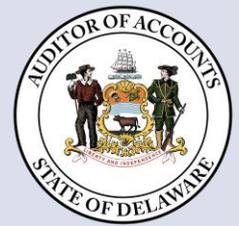


LAUREL SCHOOL DISTRICT

STATEWIDE SCHOOL DISTRICT
CONSTRUCTION ENGAGEMENT
FOR FISCAL YEAR ENDED JUNE 30, 2020

Report Summary

Laurel School District Statewide School District Construction Engagement For Fiscal Year Ended June 30, 2020



What Was Performed?

An examination engagement of the Laurel School District Schedule of Construction Projects to determine whether it is in accordance with the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual, and the State of Delaware Budget and Accounting Policy Manual.

Why This Engagement?

In accordance with 29 Del. C. §7526, the State Auditor is mandated to conduct post-audits of any school construction improvement authorized by a school construction bond authorization act. This engagement was performed to examine financial data, recordkeeping and reports generated by the school district and related to Bond Bill construction projects.

Since fiscal year 2013, state and local funding for Laurel School District totaled \$48 million in construction appropriations, including \$1.7 million expended in FY2020. Our responsibility is to obtain reasonable assurance by evaluating the Schedule of Construction Projects against the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual, and the State of Delaware Budget and Accounting Policy Manual and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation.

What Was Found?

We have examined the Laurel School District's financial data, recordkeeping and reports related to its Schedule of Construction Projects for the fiscal year ended June 30, 2020 to determine whether the district's Capital Budget process was in accordance with the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual and the State of Delaware Budget and Accounting Policy Manual.

This engagement contained 2 findings on the Schedule of Construction Projects for Laurel School District as stated below:

During our testing of internal control framework, we were not provided evidence of management review of the Schedule of School Construction. Additionally, information was not presented properly as listed:

- Schedule of Construction erroneously omitted \$1,662,933 in CY expenditures for appropriation 50394
- Schedule of Construction original funding amount was inaccurately reported on the FY2013 appropriation 50394.

In addition, the district did not provide all required documents from the construction files for review as required by the Budget and Accounting Manual (BAM), Chapter 13, Section 13.10.2

The Laurel School Districts' Statewide Construction Projects Examination Engagement can be found on our website: [Click Here](#)

For any questions regarding the attached report, please contact OAOA_Comms@delaware.gov.

\$ 46.74M	TOTAL: \$ 47,972,069	\$ 1.24M
EXPENDED TO DATE		BALANCE



THE CHART BELOW OUTLINES TOTALS BY SCHOOL DISTRICT ACCORDING TO THE SCHEDULE OF CONSTRUCTION PROJECTS OF EACH DISTRICT TESTED IN THIS YEAR'S EXAMINATION

School District	Total Funding to Date	Total Expended to Date	Balance as of 06/30/2020
Appoquinimink	\$ 200,925,046	\$ 147,669,519	\$ 53,255,527
Brandywine	\$ 46,963,667	\$ 40,793,389	\$ 6,170,278
Caesar Rodney	\$ 96,878,776	\$ 72,126,538	\$ 24,752,238
Cape Henlopen	\$ 149,121,389	\$ 119,242,967	\$ 29,878,422
Capital	\$ 53,090,675	\$ 36,715,563	\$ 16,375,112
Christina	\$ 17,911,770	\$ 4,339,195	\$ 13,572,575
Delmar	\$ 4,103,900	\$ 4,103,900	-
Indian River	\$ 33,471,585	\$ 1,953,121	\$ 31,518,464
Lake Forest	\$ 4,727,932	\$ 4,673,624	\$ 54,308
Laurel	\$ 47,972,069	\$ 46,737,001	\$ 1,235,068
NCC Vo-Tech	\$ 73,585,500	\$ 69,495,280	\$ 4,090,220
Red Clay	\$ 14,866,223	\$ 14,712,236	\$ 153,987
Smyrna	\$ 6,303,668	\$ 6,090,953	\$ 212,715

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 (the District) identifies the need for a construction project and receives approval from its local Board of Education (the Board), it submits a request for Certificate of Necessity 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 late October of each fiscal year, which authorizes the construction project and details the scope and cost limits for the project.¹

The DOE calculates the amount of the State of Delaware (the 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 its 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 Technical Assistance Manual, Section 1.10, *Summary of Steps in the Major Capital Improvement Process*

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 its 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, its 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 its 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 its 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,⁸ depending on an assessment of the District's ability to meet its obligations. ⁹

The District coordinates with the Office of the State Treasurer to pay the local share of its 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 Bond Bill 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

The District should maintain all appropriate documentation related to its 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 (j), 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 ACCOUNTANT'S REPORT

Dr. Shawn Larrimore
Superintendent
Laurel School District
1160 South Central Avenue
Laurel, Delaware 19956

The Honorable Mark A. Holodick, Ed.D.
Secretary, Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, Delaware 19901

We have examined the accompanying State of Delaware Laurel School District (the District) Schedule of Construction Projects for the fiscal year ended June 30, 2020 to determine whether it is in accordance with the criteria set forth in the Delaware Code, the State of Delaware Department of Education School Construction Technical Assistance Manual (SCM), and the State of Delaware Budget and Accounting Policy Manual (BAM). The District's management is responsible for the presentation of the Schedule of Construction Projects in accordance with the criteria set forth in the Delaware Code, the SCM, and the BAM. Our responsibility is to obtain reasonable assurance by evaluating the Schedule of Construction Projects against the criteria set forth in the Delaware Code, the SCM, and the BAM and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation based on our examination.

Our examination was conducted in accordance with the attestation standards for a direct examination engagement 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. Those standards require that we obtain reasonable assurance by evaluating the District's presentation of the Schedule of Construction Projects for the fiscal year ended June 30, 2020 against the criteria set forth in the Delaware Code, the SCM, and the BAM and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation of the District's presentation of the Schedule of Construction Projects for the fiscal year ended June 30, 2020. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks that the District's Schedule of Construction Projects was not in accordance with the criteria set forth in the Delaware Code, the SCM, and the BAM in all material respects, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our examination engagement.

In our opinion, the District's Schedule of Construction Projects for the fiscal year ended June 30, 2020 presents fairly, in all material respects, based on the criteria set forth in the Delaware Code, the SCM, and the BAM.

Dr. Larrimore
Laurel School District

The amounts reported in the Expended in Prior Years column of the Schedule of Construction Projects contain expenditures incurred prior to July 1, 2019 that were examined by other accountants. The fiscal year ended June 30, 2019 report dated July 26, 2021, expressed an unmodified opinion on the Schedule of Construction Projects. As a result, we did not examine the amounts reported in the Expended in Prior Years column of the Schedule of Construction Projects for the fiscal year ended June 30, 2020 and, therefore, express no opinion on it.

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 have a material effect on the District's 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 District's 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 District's 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 2020-1 to be a significant deficiency. Our examination also disclosed one instance of noncompliance or other matter described in the accompanying Schedule of Current Year Findings as Finding 2020-2 that is required to be reported under *Government Auditing Standards*.

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

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, 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, General Assembly, Office of the Attorney General, and Office of Management and Budget.


BARBACANE, THORNTON & COMPANY LLP

Wilmington, Delaware
October 7, 2022

**SCHEDULE OF CONSTRUCTION PROJECTS
FISCAL YEAR ENDED JUNE 30, 2020**

Project Name	FY	APPR	Source of Funding (State/Local)	Original Funding Amount	Increases (Decreases) in Funding	Total Funding to Date	Expended in Prior Years	Expended in Current Year	Total Expended to Date	Balance as of 6/30/2020
Construction 1200 Student Elementary	2013	50394	76/24	\$ 8,722,500	\$ -	\$ 8,722,500	\$ 8,011,853	\$ 2,509	\$ 8,014,362	\$ 708,138
Construction 1200 Student Elementary	2014	50394	76/24	17,445,000	-	17,445,000	17,244,849	168,905	17,413,754	31,246
Construction 1200 Student Elementary	2015	50394	76/24	17,445,100	4,359,469	21,804,569	19,816,605	1,492,280	21,308,885	495,684
Construction Projects Total				\$ 43,612,600	\$ 4,359,469	\$ 47,972,069	\$ 45,073,307	\$ 1,663,694	\$ 46,737,001	\$ 1,235,068

SCHEDULE OF CURRENT YEAR FINDINGS JUNE 30, 2020

Finding 2020-1

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

We were not provided evidence of management review of the Schedule of Construction Projects as required by Laurel School District internal controls.

In addition, the Schedule of Construction Projects prepared by the District did not properly present information, as detailed below:

- The Schedule of Construction Projects erroneously omitted \$1,662,933 in current year expenditures for appropriation 50394 (Construction 1200 Student Elementary).
- The Schedule of Construction Projects inaccurately reported the FY 2013 original funding amount for appropriation 50394 (Construction 1200 Student Elementary) at \$7,378,137. The correct original funding amount was \$8,722,500.

Note: The Schedule of Construction Projects included on page 3 on this report reflects the corrected Expended in Prior Years amounts for this project.

Cause

Management of 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 not accurately presented.

Recommendation

We recommend that the District develop and implement a management review process to ensure accurate representation of the financial data within the Schedule of Construction Projects.

District's Response

The District agrees with the recommendation and will develop an internal review process of the Schedule of Construction Projects. This review will ensure that the information presented in the schedule is accurate and complete.

Finding 2020-2**Criteria**

The State of Delaware Budget and Accounting Policy Manual (BAM) Chapter 13, Section 13.10.2 states:

"Follow the procedures to effectively manage and control the use of funds allocated to construction projects in State Organizations. Keep all paper documents pertaining to construction separate and apart from all other General or Special Fund accounts. All projects within any given year's program should have a separate, well-identified file.

Establish a centrally located Construction File, external to State's financial management and accounting system, to include, but not necessarily be limited to, the following:

1. *Copy of authorizing legislation for construction and a copy of any supplemental legislation affecting construction programs.*
2. *Copy of major capital improvement planning budget, as approved by the Delaware Economic Development Office, the State Architect, and the General Assembly.*
3. *Construction plans and specifications for projects covered by the Architectural Accessibility Act (29 Del. C., c73) must be submitted to the State Architectural Accessibility Board for review and approval prior to the start of construction. Construction and renovation projects funded through the Capital Improvement Program, General Fund (GF) operational monies, or through bonds guaranteed in whole or in part by the State of Delaware fall within the purview of this Act.*
4. *Paper files and additional supporting documentation for each individual project to be retained include:*
 - a. *Division of Facilities Management Review and Approval;*
 - b. *Architectural Accessibility Board Review and Approval;*
 - c. *Professional Services Contract;*
 - d. *Legal Determinations;*
 - e. *Construction Contract;*

- f. Performance, Labor, and Material Bonds;*
- g. Contractors' Insurance Certificates are current by the expiration date, if a job is still in progress at such expiration date;*
- h. Purchase Orders, Payment Vouchers, and Books of Account, including any Department of Technology and Information reports, ledgers, or any other type of accounts used and any significant backup;*
- i. Change Orders, including any significant backup;*
- j. Job Meeting Minutes of any board, commission, committee, etc., having to do with planning, approving, or authorizing use of construction monies, if such entities exist;*
- k. Correspondence Detailing Significant Project Activities;*
- l. Certificate (Substantial Completion) and Permits (Building, Occupancy), including County or Regulatory Organization Signoffs;*
- m. Release of Liens and Affidavit of Contractor's Payment of Indebtedness;*
- n. Guarantees and Warranties;*
- o. Liquidated Damage Assessment;*
- p. Instructions to Bidders and Job Specifications;*
- q. Bidders' Proposal;*
- r. Subcontractors' Listing;*
- s. Letter of Award;*
- t. Project-Related Shop Drawings;*
- u. Code or Specification Required Certificates, Reports, Permits, or Inspections (Concrete, Geotech, Steel, etc.); and*
- v. Special Reports (Engineering, Cost Analysis)."*

Condition

In reviewing the construction file for 1200 Student Elementary, the following documents were not provided by the District and were not available in the construction file for review:

- Professional Services Contract,
- Release of Liens and Affidavit of Contractor's Payment of Indebtedness,

- Guarantees and Warranties,
- Instructions to Bidders and Job Specifications,
- Letter of Award, and
- Special Reports (Engineering, Cost Analysis).

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 requirements of the BAM, as described above.

Recommendation

We recommend that the District review all current construction projects for completeness of required documents, obtain and incorporate any omitted documents, and develop and implement a management review process (i.e. checklist) to ensure all required documentation is maintained in construction project files to ensure compliance with the provisions of the BAM.

District's Response

The District agrees with the recommendation and will develop a management review process to ensure that all required documentation is maintained in the construction project files.