

***Santora CPA Group***

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

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***Fiscal Year Ended June 30, 2016***

**Issued December 14, 2016**

## **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. Vocational-Technical Districts are not subject to the referendum process. Instead, the Legislature approves these Districts' tax rates.<sup>3</sup>

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>4</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>5</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.

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<sup>1</sup> DOE's School Construction Manual, Section 2: Major Capital Improvement Program Regulations (<http://www.doe.k12.de.us/Page/1828>)

<sup>2</sup> 14 Del. C. §2122

<sup>3</sup> 14 Del. C. c. 26

<sup>4</sup> 14 Del. C. §1074 (b)

<sup>5</sup> 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 of the State's Districts' construction projects to the Office of Management and Budget for approval and inclusion in the Governor's Recommended Budget.<sup>6</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 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>7</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>8</sup> depending on an assessment of the District's ability to meet their obligations.<sup>9</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 their debt.

### **Maintenance of Records**

The District 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> Same as footnote 1

<sup>7</sup> 29 Del. C. §7518

<sup>8</sup> 29 Del. C. §7503 (b)

<sup>9</sup> An Equalization Committee, as defined by 14 Del. C. §1707 (i), is comprised of 10 to 15 members appointed by the Secretary of the 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. D. Dusty Blakey  
Superintendent  
Colonial School District  
318 East Basin Road  
New Castle, Delaware 19720

The Honorable Steven H. Godowsky, Ed.D.  
Secretary, Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, Delaware 19901

We have examined the accompanying State of Delaware Colonial School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2016. 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.

As discussed in the *Schedule of Current Year Findings*, the District did not classify expenditures properly on the *Schedule of Construction Projects* in prior years, creating either an overstatement or understatement of expenditures by project. The District elected not to correct the balances resulting in the Expended in Prior Years column, the Total Expended to Date column and the corresponding Balance as of 6/30/16 column for the William Penn High School project (appropriation 50152) being overstated in the June 30, 2016 *Schedule of Construction Projects*.

In our opinion, the *Schedule of Construction Projects* referred to above does not present fairly, in all material respects, the construction projects for the District for the year ended June 30, 2016, 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. We consider the deficiency described in the accompanying *Schedule of Current Year Findings* as finding 2016-1 to be a material weakness. Our examination disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying *Schedule of Current Year Findings* as findings 2016-2 and 2016-3.

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 17, 2016  
Newark, Delaware

***Schedule of Construction Projects  
Fiscal Year Ended June 30, 2016***

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 6/30/16
George Read Middle School	2008	50124	67/33	\$ 6,047,300	\$ 2,406,575	\$ 8,453,875	\$ 8,453,875	\$ -	\$ 8,453,875	\$ -
William Penn High School (A)	2009	50152	67/33	10,674,200	620,000	11,294,200	10,418,173	507,619	10,925,792	368,408
Leach 9553	2010	50348	100/0	2,678,400	-	2,678,400	1,862,155	4,857	1,867,012	811,388
<b>Construction Projects Total</b>				<b>\$ 19,399,900</b>	<b>\$ 3,026,575</b>	<b>\$ 22,426,475</b>	<b>\$ 20,734,203</b>	<b>\$ 512,476</b>	<b>\$ 21,246,679</b>	<b>\$ 1,179,796</b>

(A) On May 10, 2011, a referendum was held to amend the Certificate of Necessity CN#0734 B-L related to the William Penn High School project, appropriation 50152. The amendment authorizes the District to use funds from this appropriation for: 1) HVAC projects in the gymnasiums at William Penn High School Gymnasium II, the middle schools, Eisenberg Elementary, and New Castle School; 2) a new boiler at George Read Middle; and 3) renovations of bathrooms and/or other miscellaneous projects. During the Fiscal Year Ended June 30, 2016, current year expenditures, included in the respective appropriation above, related to the following projects:

**Appropriation**Project

New Castle Elementary HVAC for Gymnasium	\$ 8,162
William Penn High HVAC for Gymnasium II	499,457
	<u>\$ 507,619</u>

## Schedule of Current Year Findings June 30, 2016

### Finding 2016-1

#### *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 are an integral part of any internal control structure.

#### *Condition*

The District does not have a formal management review or reconciliation process in place for the *Schedule of Construction Projects* to ensure that amounts presented exist, are completely and accurately stated, and properly reconcile to supporting documentation.

We further noted that the *Schedule of Construction Projects* prepared by the District did not properly present information, as detailed below:

- The District reported \$2,564,962 in Increases (Decreases) in Funding for the George Read Middle School project (appropriation 50124). The amount reported did not account for the \$158,387 in funds reverted to the State during the Fiscal Year. The correct Increases (Decreases) in Funding for this project are \$2,406,575. In addition, the District reported \$8,612,262 in Total Funding to Date, Expended in Prior Years, and Total Expended to Date for the George Read Middle School project (appropriation 50124). The amounts reported for each of these columns did not account for the \$158,387 in funds reverted to the State during the Fiscal Year. The correct Total Funding to Date, Expended in Prior Years, and Total Expended to Date for this project is \$8,453,875 for each column.
- The Total Expended to Date amounts for the William Penn High School (appropriation 50152) and Leach 9553 (appropriation 50348) projects were reported as \$0. The correct Total Expended to Date amounts are \$10,925,792 for the William Penn High School project and \$1,867,012 for the Leach 9553 project.
- The Expended in Prior Years column, the Total Expended to Date column and the corresponding Balance as of 6/30/16 column for the William Penn High School project (appropriation 50152) are overstated in the June 30, 2016 *Schedule of Construction Projects* (see Finding 2016-2).



*Note:* The *Schedule of Construction Projects* included on page 3 of this report reflects the corrected balance for Increases/Decreases in Funding, Total Funding to Date, and Total Expended to Date. Total Expended in Prior Years has been updated to agree to system reports and is correct in total; however, the District has not reported prior year expenditures, by project, accurately (see Finding 2016-2 for details).

***Cause***

The District did not provide proper oversight regarding the review of amounts included in the *Schedule of Construction Projects*. In addition, the District did not use reports from FSF and the prior accounting system in the preparation of the *Schedule of Construction Projects*; FSF reports do not include funding or expenditure information prior to the implementation of the system (July 2011).

***Effect***

Without formal review sign-offs (either on paper or electronically through e-mail), there was no evidence that the review process took place. Lack of a management review control or reconciliation process resulted in incomplete or inaccurate amounts being reported for construction project activity for the District.

***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, FSF reports, etc.).

We further recommend that this process be documented in the District's written policies and procedures, and that the District document the preparation and review of the *Schedule of Construction Projects* via sign-offs and dating by both the preparer and the reviewer to document the dates that the *Schedule of Construction Projects* was completed and reviewed/approved.

***District Response***

The District acknowledges that our procedure for completing the *Schedule of Construction Projects* spreadsheet needs to be enhanced to include a reconciliation and management review component. The District will add this step to our processes to ensure that the report is being completed accurately.

**Finding 2016-2*****Criteria***

29 Del. C. §6504 states:

*“Each agency shall keep a detailed account of all receipts and expenditures under such appropriate headings, classifications, and arrangements as may be prescribed by the Director of the OMB and used in the budget estimates. All bills, statements, letters, vouchers, and documents pertaining to these receipts and disbursements shall be preserved and systematically filed by each agency.”*

***Condition***

Although the District did not misclassify current year expenditures, the District did not correct the following errors found during the 2011 examination engagement in the *Schedule of Construction Projects* for the year ended June 30, 2016. As a result, the *Schedule of Construction Projects* for the year ended June 30, 2016 remains misstated for amounts Expended in Prior Years for the William Penn project (the only project still active in Fiscal Year 2016).

We identified several transactions in the 2011 examination engagement where the detail of project costs per the FSF voucher did not agree to the breakout of costs, by project, on supporting invoices. The misclassification led to the following projects being overstated and (understated) on the *Schedule of Construction Projects* for the year ended June 30, 2011:

Castle Hills	\$ (85,496.92)
Colwyck & Leach	(6,911.67)
Eisenberg	2,982.39
Gunning Bedford	(14,168.48)
McCullough	(34,860.00)
Pleasantville	110,806.09
William Penn	82,096.04

*Note: The William Penn project is the only project in the table above that is still an active project as of June 30, 2016. The other projects listed above were fully expended and closed out in prior Fiscal Years.*

***Cause***

The District did not comply with 29 Del. C. §6504, referenced above, to ensure an accurate, detailed account of all receipts and expenditures under such appropriate headings, classifications, and arrangements.

In Fiscal Year 2016, the District elected not to correct the balances, resulting in the Expended in Prior Years column, the Total Expended to Date column, and the corresponding Balance as of 6/30/16 column for the above project being overstated in the June 30, 2016 *Schedule of Construction Projects*.

***Effect***

The District is not in compliance with the Delaware Code, as noted above. Expenditures were not classified properly on the *Schedule of Construction Projects*, creating either an overstatement or understatement of expenditures by project.

***Recommendation***

The District should ensure that all expenditures are appropriately classified by project, as processed in FSF and reflected on the *Schedule of Construction Projects*.

***District Response***

The *Schedule of Construction Projects* was completed in accordance with the directions. This finding continues to reference expenses from Fiscal Year 2011. Below is the response issued by the District during the Fiscal Year 2012 examination, which continues to be relevant given the continued finding:

*"...The District reconciled all multi-school projects, and all projects are correctly charged on a cumulative basis as of June 30, 2012. In addition, the District ensures, through a formal review process, that all invoices are properly coded to the appropriate project(s)."*

***Auditor Comment***

The issue regarding the accuracy of expenditures, by project, will remain until all existing project appropriations are fully expended and closed out. The District has worked to ensure that, from Fiscal Year 2012 forward, invoices are properly coded to projects.

**Finding 2016-3*****Criteria***

The *State of Delaware Department of Education School Construction Technical Assistance Manual* (SCM) 2.0, Section 7.2 and 7.2.1 states:

*"7.2 All Change Orders must be agreed upon by the architect, the school district and the contractor and shall be forwarded to the Department of Education along with the purchase order.*

*7.2.1 Submission of a Change Order must include the following documents: 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."*

***Condition***

During Fiscal Year 2016, the District processed two construction change orders totaling \$8,192. We tested 100% of change orders for the Fiscal Year, noting neither of the change orders had been presented to, or approved by, the District's local Board of Education, as required by SCM 2.0, Section 7.2.1.

***Cause***

Management failed to adhere to the provisions of the SCM; change orders are not reviewed or approved in the District's local Board of Education meetings.

***Effect***

The District is not in compliance with the requirements of the SCM, as noted above. Unauthorized change orders could be processed. There is no local Board of Education approval trail to support the validity and propriety of approved change orders.

***Recommendation***

We recommend that the District present change orders to its local Board of Education on a monthly basis, and include documentation of the Board's review and approval of change orders in the monthly Board minutes.

***District Response***

Regarding purchase order 0000315065 for I.D. Griffith, the District acknowledges that this change order was not approved by the Board. This was an oversight, and the District is committed to taking steps to further refine our processes to ensure future compliance.

Regarding purchase order 0000242553 for Tetra Tech, the signed proposal from Tetra Tech dated March 17, 2014 that was attached to the change order clearly allows for reimbursable expenses and allowances. The District believes that since this contractual agreement was approved by the Board, the District did not need to resubmit the change order for reimbursable expenses and allowances back to the Board for approval. Furthermore, Section 7.1 of the State of Delaware Department of Education School Construction Technical Assistance Manual states, "Change Orders are changes in the construction contract negotiated with the contractor. The main purpose is to correct design omissions, faults of unforeseen circumstances which arise during the construction process." The change order in question does not meet the criteria as stated in this section; it was only necessary to encumber the funds necessary to meet the contractual obligations as laid out in the March 17, 2014 Tetra Tech contract.