

**State of Delaware
Office of Auditor of Accounts**

**State of Delaware
Cape Henlopen School District
Fiscal Stabilization, Title I,
Special Education, and IDEA Programs
American Recovery and Reinvestment
Act §1512 Reporting
Agreed-Upon Procedures Engagement**

As of June 30, 2010

**Fieldwork End Date: December 15, 2010
Issuance Date: January 14, 2011**

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Auditor of Accounts



State of Delaware, Cape Henlopen School District Agreed-Upon Procedures Report

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STATE OF DELAWARE
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Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Specified User(s) of the Report:

The Governor's Stimulus Solutions Group
Attn: The Honorable Matthew Denn
Lieutenant Governor
820 N. French Street, 10th Floor
Wilmington, DE 19801

Dr. David E. Robinson
Superintendent
Cape Henlopen School District
District Office
1270 Kings Highway
Lewes, DE 19958

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, Cape Henlopen School District's (CHSD) compliance with the *American Recovery and Reinvestment Act of 2009* (ARRA) §1512 Report (§1512 Report) for the following programs:

Program	CFDA ¹	SAI ²	Award	Federal Expenditures at June 30, 2010
State Fiscal Stabilization Fund (SFSF) – Education State Grants	84.394	S9061816	\$1,257,804	\$1,005,014
Special Education – Preschool Grants	84.392	S9032404	\$1,281,513	\$ 855,867
Special Education – Grants to States	84.391	S9032405	\$ 64,270	\$ 27,526
Title I Grants to Local Educational Agencies (LEAs)	84.389	S9032403	\$1,116,785	\$ 848,485

Management of the CHSD is responsible for their compliance with those requirements for the period February 17, 2009 through June 30, 2010.

¹ Code of Federal Domestic Assistance

² State Application Identifier

The SFSF – Education State Grants program’s purpose is to support and restore funding for elementary, secondary, and postsecondary education and, as applicable, early childhood education programs and services in States and local educational agencies. The funds are used: (a) to restore State elementary and secondary education support for Fiscal Years 2009, 2010, and 2011 to the greater of the Fiscal Year 2008 or 2009 level; (b) to allow existing State formula increases to support elementary and secondary education for Fiscal Years 2010 and 2011 to be implemented and allow funding for phasing in State equity and adequacy adjustments, if such increases were enacted prior to October 1, 2008; and (c) to restore support for public institutions of higher education for Fiscal Years 2009, 2010, and 2011 to the greater of Fiscal Year 2008 or 2009, excluding tuition and fees paid by students.

The Special Education – Grants to States program’s purpose is to provide funds to State and local educational agencies, in accordance with the Individuals with Disabilities Education Act (IDEA), to help provide the special education and related services needed to make a free appropriate public education available to all eligible children and, in some cases, early intervening services. The Special Education – Preschool Grants program’s purpose is to provide grants to states to assist them in providing special education and related services to children with disabilities ages three through five years, and at a State’s discretion, to two-year-old children with disabilities who will reach age three during the school year.

The Title I Grants to LEAs program’s purpose is to help local educational agencies and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic achievement standards. The use of funds varies, depending on whether a school is operating a schoolwide program under Title I, Section 1114 of the Elementary and Secondary Education Act of 1965 (ESEA) or a targeted assistance program under Section 1115 of the ESEA. A school with at least a 40 percent poverty rate may choose to operate a schoolwide program under Section 1114 that allows Title I funds to be combined with other Federal, State, and local funds to upgrade the school’s overall instructional program. All other participating schools must operate targeted assistance programs that provide extra instruction to those children failing, or most at risk of failing, to meet State academic achievement standards. Targeted assistance programs must ensure that Title I services supplement, and do not supplant the regular education programs normally provided with non-Federal funds by local educational agencies.

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: We traced the amounts per the §1512 Report to appropriate supporting documentation and verified the amounts were accurate. We confirmed the date the §1512 Report was submitted to the federal reporting system to ensure the report was submitted timely.

Results: CHSD over-reported the *Total Sub Award Funds Disbursed* for Special Education – Preschool Grants by \$269.20. See Finding #1 below. The June 30, 2010, §1512 Reports were due by July 14, 2010. CHSD submitted the reports timely to federalreporting.gov on July 8, 2010. However, CHSD did not submit the ARRA §1512 Report and Approval Records to Delaware Office of Management and Budget (OMB) and did not obtain approval to use the copy forward function when entering the report information for all awards tested. See Finding #2 below.

Finding #1 – Incorrect Information Reported

Criteria

The Delaware OMB §1512 Reporting Instruction Manual states, “Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems -- material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.”

Condition

CHSD erroneously reported the Total Sub Award Funds Disbursed amount for the Special Education – Preschool Grants program resulting in an overstatement of expenditures of \$269.20. Expenditures of \$855,866.71 should have been reported as \$855,597.51.

Cause

There was no procedure in place for adequate management review of the supporting documentation and §1512 report before it was submitted to federalreporting.gov.

Effect

The Total Sub Award Funds Disbursed was overstated \$269.20. The difference was not significant enough to warrant a change to the §1512 report.

Recommendation

CHSD should implement a management review process to ensure that the §1512 report is free of errors before submission.

Auditee Response

All reports will be reviewed for accuracy by the Director of Business Operations before submittal.

Finding #2 – Approval Record and Copy Forward Function

Criteria

The Delaware OMB §1512 Reporting Instruction Manual states, “Prime recipients and approved delegated sub-recipients must also complete and have appropriate signed approval from the agency head for each report field prior to uploading to the federal reporting system. A form for this purpose can be located at <http://www.omb.delaware.gov/arra/index.shtml> and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302) 739-5661.” “Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to OMB_ARRA1512@state.de.us.”

The Delaware OMB §1512 Memorandum dated June 23, 2010, requires prior approval to use the copy forward function. It states:

The federal reporting system, federalreporting.gov now provides functionality for an alternate method to file 1512 reports for previous filers. This functionality which is called “Copy Forward,” copies the last quarter's report to the current reporting quarter. This will allow the recipient to make the necessary spending changes directly on screen into the system while leaving the correct grant identifying information intact. This method is intended to minimize errors and only works if a report was filed for the award last quarter. It will not work as a template for a different award that needs to be reported by the same agency.

Agencies considering using this function must have approval ahead of time before using this method. Requests are to be sent to the OMB email (OMB_ARRA1512@state.de.us) by June 30th detailing the award you will be reporting with the Copy Forward function. Upon approval by OMB, detailed instructions in using the Copy Forward function will be provided.

Condition

CHSD did not submit the ARRA §1512 Report Approval Record to OMB for the reporting period ending June 30, 2010, for any of the four programs tested as required by the Delaware OMB §1512 Reporting Instruction Manual. In addition, CHSD used the copy forward function without first obtaining approval from DE OMB.

Cause

CHSD was not aware of the requirement to send the ARRA §1512 Report Approval Record or that approval to use the copy forward function was required.

Effect

The purpose of this approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered.

Recommendation

CHSD should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government and certify the review by submitting the ARRA §1512 Report Approval Record to OMB. In addition, CHSD should request approval from DE OMB to use the copy forward function.

Auditee Response

The district will use the Report Approval Record form and request approval from OMB to use the copy forward function.

Procedure 2: Delaware Department of Education (DOE) was designated as the prime recipient for these programs and; therefore, has been responsible for reporting jobs created and retained. Therefore, this procedure is not applicable to CHSD. However, the prime and subrecipient designations have been incorrectly applied. See Procedure 3 below and Finding #3 of this report for further details.

Procedure 3: School Districts and charter schools are designated subrecipients for purposes of ARRA reporting; therefore, this procedure is not applicable to CHSD. However, this treatment is not in compliance with the 2010 Compliance Supplement. See Finding #3 below.

Finding #3 – School Districts Improperly Treated as Subrecipients

Criteria

The 2010 Compliance Supplement states, “Transfers of Federal awards to another component of the same auditee under OMB A-133 do not constitute a subrecipient or vendor relationship.” This is to ensure that components of State Government are not treated as subrecipients.

Condition

The State of Delaware, Office of Management and Budget, is incorrectly treating the school districts and charter schools of the State as subrecipients. The Delaware OMB §1512 Reporting Instruction Manual states, “School Districts and charter schools are designated sub-recipients for purposes of ARRA reporting and shall directly report to the federal reporting system all Federal Funding Accountability and Transparency Act data elements required under 1512(c)(4) for all ARRA funds sub-awarded to them by the State of Delaware, in a manner that complies with all federal OMB guidance.” The State does not have the authority to elect such treatment and; therefore, is not in compliance with the 2010 Compliance Supplement.

Cause

The State of Delaware, Office of Management and Budget, has misinterpreted the guidance issued by the Federal OMB regarding the definition of a subrecipient.

Effect

All school districts and charter schools within the State of Delaware are incorrectly submitting the §1512 report as subrecipients instead of prime recipients.

Recommendation

The Delaware OMB §1512 Reporting Instruction Manual should be corrected so that school districts and charter schools are not considered subrecipients. School districts and charter schools should immediately begin reporting as prime recipients.

Auditee Response

We will forward the finding and recommendation to OMB and DOE for action.

Auditor’s Comment

On December 22, 2010, AOA was able to obtain clarification from the United States Department of Education (USDOE) regarding this issue. Delaware School Districts may report as sub-recipients for the purposes of §1512 reporting. However, this treatment in no manner exempts the School Districts from reporting as primary government for purposes of the State’s A-133 Audit. AOA amends the recommendation above to correct the language in the Delaware OMB §1512 Reporting Instruction Manual to exclude reference of the School Districts as “sub-recipients” so as not to confuse School District management. OMB should also include the written permission from USDOE allowing School Districts to use the sub-recipient format, but that it does not reflect change in treatment as a primary recipient for A-133 purposes.

Procedure 4: We tested and were able to determine eligibility of program expenditures totaling \$1,841,250 by examining supporting documentation. These expenditures consisted of \$356,228 coded to the SFSF – Education State Grants program for payroll, crossing guards, and miscellaneous expenditures;

\$698,681 coded to the Special Education programs for instructional supplies, computer lease and maintenance costs, and professional development; and \$786,341 coded to the Title I Grants to LEAs program for instructional supplies, Smart Boards, and computer lease and software licenses.

Results: CHSD could not locate 3 out of 44 Purchase Orders tested for the Title I Grants to LEAs program. See Finding #4 below.

Finding #4 – ARRA not Clearly Noted on Purchase Order (PO)

Criteria

Chapter II, Section 2.4.1 of the *Budget and Accounting Manual* states, “Each agency is required to maintain transactional receipts and supporting documents in the manner established by the Director of OMB. All invoices, bills, statements, letters, vouchers, and other documents pertaining to receipts and disbursements must be systematically preserved by each agency.” The Delaware OMB Memorandum dated June 24, 2009, states, “All Purchase Orders (PO’s) falling under this guidance must be clearly marked with and contain the following within the body of the PO: (1) "ARRA" clearly denoted, (2) the specific title of the Federal program for the expenditure is being made; and (3) a description of how the funds being obligated by the PO are to be used.”

Condition

AOA tested Title I expenditures totaling \$786,341. The District Office could not locate 3 out of 44 PO's tested for \$3,892 of these expenditures; therefore, AOA could not determine if “ARRA” was clearly noted on the PO.

Cause

CHSD did not maintain appropriate documentation.

Effect

Failure to maintain appropriate documentation renders the agency unable to demonstrate that the transaction was properly reviewed and approved. In addition, the agency is unable to verify the accuracy and completeness of the information processed on the transaction document.

Recommendation

Cape Henlopen School District should retain documentation for all financial transactions as mandated by the *Budget and Accounting Manual*.

Auditee Response

The district will ensure that all documentation is appropriately identified and filed in a central location.

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.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts

December 15, 2010

Distribution of Report

This report is intended solely for the information and use of the Governor's Stimulus Solutions Group and the CHSD 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 Matthew Denn, Lieutenant Governor, State of Delaware
The Honorable Thomas J. Cook, Secretary, Department of Finance
The Honorable Ann S. Visalli, Director, Office of Management and Budget
The Honorable Lillian Lowery, Secretary of Education, Department of Education
Ms. Valerie Watson, Acting Director, Division of Accounting

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

Ms. Dawn Haw-Young, Manager of Financial Reporting and Internal Control, Division of Accounting,
Department of Finance
Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget
Sgt. Spencer E. Brittingham, President, Cape Henlopen School District Board of Education
Dr. David E. Robinson, Superintendent, Cape Henlopen School District

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