

*Santora CPA Group*

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**State of Delaware  
Statewide School Districts' Construction  
Projects Attestation Engagements  
Capital School District**

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*Fiscal Year Ended June 30, 2014*

Report Issued: November 3, 2014

## **Background**

### **School District Construction Projects**

In accordance with 29 Del. C. §7509, the Department of Education (DOE) shall determine the present necessity for any school construction program. Once a School District (District) identifies the need for a construction project and receives approval from its local Board of Education (Board), they submit a Major Capital Improvement Program request form to the DOE by August 31 each year. The DOE then meets with the District to review appropriate documentation and discuss the necessity of the project. If it is deemed necessary, the DOE will include the project in its budget request for the following fiscal year. All projects that are included in the budget request are then issued a Certificate of Necessity (CN) by the end of November, which authorizes the construction project and details the scope and cost limits for the project.<sup>1</sup>

The DOE calculates the amount of State of Delaware (State) funding the District will receive using a standard school construction formula. The formula is uniform throughout the State and is based on pupil capacity for the type of school requested (i.e., elementary, middle, or high school). The remainder of the cost is paid with local tax receipts, thus referred to as the local share.

Before a District can issue bonds to fund the local share of the construction costs, taxpayers must approve the bond sale through a referendum.<sup>2</sup> A referendum may occur any time after a CN is issued, and the District has one year and two opportunities to pass a successful referendum before needing to request a new CN from the DOE. The timing of each referendum is at the discretion of the Board.

The District must provide adequate public notice of the referendum that includes the purpose and amount of the proposed bond issuance, as well as the estimated annual amount of tax increase upon approval.<sup>3</sup> The estimated increase, however, is based on certain assumptions that are subject to change, such as the anticipated interest rate on new bonds.<sup>4</sup> Therefore, taxpayers are voting on the approval of the construction project and cannot rely on the advertised referendum rate as the effective tax rate.

The District may ask their taxpayers to approve a local share in excess of the school construction formula to finance additional options. For example, if a construction project included expanding a particular school building and the District wished to continue the same flooring throughout the entire building, taxpayers may be asked to fund the costs in excess of the State formula. This particular request must be clearly labeled on the referendum voting ballot using the language set forth in 14 Del C. §2004.

The DOE presents their budget of all the State's Districts' construction projects to the Office of Management and Budget for approval and inclusion in the Governor's Recommended Budget.<sup>5</sup> The Governor's Recommended Budget is then subject to final approval by the Bond Bill Committee and the Legislature via the Bond and Capital Improvements Act (also referred to as the Bond Bill). If a District

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<sup>1</sup> DOE's School Construction Manual, Section 2: Major Capital Improvement Program Regulations (<http://facilitynet.doe.k12.de.us/schooldata/>)

<sup>2</sup> 14 Del. C. §2122

<sup>3</sup> 14 Del. C. §1074 (b)

<sup>4</sup> Other rates that are not subject to voter approval (e.g. tuition, minor capital improvements) may be increased by the School District to meet annual demands, thus resulting in the effective tax rate for the School District.

<sup>5</sup> Same as footnote 1

fails to obtain a successful referendum before June 30, their project is removed from the Governor's Recommended Budget and not included in that year's Bond Bill.

The District's Board then has the "power to employ engineers, architects and such other employees as it deems essential..." for their construction project per 29 Del. C. §7521. All final plans and specifications, including costs of construction under any school construction bond authorization act are approved by the DOE.<sup>6</sup>

Depending on various factors (e.g., the total cost of the project, other projects within the State), the District will receive funding for their construction project over the course of several fiscal years. For each State bond sale, the District receives an aggregate allocation of funds and must pay back a portion of those funds with local tax receipts. The local share for each District in the State can vary between 20% and 40%,<sup>7</sup> depending on an assessment of the District's ability to meet their obligations.<sup>8</sup>

The District coordinates with the Office of the State Treasurer to pay the local share of their outstanding principal and interest payments in accordance with 14 Del. C. §2108. Annually, the Office of Auditor of Accounts audits the Districts' local tax collections and debt service management in a separate engagement. Further, this engagement examines all State and local construction project expenditures.

In the event the construction project comes in under budget, the District may request permission from the State legislature to redirect the State-funded portion of the excess budget amount to fund another project. The subsequent epilogue language in the Bond Bill dictates if the District must put forth local tax receipts and what sources of funding the District may use, such as Minor Capital Improvement funds. Since this is a result of Delaware law, the change does not require a referendum.

There are no legal or statutory provisions that would prohibit a District from utilizing excess funds for early repayment of its debt.

### **Maintenance of Records**

Districts should maintain all appropriate documentation related to their construction projects and related debt, including documents related to the referendum process, for audit purposes.

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<sup>6</sup> 29 Del. C. §7518

<sup>7</sup> 29 Del. C. §7503 (b)

<sup>8</sup> An Equalization Committee, as defined by 14 Del. C. §1707 (i), is comprised of 10 to 15 members appointed by the Secretary of DOE. The equalization formula (detailed in 14 Del. C. §1707) incorporates an annual survey conducted by the University of Delaware and is annually reviewed and approved by the Equalization Committee.

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## Independent Accountants' Report

Dr. Michael D. Thomas  
Superintendent  
Capital School District  
945 Forest Street  
Dover, Delaware 19904-3498

The Honorable Mark Murphy  
Secretary, Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, Delaware 19901

We have examined the accompanying State of Delaware Capital School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2014. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the District's *Schedule of Construction Projects* and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the *Schedule of Construction Projects* referred to above presents fairly, in all material respects, the construction projects for the District for the year ended June 30, 2014, based on the criteria set forth in the *Delaware Code, State of Delaware Generally Accepted Accounting Principles Reporting Package Manual*, the *State of Delaware Department of Education School Construction Technical Assistance Manual*, and the *State of Delaware Budget and Accounting Policy Manual*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of the District's internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* (internal control) and on our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of District management and Board Members, the Office of Auditor of Accounts, and the Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del. C., §10002(1), this report is 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, and Office of Management and Budget.

A handwritten signature in cursive script, appearing to read "Santora CPA Group", is written over a horizontal line.

October 14, 2014  
Newark, Delaware

**Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination Performed in Accordance With *Government Auditing Standards***

Dr. Michael D. Thomas  
Superintendent  
Capital School District  
945 Forest Street  
Dover, Delaware 19904-3498

The Honorable Mark Murphy  
Secretary, Department of Education  
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We have examined the accompanying State of Delaware Capital School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2014, and have issued our report thereon dated October 14, 2014. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our examination, we considered the District's internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* (internal control) as a basis for designing our procedures for the purpose of expressing our opinion on the *Schedule of Construction Projects*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's *Schedule of Construction Projects* will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiency described in the accompanying *Schedule of Current Year Findings* as finding 2014-1 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's *Schedule of Construction Projects* is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of *Schedule of Construction Projects* amounts. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, described in the accompanying *Schedule of Current Year Findings* as finding 2014-2.

The District's response to the findings identified in our examination is described in the accompanying *Schedule of Current Year Findings*. We did not audit the District's response, and accordingly, we express no opinion on it.

We noted certain matters that we reported to the management of the District in a separate letter dated October 14, 2014.

This report is intended solely for the information and use of District management and Board Members, the Office of Auditor of Accounts, and the Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del. C., §10002(1), this report is 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, and Office of Management and Budget.

A handwritten signature in cursive script, appearing to read "Sandra CRA Grady", is written over a horizontal line.

October 14, 2014  
Newark, Delaware

*Schedule of Construction Projects  
Fiscal Year Ended June 30, 2014*

Project Name	FY	APPR	Source of Funding (State/Local)	Original Funding	Increases (Decreases) in Funding	Total Funding to Date	Expended in Prior Years	Expended in Current Year	Total Expended to Date	Balance as of 6/30/14
New Dover High School	2011	50285	21/79	\$ 21,633,400	\$ -	\$ 21,633,400	\$ 21,359,832	\$ 182,490	\$ 21,542,322	\$ 91,078
	2012	99132	100/0	10,454,500	-	10,454,500	6,686,411	3,768,089	10,454,500	-
	2012	50285	63/37	44,214,400	-	44,214,400	29,775,445	10,944,445	40,719,890	3,494,510
	2013	50285	70/30	34,732,300	-	34,732,300	-	19,081,092	19,081,092	15,651,208
William Henry - Site Renovations	2012	50299	70/30	3,423,700	-	3,423,700	3,109,281	282,688	3,391,969	31,731
	2012	50376	70/30	279,800	-	279,800	181,490	33,380	214,870	64,930
	2012	50377	70/30	213,100	-	213,100	49,285	163,814	213,099	1
Maintenance Office	2011	50294	0/100	3,858,900	-	3,858,900	3,814,703	36,036	3,850,739	8,161
Professional Center/District Office	2011	50295	0/100	8,400,000	-	8,400,000	8,166,387	189,750	8,356,137	43,863
Kent County Community School	2014	50401	100/0	1,546,462	(76,000)	1,470,462	-	140,844	140,844	1,329,618
Central Middle School Renovations	2014	50409	100/0	818,822	76,000	894,822	-	91,869	91,869	802,953
Booker T. Washington Renovations	2014	50410	100/0	3,273,916	-	3,273,916	-	721,919	721,919	2,551,997
<b>Construction Projects Total</b>				<u>\$ 132,849,300</u>	<u>\$ -</u>	<u>\$ 132,849,300</u>	<u>\$ 73,142,834</u>	<u>\$ 35,636,416</u>	<u>\$ 108,779,250</u>	<u>\$ 24,070,050</u>

## Schedule of Current Year Findings June 30, 2014

### Finding 2014-1

#### *Criteria*

*Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, defines control activities as “policies and procedures that help ensure management directives are carried out.” Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents. Management review controls are defined as activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure.

#### *Condition*

The *Schedule of Construction Projects* prepared by the District did not properly present information as detailed below as of June 30, 2014:

- The 2013 Original Funding for the New Dover High School project (appropriation 50285) was reported as \$31,732,300. The correct Original Funding amount for this project is \$34,732,300.
- Original Funding for the Kent County Community School project (appropriation 50401) was reported as \$1,470,462 due to the improper inclusion of transfers totaling \$(76,000). Transfers should have been reported in the Increases (Decreases) in Funding column. The correct Original Funding for this project is \$1,546,462.
- Original Funding for the Central Middle School project (appropriation 50409) was reported as \$894,822 due to the improper inclusion of transfers totaling \$76,000. Transfers should have been reported in the Increases (Decreases) in Funding column. The correct Original Funding for this project is \$818,822.

Note: The *Schedule of Construction Projects* presented on page 5 of this report reflects the corrected balance for Original Funding and Increases (Decreases) in Funding columns.

#### *Cause*

The District did not provide proper oversight regarding the review of amounts included in the *Schedule of Construction Projects*.

#### *Effect*

The *Schedule of Construction Projects* was incomplete or reported inaccurate amounts for construction project activity for the District before the above adjustments were made.

***Recommendation***

We recommend that the District develop and implement a formal management review and reconciliation process for the *Schedule of Construction Projects*. This process should include steps to ensure that amounts presented in the *Schedule of Construction Projects* exist, are completely and accurately stated, and properly reconcile to supporting documentation (i.e., bond bills, First State Financials (FSF) reports, etc.). We further recommend that this process be documented in the District's written policies and procedures.

***District Response***

The District recognized that a typographical error occurred between the \$31,732,300 and the \$34,732,300 on the *Schedule of Construction Projects* report supplied to the auditors. Furthermore, although the District provided the correct final funding, it did not include the transfer between the Kent County Community School projects on the report. In order to alleviate the propensity for similar typographical discrepancies in the future, the District will institute a procedure whereby the *Schedule of Construction Projects* will be reviewed by an alternative employee to verify the work of the employee creating the *Schedule of Construction Projects*.

**Finding 2014-2*****Criteria***

The *State of Delaware Budget and Accounting Policy Manual* (BAM) Chapter 7, Section 7.5.2 states:

*"If a Purchase Order is supported by a contract, the contract number must be listed on the Purchase Order or Direct Claim voucher."*

***Condition***

During Fiscal Year 2014, the District processed 86 construction purchase orders with remaining balances totaling \$16,557,149 as of June 30, 2014. In testing a sample of 22 purchase orders totaling \$12,191,083 (remaining balances of \$2,324,801 as of June 30, 2014), we noted four purchase orders for \$4,687,819 (remaining balances of \$511,475 as of June 30, 2014) that did not have the related contract number listed on the purchase order document in FSF. However, the District does maintain internal paper copy purchase order documents; we verified that the paper copies did reference related contract numbers without exception.

***Cause***

Management failed to adhere to the purchase order approval requirements of the BAM Chapter 7, Section 7.5.2.

***Effect***

The District was not in compliance with the requirements of the BAM Chapter 7, Section 7.5.2. Lack of required contract number information on the face of the purchase order prevents a system user from verifying what contract is related to a purchase order.

***Recommendation***

We recommend that the District enhance their transaction review and approval process to ensure that all purchase orders supported by contracts have the contract number listed on the purchase order document to meet the requirements of the BAM Chapter 7, Section 7.5.2.

***District Response***

The District electronically attaches to all purchase orders in FSF, listing the contract number or State bid contract number. A system user could pull up the attachment to verify the contract number. However, more recently, the District has added the contract number in the comments section in FSF. Unfortunately, the purchase orders that were test sampled were older purchase orders that had been created prior to the District initiating the practice of adding contract numbers to the comments section in FSF. The District will continue to include the contract number in the comments section when entering purchase orders into FSF.