

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

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

Fiscal Year Ended June 30, 2010

Fieldwork End Date: October 1, 2010

Issuance Date : May 5, 2011

Table of Contents

Independent Accountant's Report on Applying Agreed-Upon Procedures	1 - 8
Appendix A: Schedule of Construction Projects	9
Distribution of Report	10

DAVID R. URIAN, CPA
DAVID C. DOANE, CPA
CHARLES H. STERNER, JR. CPA, CVA
SHELDON L. FORNEY, CPA
JAY M. STEVENS, CPA, PFS
ROGER R. REED, CPA
ELAINE E. GRAVES, CPA
BRYAN L. HUDSON, CPA

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. Allen Lathbury, Jr.
Superintendent
State of Delaware, Sussex Technical School District
17137 County Seat Highway
P.O. Box 351
Georgetown, Delaware 19947

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, Sussex Technical 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, Sussex Technical 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, Sussex Technical 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.

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, Sussex Technical 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 the following findings:

Finding 10-01:

During completion of State of Delaware, Sussex Technical School District's construction program and project checklist for Sewer Connection and Generator project (generator phase), Renovations to the 300/400 Wings, and Replace Modular Classrooms, it was noted that the School District failed to timely submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C., §507(b). This was due to an oversight by School District personnel. Noncompliance with provisions of the *Delaware Code* could potentially cause a delay in receiving future State funding.

Recommendation:

State of Delaware, Sussex Technical School District should establish procedures to ensure that the archival-quality copies of architectural and/or engineering drawings are timely submitted to Delaware Public Archives in accordance with State of Delaware provisions.

School District's Response:

"Sussex Technical School District will make every effort to meet the deadline for submission of archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives."

Finding 10-02:

During completion of State of Delaware, Sussex Technical School District's construction program and project checklists for Sewer Connection and Generator project (generator phase), Renovations to the 300/400 Wings, and Replace Modular Classrooms, it was noted that the School District had not timely submitted a copy of the electronic AutoCAD files to the Department of Education within thirty calendar days after the completion of major renovations as required by the *School Construction Technical Assistance Manual*, § 2.0, Paragraph 5.4. This was due to an oversight by School District personnel. Noncompliance with State of Delaware provisions, including the *School Construction Technical Assistance Manual*, could potentially cause a delay in receiving future State funding.

Recommendation:

State of Delaware, Sussex Technical School District should establish procedures to ensure that the electronic AutoCAD files are timely submitted to the Department of Education in accordance with State of Delaware provisions.

School District's Response:

"Sussex Technical School District will make every effort to meet the 30-day deadline for submission of electronic AutoCAD files to the Department of Education."

Status of Prior Recommendations:

See Prior Year Findings 09-04 and 09-05 presented in Agreed-Upon Procedure 4, Step 1. Testing that expenses were properly capitalized was performed in agreed-upon procedure 2 and 4.

Finding 09-01:

During completion of State of Delaware, Sussex Technical School District's construction program and project checklist for the Replace Water System project, it was noted that the approval of construction plans, specifications, and cost estimates for the dishwasher replacement from the Division of Facilities Management were not timely obtained prior to bid advertisements as required by 29 Del. C., §7419(a). This was an oversight by School District personnel. Noncompliance with provisions of the *Delaware Code* could potentially cause a delay in receiving future State funding.

Recommendation:

State of Delaware, Sussex Technical School District should establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained timely in accordance with the guidelines established by the State of Delaware.

Status:

This finding will be implemented on future projects. State of Delaware, Sussex Technical School District did not have any new projects in the current fiscal year to apply appropriate corrective actions for this finding.

Finding 09-02:

During completion of State of Delaware, Sussex Technical School District’s construction program and project checklist for the Sewer Connection and Generator project (sewer connection phase), it was noted that the School District failed to timely submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C., §507(b). This was due to an oversight by School District personnel. Noncompliance with provisions of the *Delaware Code* could potentially cause a delay in receiving future State funding.

Recommendation:

State of Delaware, Sussex Technical School District should establish procedures to ensure that the archival-quality copies of architectural and/or engineering drawings are timely submitted to Delaware Public Archives in accordance with State of Delaware provisions.

Status:

This finding has not been implemented. See Finding 10-01 for Agreed-Upon Procedure 2, Step 2.

School District’s Response:

“Sussex Technical School District will make every effort to comply with the deadlines to ensure that the archival-quality copies of architectural and/or engineering drawings are timely submitted to Delaware Public Archives in accordance with the State of Delaware provisions.”

Finding 09-03:

During completion of State of Delaware, Sussex Technical School District’s construction program and project checklists for the Sewer Connection and Generator project (sewer connection phase), it was noted that the School District had not timely submitted a copy of the electronic AutoCAD files to the Department of Education within thirty calendar days after the completion of major renovations as required by the *School Construction Technical Assistance Manual*, § 2.0, Paragraph 5.4. This was due to an oversight by School District personnel. Noncompliance with State of Delaware provisions, including the *School Construction Technical Assistance Manual*, could potentially cause a delay in receiving future State funding.

Recommendation:

State of Delaware, Sussex Technical School District should establish procedures to ensure that the electronic AutoCAD files are timely submitted to the Department of Education in accordance with State of Delaware provisions.

Status:

This finding has not been implemented. See Finding 10-02 for Agreed-Upon Procedure 2, Step 2.

Finding 09-03 - Continued:

School District's Response:

“Sussex Technical School District will make every effort to comply with the deadlines to ensure that the copy of the electronic AutoCAD files is timely submitted to Delaware Public Archives in accordance with the State of Delaware provisions.”

Agreed-Upon Procedure 3 - Accuracy and compliance of expenditures for State of Delaware, Sussex Technical 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:

The procedures resulted in the following finding:

Finding 10-03:

During completion of State of Delaware, Sussex Technical School District's construction program, it was noted that the School District did not properly record Construction Work In Progress (CWIP) for Fund 300 as required by the *State of Delaware Capital Asset Policy Manual*, Section II.D.2. The ending CWIP was overstated by \$12,690. This was due to an oversight by School District personnel. Improper recording of CWIP results in errors and irregularities in financial reporting.

Recommendation:

State of Delaware, Sussex Technical School District should consult the Division of Accounting to determine whether further action is needed for the Construction Work In Progress. 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*.

Finding 10-03 - Continued:

School District's Response:

"The District has contacted the Division of Accounting and the adjustment has been made."

3. We updated the State of Delaware, Sussex Technical 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 \$189,135.51 that was selected from a population of \$274,696, 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, Sussex Technical 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:

We found no exceptions as a result of the procedures.

Status of Prior Recommendations:

Finding 09-04:

During completion of State of Delaware, Sussex Technical School District's construction program and project checklist for the Roof and Floor Replacement project (roof phase), 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 for the project. The roof renovation was accepted by School District personnel in January of 2009 but recorded with an in service date for March and April of 2009 on FAAS. District personnel entered the date of project closeout and final payment instead of the date when the asset was ready for its intended use as specified in *Capital Asset Policy Manual*, Section IV.B.3. Improper recording of capital expenditures, including in-service dates, results in errors and irregularities in financial reporting.

Recommendation:

State of Delaware, Sussex Technical School District should consult the Division of Accounting to determine whether further action is needed for the roof phase of the Roof and Floor Replacement 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*.

Status:

This finding has been implemented. We determined that State of Delaware, Sussex Technical School District consulted the State of Delaware Division of Accounting (DOA) for recommendations and/or further action for these projects. DOA did not require any adjustments to be made by the School District.

Finding 09-05:

During completion of State of Delaware, Sussex Technical School District's construction program and project checklist for the Sewer Connection and Generator project (sewer connection phase), the Replace Modular Classrooms project, and the Renovations to the 300/400 Wings project, it was noted that these projects were not properly recorded in the State's Fixed Asset Accounting System (FAAS) as prescribed by *Capital Asset Policy Manual*, Section IV.B.3. School District personnel did not remove these substantially completed project costs from the June 30, 2009 Construction Work In Progress (CWIP). District personnel did not believe that these projects were ready for their intended use and therefore did not remove them from CWIP. Failure to properly record capital expenditures results in errors and irregularities in financial reporting.

Recommendation:

State of Delaware, Sussex Technical School District should determine the adjustment needed to the State's FAAS and Construction Work in Progress and consult Division of Accounting to determine the action to be taken. 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*.

Finding 09-05 - Continued:

Status:

This finding has been implemented. We determined that State of Delaware, Sussex Technical School District consulted the State of Delaware Division of Accounting (DOA) for recommendations and/or further action for these projects. DOA did not require any adjustments to be made by the School District.

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, Sussex Technical 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
October 1, 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
Sewer Connection and Generator	2006	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -
	2007	1,887,500	-	1,887,500	34,104	1,853,396	1,887,500	-
Roof and Floor Replacement	2006	1,037,200	-	1,037,200	-	1,037,200	1,037,200	-
Renovations to the 300/400 Wings	2007	65,500	-	65,500	-	65,500	65,500	-
	2008	590,500	-	590,500	12,632	577,868	590,500	-
Replace Modular Classrooms	2007	2,653,400	-	2,653,400	28,231	2,625,169	2,653,400	-
Replace Water System	2008	89,300	-	89,300	41,234	48,066	89,300	-
	2009	803,200	-	803,200	158,495	2,068	160,563	642,637
Totals		\$ 8,126,600	\$ -	\$ 8,126,600	\$ 274,696	\$ 7,209,267	\$ 7,483,963	\$ 642,637

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. Allen Lathbury, Jr., Superintendent, Sussex Technical School District
Mr. Patrick Cooper, Vice President, Sussex Technical School Board of Education

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