Procedure 4, Step 1.

   Status of Prior Recommendation:

   Finding 08-01:

   During completion of State of Delaware, Delmar School District's construction program and project checklist for Delmar Jr./Sr. High School Renovations, it was noted that the School District failed to submit the proper documentation to the Department of Education as required by the *School Construction Technical Assistance Manual,* §2.0, Paragraph 7.2.1. The manual states that submission of a change order 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 that gives a breakdown in materials mark-up and other expenses. Personnel were only submitting the purchase order modifications or encumbrance adjustments. Noncompliance with State of Delaware provisions, including *School Construction Technical Assistance Manual,* could result in frauds, errors, and irregularities.

   Recommendation:

   State of Delaware, Delmar School District should establish procedures to ensure that change orders submitted to Department of Education for processing are accompanied by proper documentation such as local board of education minutes identifying and approving the changes, completed AIA document G701, and correspondence that gives a breakdown in materials mark-up and other expenses.

Finding 08-01 - Continued:

Status:

This finding has been implemented. We determined that change orders that were processed by State of Delaware, Delmar School District in the current year were accompanied by the appropriate supporting documentation as required by *State of Delaware Department of Education School Construction Technical Assistance Manual*.

Agreed-Upon Procedure 3 - Accuracy and compliance of expenditures for State of Delaware, Delmar School District stated in accordance with the State of Delaware Capital Asset Policy Manual and within the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education:

1. We obtained a detailed listing of capital expenditures for the School District by project for the year ended June 30, 2010, for all of the projects identified in Appendix A. We reconciled the Fund 300 spending per the listing to the Delaware Financial Management System (DFMS), *Monthly Appropriation Balances Report* (F25M0405) as of June 30, 2010, to within 1% of Fund 300 construction expenditures. We determined that the amounts reported do not include encumbrances or remaining appropriation balances.

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

2. We obtained the June 30, 2010 Construction Work In Progress Generally Accepted Accounting Principles (GAAP) Package for the School District and agreed the June 30, 2009 balances to the June 30, 2009 Schedule of Construction Projects in the final, issued June 30, 2009 Construction Agreed-Upon Procedure report for the School District. We traced the additions, if any, per the GAAP Package and agreed the balances to the current year capitalizable spending per the detail listing of the capital expenditures obtained in Step 1 of this Agreed-Upon Procedure. We agreed the deletions, if any, to the detail of the construction projects that were closed during the year that was obtained in Step 1 under Agreed-Upon Procedure 4.

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

3. We updated the State of Delaware, Delmar School District's Schedule of Construction Projects (the Schedule) for the year ended June 30, 2010, which is presented in Appendix A. We updated the Schedule for all projects identified in Appendix A based upon the activity recorded in the State of Delaware's *Cumulative Year to Date (YTD) Statement of Budgetary Activity and Account Balances for Period Beginning July 1, 2009 and Ending June 30, 2010*.

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

4. We agreed the Total Project Expended to Date column on the Schedule of Construction Projects to the total for each construction appropriation on the State of Delaware's *Cumulative YTD Statement of Budgetary Activity and Account Balances for Period Beginning July 1, 2009 and Ending June 30, 2010*.

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

5. For a sample of 30 expenditures totaling $419,127.65 that was selected from a population of $441,513, we determined that the transaction information for vendor name, appropriation code, and transaction amount agreed to supporting documentation. We agreed that the expenditure was related to a capital project. We mathematically recalculated the details of the transaction. We determined that the transaction was appropriately coded in DFMS, based on the information included on the transaction and that the transaction had proper authorization. We agreed the individual transaction amount to the School District's expenditure detail for the related project.

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

Agreed-Upon Procedure 4 - Maintenance of records and files for State of Delaware, Delmar School District for only active construction projects and the appropriate close out of construction project and appropriate addition to the State Fixed Asset system:

1. We obtained the detail of the construction projects that were closed, if any, during the year for the School District. We reconciled the closed construction projects to the additions that were reported in the State of Delaware's *Fixed Asset Ledger Report* (DFMS report F25F4105). We noted whether the asset was added to the DFMS report at the appropriate amount and with the appropriate in service date.

   Results:
   The procedures resulted in the following finding:

   Finding 10-01:

   During completion of State of Delaware, Delmar School District's construction program and project checklist for Delmar Jr./Sr. High School Renovations (geothermal project), it was noted that the in service date reported on the State's Fixed Asset Accounting System (FAAS) does not agree to the actual date of substantial completion and that the description for the project was not indicated on FAAS. The geothermal project was accepted by the School District in October 2009 but recorded with an in service date of February 2010 on FAAS. District personnel entered the date of the project closeout and final payment instead of the date when the asset was ready for its intended use as specified in *State of Delaware Capital Asset Policy Manual*, Section IV.B.3. Improper recording of capital expenditures, including in service dates and project name, results in errors and irregularities in financial reporting.

Finding 10-01 - Continued:

Recommendation:

State of Delaware, Delmar School District should consult the Division of Accounting to determine whether further action is needed to correct the FAAS in service date and description for the geothermal project. Furthermore, the School District should properly monitor and review the reporting of capital assets to ensure compliance with the *State of Delaware Capital Asset Policy Manual.*

School District's Response:

"Delmar School District will contact the Division of Accounting: Fixed Assets Department to correct the date and description for the Geothermal Project. In the future, the District will be more diligent in monitoring and reviewing the reporting of capital assets to ensure compliance with the State of Delaware Capital Asset Policy Manual."

2. We obtained a detailed listing of construction projects from the School District. We reviewed the activity for the projects included in the June 30, 2010 balance, if any, and selected aged projects with the following criteria: projects that have been ongoing for numerous years, projects near completion that were greater than 90% complete, and projects with little or no spending in the current fiscal year. For the projects meeting the above criteria, if any, we interviewed School District personnel, and obtained and reviewed supporting documentation regarding the status for each project to determine if the project is still in process at June 30, 2010 and appropriately included in the construction balance.

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

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. 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 State of Delaware, Delmar 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, Department of Finance, and the Office of the State Treasurer.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
August 30, 2010

Appendix A: Schedule of Construction Projects

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 06/30/10
Jr./Sr. High School Renovations	2005	$ 1,575,000	$ -	$ 1,575,000	$ 7,592	$ 1,567,408	$ 1,575,000	$ -
	2006	24,600	-	24,600	-	24,600	24,600	-
	2007	2,898,398	-	2,898,398	433,921	2,412,212	2,846,133	52,265
Totals		$ 4,497,998	$ -	$ 4,497,998	$ 441,513	$ 4,004,220	$ 4,445,733	$ 52,265

Distribution of Report

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
Mr. Kristopher Knight, Director, Division of Accounting
The Honorable Lillian M. 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
Dr. David J. Ring, Superintendent, Delmar School District
Mrs. Joanne M. Gum, President, Delmar School District Board of Education
Mr. Shawn B. Brittingham, Vice President, Delmar School District Board of Education

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