

Santora CPA Group

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

Fiscal Year Ended June 30, 2014

Report Issued: October 8, 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.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.

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.³ The estimated increase, however, is based on certain assumptions that are subject to change, such as the anticipated interest rate on new bonds.⁴ 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.⁵ 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

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. §1074 (b)

⁴ 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.

⁵ 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.⁶

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%,⁷ depending on an assessment of the District's ability to meet their obligations.⁸

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.

⁶ 29 Del. C. §7518

⁷ 29 Del. C. §7503 (b)

⁸ 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. Deborah H. Zych
Superintendent
Polytech School District
P.O. Box 22
823 Walnut Shade Road
Woodside, Delaware 19980-0022

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

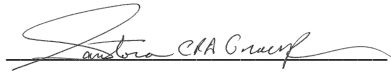
We have examined the accompanying State of Delaware Polytech School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2014. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on 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 September 30, 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 black ink, appearing to read "Sandra C. A. Grun", written over a horizontal line.

September 30, 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. Deborah H. Zych
Superintendent
Polytech School District
P.O. Box 22
823 Walnut Shade Road
Woodside, Delaware 19980-0022

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 Polytech School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2014, and have issued our report thereon dated September 30, 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.

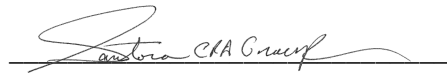
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's *Schedule of Construction Projects* for the year ended June 30, 2014 is free from material misstatements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding 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 September 30, 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.



September 30, 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
Polytech Additions / Renovations	2012	50391	75/25	\$ 11,758,500	\$ -	\$ 11,758,500	\$ 6,122,139	\$ 4,845,200	\$ 10,967,339	\$ 791,161
	2013	50391	75/25	11,758,500	-	11,758,500	2,662,128	7,747,575	10,409,703	1,348,797
	2014	50391	75/25	<u>5,879,300</u>	<u>-</u>	<u>5,879,300</u>	<u>-</u>	<u>2,394,369</u>	<u>2,394,369</u>	<u>3,484,931</u>
Construction Projects Total				<u>\$ 29,396,300</u>	<u>\$ -</u>	<u>\$ 29,396,300</u>	<u>\$ 8,784,267</u>	<u>\$ 14,987,144</u>	<u>\$ 23,771,411</u>	<u>\$ 5,624,889</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

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

In addition, the *Schedule of Construction Projects* is currently prepared and reviewed by the same person.

Cause

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

Effect

Although the *Schedule of Construction Projects* was completely and accurately stated, lack of a management review control or reconciliation process and lack of segregation of duties may result 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, First State Financials (FSF) reports, etc.). We further recommend that this process be documented in the District’s written policies and procedures.

District Response

As indicated as part of the finding, the *Schedule of Construction Projects* report was accurate in all respects. While the report in question simply involves the transferring of year-end figures obtained from FSF and populating these figures into the *Schedule of Construction Projects* report requested by the Office of Auditor of Accounts, the District will ensure that future reports are reviewed by at least two staff members prior to their completion and submission. This requirement will be referenced in the District's internal control procedures.