

**State of Delaware  
Capital School District**

**Capital Projects Funds**  
Agreed-Upon Procedures Engagement

Fiscal Year Ended June 30, 2010

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# State of Delaware Capital School District

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## Independent Accountants' Report

To the Specified Users of the Report:

Dr. Michael D. Thomas  
Superintendent  
Capital School District  
945 Forest Street  
Dover, Delaware 19904

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 the Capital 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*.

**Findings:** Our procedures resulted in Finding 10-1.

**Finding 10-1:** The School District did not have its policies and procedures for identifying, tracking, and recording capital assets in written form. The *State of Delaware Budget and Accounting Policy Manual* 2.1.1 states that "Management is responsible for maintaining and communicating written policies and procedures."

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**Cause:** The School District has policies and procedures in place to identify, track, and record capital asset projects but they are not written.

**Effect:** Because the policies and procedures are not in writing, there is a greater possibility that they may not be performed; that there will be a loss of knowledge in the organization, due to turnover; and that there will be a negative effect on the ability to train new employees.

**Recommendation:** The School District should document in written form its policies and procedures to identify, track, and record capital asset projects.

**School District Response:** The School District had pre-existing procedures for recording fixed assets that have not evoked findings in the past. The School District recognizes that the State Financial System has changed and, consequently, has completed revised procedures that address the new financial system. (Revised procedures are effective July 1, 2010, in connection with the new State of Delaware Accounting system, which is outside the period of this engagement.)

**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 representation from the Business Manager that no bids were processed for the current period. We obtained a list of change-orders from the Business Manager which consisted of 240 items totaling \$1,299,616 and examined 12 items at random under \$50,000 and examined 3 items (100%) of the change orders over \$50,000 for seven attributes (See Appendix B) for a total of 15 items (\$363,344). 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 77 purchase orders totaling \$3,267,701. We tested all purchase orders (64 purchase orders totaling \$3,252,069) greater than \$2,500 for three attributes (See Appendix B).

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

**Status of Prior Year Recommendations:** There were two findings relating to Procedure #2 in 2009 and one in 2008. As reported above, for 2010, we found no exceptions 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 \$542,236 was selected for testing from a population of 547 transactions totaling \$10,198,569. 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 Capital 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 13, 2011

**State of Delaware  
Capital School District**

**Appendix A: Schedule of Construction Projects**

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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
Central Middle School Renovation	2008	3,421,600	-	3,421,600	257,161	3,164,439	3,421,600	-
Central MS Gym Renovation	2009	11,975,500	-	11,975,500	3,427,545	8,115,414	11,542,959	432,541
Central MS Gym Renovation	2010	1,710,800	-	1,710,800	997,720	-	997,720	713,080
Land for new High School	2008	11,000,000	(500,000)	10,500,000	114,495	8,455,791	8,570,286	1,929,714
600 Pupil Elem School - Construct	2008	3,727,900	-	3,727,900	327,611	3,400,289	3,727,900	-
600 Pupil Elem School - Construct	2009	13,047,800	-	13,047,800	3,871,637	8,895,286	12,766,923	280,877
600 Pupil Elem School - Construct	2010	1,864,000	-	1,864,000	1,202,400	-	1,202,400	661,600
<b>TOTAL</b>		<b>46,747,600</b>	<b>(500,000)</b>	<b>46,247,600</b>	<b>10,198,569</b>	<b>32,031,219</b>	<b>42,229,788</b>	<b>4,017,812</b>

# State of Delaware Capital School District

## Appendix B: List of Attributes

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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 3, we examined the **Expenditures** for the following attributes:

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).