

**State of Delaware
Polytech School District**

Capital Projects Funds
Agreed-Upon Procedures Engagement

Fiscal Year Ended June 30, 2010

State of Delaware
Polytech School District

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Independent Accountants' Report

To the Specified Users of the Report:

Dianne G. Sole, Ed. D.
Superintendent
Polytech School District
823 Walnut Shade Road
Woodside, DE 19980-0022

The Honorable Lillian Lowery, Ed.D.
Secretary, Department of Education
State of Delaware
Townsend Building, Suite 2
401 Federal Street
Dover, DE 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 agreed upon procedures were performed solely to assist the specified parties in evaluating the State of Delaware, Polytech 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 recorded under Capital Projects funds (fund 300 series) and administered by the School District for the year ended June 30, 2010 (See Appendix A). Management is responsible for the School District's compliance with the requirements.

These agreed-upon procedures were conducted 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 are as follows:

Procedure 1: In order to determine if the School District's policies and procedures in place to identify, track, and record capital assets are adequate, we obtained our understanding of the School District's internal controls relating to construction, including the identification of the personnel responsible for financial transactions and management functions. We then compared the documented internal controls to the relevant provisions of the *State of Delaware Budget and Accounting Manual*, *Department of Education School Construction Manual*, *State of Delaware Fixed Asset Policy Manual*, and the Delaware Code.

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

Procedure 2: In order to evaluate that the School District's construction project records and files were complete, we used the Construction Project Checklist (which is a detailed listing of the documentation required for construction projects) provided by the Office of Auditor of Accounts for new and existing construction projects. We obtained a list of bid files from the Business & Finance

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Director which consisted of two files for two active construction projects and tested for 23 attributes (See Appendix B). We requested a list of change-orders from the Supervisor of Facilities Management. There were no change orders issued for the year ended June 30, 2010; therefore we did not examine change orders. We obtained a list of purchase orders from Delaware Financial Management System (DFMS) report #F25RF605, *Cumulative Year to Date Statement of Budgetary Activity and Account Balances*, which identified six purchase orders totaling \$690,556.06. We tested all purchase orders greater than \$2,500 (five purchase orders totaling \$688,056.07) for three attributes (See Appendix B).

Findings: Our procedures resulted in Findings 10-1, 10-2 and 10-3.

Finding 10-1: The School District failed to document the evaluation of the criteria used in selecting winning bidder for the contract awarded to an engineering firm to manage the HVAC project. Title 29, §6982 of the Delaware code describes a selection process to be used when awarding professional services contracts. These steps include documenting the evaluation and selection process.

Cause: The School District failed to follow the selection process per Delaware Code.

Effect: Failing to go through the required procedures could result in the School District awarding a contract to an unqualified or overpriced vendor.

Recommendation: The School District should implement policies and procedures to ensure that required processes are followed and are adequately documented.

School District Response: The District conducted a formal Request for Proposal (RFP) for the selection of a professional engineering services firm to manage the recent HVAC major capital improvement project. The selection process was properly advertised in the paper and a District selection committee reviewed all applicants based upon specifically documented evaluation criteria. For all future professional services contracts that exceed the project bidding threshold, all committee members involved in the selection process will complete scoring summaries for each firm's submission in accordance with the specified evaluation criteria. These scoring summaries will be filed and maintained for audit review.

Finding 10-2: Construction files did not include required documentation. Missing documents included copies of advertisement for bids, bid documentation, Performance Bond, proof of deposit or bid bond from bidders, letter of award to successful bidder, copy of planning budget, copy of working budget, copy of transfer documents, and copy of related Bond Bill. Chapter XII, Section D, Paragraph 3 of the *State of Delaware Budget and Accounting Manual* lists documents to be kept on file with each construction project.

Cause: The deficiency was caused by the failure to properly document and file steps taken during the construction process.

Effect: The School District is not in compliance with the *State of Delaware Budget and Accounting Manual*.

Recommendation: The School District should implement policies and procedures to ensure that the files for each construction project include all of the documentation required by the *State of Delaware Budget and Accounting Manual*.

School District Response: Many of the items referenced in this finding as not being filed in accordance with state requirements are indeed on file in the district office. The district respectfully requests that the auditors return to validate which, if any, items are not on file. The District will further review the construction document filing requirements to ensure that all items are readily available for inspection.

Auditor's Response: The items were not readily available during performance of the procedures which resulted in the finding.

Finding 10-3: Roofing contract was executed approximately 30 days after it was awarded. Title 29, §6962(d)(8)c. of the Delaware Code requires that a contract be executed within 20 days of award of the contract. The local Board of Education awarded the roofing contract on March 9, 2010, but the contract was not executed until April 15, 2010.

Cause: This finding was caused by the School District failing to act in a timely manner to execute the contract as awarded by the local Board of Education.

Effect: Failure to execute an awarded contract within 20 days causes the School District to be out of compliance with Delaware Code and could trigger forfeiture of the bid bond.

Recommendation: The School District should implement policies and procedures that ensure awarded contracts are executed within the time required by Delaware Code.

School District Response: The District concurs with this finding and will work to ensure that contracts are executed within 20 days of Board approval.

Procedure 3: In order to determine if expenditures were accurately stated in accordance with the *State of Delaware Capital Asset Policy Manual* and are appropriate with the intent of the project scope mandated by the General Assembly, the Department of Education, and the local Board of Education, we tested expenditures for six attributes (See Appendix B). We tested 100% of 13 expenditures totaling \$186,800.96. We also obtained Form H-3A, Construction Work-in-Progress, from the School District, verified beginning balances (by comparing them to the 2009 Schedule of Construction Projects Examined), and reconciled additions and deletions to DFMS report *F25F4105_95, Fixed Asset Purchases, and F25F1505_95, Fixed Assets Subsidiary Ledger* by comparing them to the detailed listings of capital expenditures and the detail listing of projects closed during the year. See the Schedule of Construction Projects located at Appendix A of this report.

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

Procedure 4: We obtained from the School District a detail of construction projects closed during the year and reconciled it to DFMS report #F254105, *Fixed Asset Purchases*, to ensure that the completed projects were added to the State's Fixed Asset Accounting System (FAAS). We also obtained the detail listing of construction projects in process at June 30, 2010 from the School District. For all of the projects on the listing, we selected aged projects (i.e. projects that have been on-going for numerous years), projects near completion (greater than 90% complete) and projects with little or no spending in the current fiscal year. Through interviews with School District personnel and examination of supporting documentation (the contents of the School District's major capital renovation files), we determined whether projects on the listing were substantially complete (and should be closed out to the fixed asset ledger) or were still in process at June 30 (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 with the requirements. 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 the State of Delaware, the Polytech School District, 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. This report, as required by statute, shall be 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. However, we understand that State law requires this report to be made available to the public and that the State plans to post this report on the Office of Auditor of Accounts' website and may distribute the report to requesting parties.

BDO USA, LLP

Certified Public Accountants
January 27, 2011

State of Delaware
Polytech School District

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 6/30/10
18 Classrooms	2005	3,406,700	(23,367)	3,383,333		3,383,333	3,383,333	-
Renovate HVAC	2008	2,021,500	(522,800) 458,981	1,957,681	156,109		156,109	1,801,572
Roof Replacement	2009		522,800 (458,981)	63,819	30,692	10,191	40,883	22,936
TOTAL		5,428,200	(23,367)	5,404,833	186,801	3,393,524	3,580,325	1,824,508

**State of Delaware
Polytech School District**

Appendix B: List of Attributes

As part of Independent Accountant's Report, Procedure 2, we examined the **Purchase Orders** for the following attributes (see the attached report for results):

1. Approval from Department of Education.
2. Approval from the Director of Capital Budget and Special Projects.
3. Approval from the Division of Accounting.

As part of Independent Accountant's Report, Procedure 2, we examined the **Bid Files** for the following attributes:

1. Evidence of advertisement for specific bids.
2. Copy of instructions to bidders and job specifications.
3. Evidence of tabulation of bids for General Construction, Subsidiary Construction and/or Equipment and Materials.
4. Copy of each bidder's proposal.
5. Evidence of letter of award to the successful bidder.
6. Copy of the general construction contract.
7. Copy of Performance Bid.
8. Copy of Labor and Material Bond.
9. Copy of Contractor's Insurance Certificates.
10. Evidence on file of bid security deposits being returned to unsuccessful bidders.
11. Copy of a working budget after the award of contract.
12. Evidence of advertisement for sealed bids published at least once a week for two consecutive weeks in a newspaper published or circulated in each county of the state.
13. Evidence that bids for construction projects were accompanied by a deposit/bond of at least 10% of the bid.
14. Copy of letter of award sent to successful bidder within 60 days after opening of sealed bids
15. Evidence of whether the lowest responsible bid was accepted, or if lowest bid was not accepted, evidence of a valid reason.
16. Copies of all local school board minutes containing evidence that all contracts were approved by the board prior to the negotiation of the contracts.
17. Evidence that the security of the unsuccessful bidders was returned within 30 days after the opening of the bids.
18. Evidence that formal contracts were executed within 20 days of the award of the contract; or if not executed by the contractor, evidence that the bid bond forfeited and deposited with the Secretary of Finance.
19. Evidence of justifiable reason to fail to forfeit the bond if when formal contract not executed within 20 days.
20. Evidence that the contract meets environmental provisions and county ordinances.
21. Evidence that the contract contains a provision stating the minimum wages to be paid various classes of laborers and mechanics based upon the wages determined by the Dept. of Labor, Division of Industrial Affairs (required in cases where the contract is in excess of \$100,000 for new construction or \$15,000 for other work).

22. Evidence that the contract contains a prohibition against contingent fees (required in cases where the contract is in excess of \$100,000 for new construction or \$15,000 for other work).
23. Evidence that the performance bond was 100% of contract price. If performance bond is not 100% of contract price, evidence that a waiver has been granted and the successful bidder has posted a letter of credit or other suitable or readily collectible financial security for the project.

As part of Independent Accountant's Report, Procedure 3, we examined the **Expenditures** for the following attributes (see the attached report for results):

1. Verified that the transaction information (vendor name, appropriation code, transaction amount) agrees to supporting documentation (i.e. Invoice, PO, etc.).
2. Verified that the expenditure was related to a capital project and was properly capitalizable.
3. Determined that the details of the transaction are mathematically accurate.
4. Determined that the transaction was appropriately coded in DFMS, based on the information included on the transaction.
5. Agreed the individual transaction amount into the School District expenditure detail for the related project.
6. The transaction is properly authorized (as evidenced by signature of appropriate individuals on the transaction form).