Santora CPA Group

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

Fiscal Year Ended June 30, 2015

Issuance Date: December 2, 2015

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.[1]

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.[2] 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. Vocational-Technical Districts are not subject to the referendum process. Instead, the Legislature approves these Districts' tax rates.[3]

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.[4] The estimated increase, however, is based on certain assumptions that are subject to change, such as the anticipated interest rate on new bonds.[5] 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.

[1] DOE's School Construction Manual, Section 2: Major Capital Improvement Program Regulations (http://facilitynet.doe.k12.de.us/schooldata/)
[2] 14 Del. C. §2122
[3] 14 Del. C. c. 26
[4] 14 Del. C. §1074 (b)
[5] Other rates that are not subject to voter approval (e.g., tuition, minor capital improvements) may be increased by the District to meet annual demands, thus resulting in the effective tax rate for the District.

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.[6] 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 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.[7]

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%,[8] depending on an assessment of the District's ability to meet their obligations.[9]

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 their 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.

[6] Same as footnote 1
[7] 29 Del. C. §7518
[8] 29 Del. C. §7503 (b)
[9] 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

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We have examined the accompanying State of Delaware Smyrna School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2015. 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, 2015, based on the criteria set forth in the *Delaware Code,* the *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 are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that could have a material effect on the *Schedule of Construction Projects*; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the *Schedule of Construction Projects* is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control applicable to preparing the *Schedule of Construction Projects* or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards,* included in the *Schedule of Current Year Findings* as Finding 2015-1.

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We noted certain matters that we reported to the management of the District in a separate letter dated October 1, 2015.

We did not examine the amounts reported in the Expended in Prior Years column on the *Schedule of Construction Projects* that were expended prior to July 1, 2010 and, therefore, express no opinion on those amounts.

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(l), 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.

Santora CPA Group

October 1, 2015
Newark, Delaware

Schedule of Construction Projects
Fiscal Year Ended June 30, 2015

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 6/30/15
Smyrna School District Roofing Projects	2012	50091	80/20	$ -	$ 1,703,730	$ 1,703,730	$ 531,090	$ 1,166,092	$ 1,697,182	$ 6,548
Smyrna High School	2010	50113	80/20	27,401,600	-	27,401,600	27,398,360	3,240	27,401,600	-
Sunnyside Elementary School	2007	50263	80/20	9,154,200	-	9,154,200	9,077,185	-	9,077,185	77,015
Clayton Intermediate School	2011	50297	80/20	17,966,575	(1,446,722)	16,519,853	12,874,776	334,507	13,209,283	3,310,570
Smyrna Elementary School Renovations	2015	50444	67/33	1,500,000	-	1,500,000	-	733,218	733,218	766,782
Clayton Elementary School Renovations	2015	50445	67/33	500,000	-	500,000	-	89,583	89,583	410,417
North Smyrna Elementary School Renovations	2015	50446	67/33	500,000	-	500,000	-	71,160	71,160	428,840
John Bassett Moore Renovations	2015	50447	67/33	250,000	-	250,000	-	55,683	55,683	194,317
Thomas D. Clayton Administration Building Renovations	2015	50448	67/33	1,000,000	-	1,000,000	-	25,965	25,965	974,035
Construction Projects Total				$ 58,272,375	$ 257,008	$ 58,529,383	$ 49,881,411	$ 2,479,448	$ 52,360,859	$ 6,168,524

Schedule of Current Year Findings
June 30, 2015

Finding 2015-1

Criteria

The following *State of Delaware Budget and Accounting Policy Manual (BAM)* requirements apply to construction files for new and completed projects:

New Projects

Guidance Reference	Requirement
BAM, Chapter 2, Section 2.4.3	4s. Construction files include letter of award.

Completed Projects

Guidance Reference	Requirement
BAM, Chapter 2, Section 2.4.3	4n. Construction files include guarantees and warranties.

Condition

The District did not maintain letter of award documentation in the John Bassett Moore Renovations (appropriation 50447) project construction file to demonstrate compliance with the provisions of BAM, Chapter 2, Section 2.4.3, as detailed above.

In addition, the District did not maintain guarantees and warranties documentation in the Clayton Intermediate School (appropriation 50297) project construction file to demonstrate compliance with the provisions of BAM, Chapter 2, Section 2.4.3, as detailed above.

Cause

Management of the District did not provide proper oversight in the maintenance of construction project files.

Effect

The District is not in compliance with the provisions of the BAM, as noted above.

Recommendation

We recommend that the District develop and implement a management review process (i.e., checklist) to ensure that all required documentation is maintained in construction project files to ensure compliance with the provisions of the BAM.

District Response

The District acknowledges that the referenced documentation was not present in the construction files. The District will prepare a checklist and perform an annual review to ensure the required documentation is collected.