

**State of Delaware
Smyrna School District**

Capital Projects Funds
Agreed-Upon Procedures Engagement

Fiscal Year Ended June 30, 2010

State of Delaware
Smyrna School District

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Independent Accountant's Report

To the Specified Users of the Report:

Ms. Deborah D. Wicks
Superintendent
Smyrna School District
82 Monrovia Avenue
Smyrna, Delaware 19977

The Honorable Lillian 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 agreed upon procedures were conducted solely to assist the specified parties in evaluating Smyrna 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 findings 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 documented 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 Finance Director which consisted of one file for six active construction projects and examined them for 23 attributes (See Appendix B). We obtained a list of change-orders from the Finance Director which consisted of 30 items totaling \$809,102 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 64 purchase orders totaling \$3,848,384. We examined all purchase orders greater than \$2,500 (38 purchase orders totaling \$3,819,028) for three attributes (See Appendix B).

Finding: Our procedures resulted in Finding 10-1.

Finding 10-1: One of the purchase orders selected was missing and could not be located; therefore, we were unable to verify whether proper approvals had been obtained. The *School Construction Manual*, Section 2, Paragraph 6, states that all purchase orders (PO's) for any Major Capital Improvement project should be approved by the School District and also by both the Department of Education (DOE) and the Director of Capital Budget and Special Projects prior to submission to the Division of Accounting (DOA). Once the PO has been approved by the School District, it is then sent to DOE and the Director of Capital Budget and Special Projects for their approval, prior to being sent to the DOA.

Cause: We could not determine the precise 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 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 District should work with the Division of Accounting to establish 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: The District does not have the authority to establish procedures for the Department of Education, the Director of Capital Budget and Special Projects and/or the Division of Accounting. The District defers to them for corrective action.

Auditor's Response: Although the district may not have the authority to establish procedures for the Department of Education and the Division of Accounting, we recommend that it establish its own procedures to follow up on documents whose approvals are late in being returned by these organizations.

Status of Prior Recommendation: There was one finding relating to Procedure #2 reported in 2009 involving the bid bonds of the unsuccessful bidders not being returned timely after the award of a contract. As reported above, we found no exceptions to this attribute as a result of the procedures performed.

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 \$8,499,273, was selected for testing from a population of 156 transactions totaling \$23,788,250. 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 performed.

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, Smyrna 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
November 8, 2010

**State of Delaware
Smyrna 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
Smyrna Middle School	2007	2,755,000	(105,741)	2,649,259	1,200	2,648,059	2,649,259	-
Sunnyside Elementary	2006	500,000		500,000	3,523	496,477	500,000	-
Sunnyside Elementary	2007	9,154,200		9,154,200	24,166	8,969,070	8,993,236	160,964
JB Moore Middle School	2003	7,812,900		7,812,900		7,808,154	7,808,154	4,746
Smyrna High School	2008	10,000,000	(36,314)	9,963,686	181,100	9,619,681	9,800,781	162,905
Smyrna High School	2009	30,000,000		30,000,000	9,454,729	18,727,890	28,182,619	1,817,381
Smyrna High School	2010	27,401,600		27,401,600	13,411,553		13,411,553	13,990,047
Clayton Elementary School	2008	350,000		350,000		154,120	154,120	195,880
Clayton Intermediate School	2007		105,741	105,741	92,410	13,331	105,741	-
Clayton Intermediate School	2010	8,508,125		8,508,125	619,569		619,569	7,888,556
TOTAL		96,481,825	(36,314)	96,445,511	23,788,250	48,436,782	72,225,032	24,220,479

State of Delaware Smyrna 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:

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).