

**State of Delaware
Milford School District**

Capital Projects Funds
Agreed-Upon Procedures Engagement

Fiscal Year Ended June 30, 2010

State of Delaware
Milford School District

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Independent Accountants' Report

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To the Specified Users of the Report:

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Superintendent
Milford School District
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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 Milford 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 Director which consisted of 19 files for three active construction projects and examined the files, testing for 23 attributes (See Appendix B). We obtained a list of change-orders from the Supervisor of Facilities Management which consisted of 162 items totaling \$1,780,234.59 and examined 100% of the change orders for seven attributes (See Appendix B). 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 293 purchase orders totaling \$19,049,269.65. We tested all purchase orders (179 purchase orders totaling \$18,936,125.80) greater than \$2,500 for three attributes (See Appendix B).

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

Finding: 10-1: One of the purchase orders was missing and could not be located. Therefore, we could not verify if proper approvals were obtained as required by *The School Construction Manual*, Section 2, Paragraph 6, which states that all purchase orders for any Major Capital Improvement project should be approved by the School District and also by both the Department of Education and the Director of Capital Budget and Special Projects prior to submission to the Division of Accounting.

Cause: We could not determine the exact cause of the inability to locate the purchase order. Management informed us that it was caused by an oversight at the Department of Education, the Director of Capital Budget and Special Projects and/or the Division of Accounting.

Effect: This oversight could result in capital expenditures being made that were not approved by the Department of Education, the Director of Capital Budget and Special Projects and/or the Division of Accounting.

Recommendation: The School District should work with the Division of Accounting to implement procedures to ensure that proper approvals from the Department of Education, the Director of Capital Budget and Special Projects and the Division of Accounting are obtained in accordance with the guidelines established by the State of Delaware for all major capital improvement projects.

School District Response: All major capital improvement purchase orders are sent directly to the Department of Education for initial review and approval prior to being routed to OMB for an additional level of approval and final processing by the state Division of Accounting. Effective July 1, 2010, all purchase orders are now routed electronically through the Department of Education and OMB via the First State Financial (FSF) system. The District has communicated this finding to the Department of Education, OMB and the Division of Accounting as the District does not control the document flow once it has been forwarded to the next approval level.

Auditor's Response: At the time of our site visits we noted that a number of change orders could not be located. We acknowledge the District's response and recommend that its new procedures be followed in the future.

Status of Prior Year Recommendation: There was a similar finding (09-1) relating to Procedure #2 in 2009.

Finding: 10-2: Upon examining the Change Orders, it was found that: 1) the list provided by the school district was incomplete; 2) Change Order #1 on the Ross Renovation project could not be located; 3) Eight of the change orders on Central Academy project were found to be missing approvals and/or documentation; 4) Change Order #9 on the new elementary school could not be located; and 5) Six of the change orders on the new elementary school were found to be missing approvals and/or documentation. The State of Delaware Department of Education *Construction Technical Assistance Manual* (Section 2.0, Paragraph 7) states that all Change Orders must be approved by the architect, the school district, and the contractor and shall be documented along with the completed purchase order as applicable, local board of education minutes identifying and approving the changes; completed AIA document G701, and correspondence which gives a breakdown in materials mark-up and other expenses.

Cause: The School District established cut-off amounts for approval of change orders by the School Board. Documents were missing because of the lack of a control to ensure that change orders are accompanied by the required documentation.

Effect: Failure to approve and document the change orders could result in executing change orders without the knowledge and approval of the Architect, School District, Contractor, and/or Local Board of Education.

Recommendation: The School District should implement procedures that ensure all Change Orders are identifiable, obtain all needed approvals and are adequately documented.

School District Response: All major capital improvement change orders are now approved at the monthly Board of Education meeting. All change orders are presented by the District's construction manager and the Board specifically approves all change orders for each project on a monthly basis. While some change order documentation may not have been available at the time of the audit, the documents are present and have been filed accordingly.

Status of Prior Year Recommendation: There was a similar finding (09-2) relating to Procedure #2 in 2009.

Finding 10-3: One of the successful bidders (steel work) at the new elementary school executed a bond which was less than 100% of the contract price without revising the contract to include a waiver of the bond requirement. Title 29, §6962(d)(9) of the Delaware Code states that the successful bidder shall execute a good and sufficient bond to the contracting agency in a sum equal to 100% of the contract price. Contracts may require a waiver of the bond requirement, provided that the successful bidder post with the contracting agency an irrevocable letter of credit or other suitable or readily collectible financial security for the project.

Cause: The School District failed to detect the bidder's error.

Effect: School District is not in compliance with the Delaware Code.

Recommendation: The School District should develop policies and procedures to ensure that all bid documents are complete and contain correct information.

School District Response: The district will ensure that all future bid bonds and performance bonds equate to 100% of the contract price.

Status of Prior Year Recommendation: There was a similar finding relating to this compliance area of Procedure #2 in 2009.

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 a sample of expenditures for six attributes (See Appendix B). A random sample of 30 expenditures totaling \$1,615,742.41 was selected for testing from a population of 1,154 transactions totaling \$28,434,546. 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 performed.

Procedure 4: We obtained from the School District a detail of all 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 Milford 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 18, 2011

**State of Delaware
Milford 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
Renovations - Morris ECC	2008	230,700	506,173	736,873	303,967	138,137	442,104	294,769
Renovations - Milford HS	2008	3,216,200	500,000	3,716,200	521,744	2,667,632	3,189,376	526,824
Renovations - Lulu Ross ES	2009	357,900	1,329,800	1,687,700	1,404,859	270,750	1,675,609	12,091
Construct Middle School	2008	2,597,400		2,597,400	644,165	1,915,046	2,559,211	38,189
Land Middle School	2008	4,000,000		4,000,000	2,026,383	1,968,069	3,994,452	5,548
Construct Middle School	2009	21,387,900	(1,329,800)	20,058,100	12,963,352	6,052,208	19,015,560	1,042,540
Middle School	2010	12,296,200	(1,006,173)	11,290,027	5,034,472	-	5,034,472	6,255,555
MS Land	2010	388,000		388,000	388,000	-	388,000	-
Land for New North ES	2008	1,000,000	(50,000)	950,000	686,434	141,962	828,396	121,604
Construct New North ES	2009	3,094,000		3,094,000	826,462	935,441	1,761,903	1,332,097
Construct New North ES	2010	14,000,000		14,000,000	3,634,708	-	3,634,708	10,365,292
TOTAL		62,568,300	(50,000)	62,518,300	28,434,546	14,089,245	42,523,791	19,994,509

State of Delaware Milford School District

Appendix B: List of Attributes

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

1. Approval by Design Architect.
2. Approval of School District.
3. Approval of Contractor.
4. Completed Purchase Order form.
5. Local Board of Education Approval.
6. Completed AIA Document 701 (contract amendment) or Similar Form.
7. Appropriate Supporting Documents.

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).