

Santora CPA Group

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

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.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. Allen Lathbury, Jr.
Superintendent
Sussex Technical School District
P.O. Box 351
17137 County Seat Highway
Georgetown, Delaware 19947

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 Sussex Technical 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 black ink, appearing to read "Sandra CRA Gracy", with a horizontal line underneath the text.

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. Allen Lathbury, Jr.
Superintendent
Sussex Technical School District
P.O. Box 351
17137 County Seat Highway
Georgetown, Delaware 19947

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 Sussex Technical 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 no instances of noncompliance or other matters that are 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 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 Gracy", with a horizontal line underneath.

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
Sussex Tech Bus Entrance Renovation	2012	50387	60/40	\$ 2,709,900	\$ -	\$ 2,709,900	\$ 838,566	\$ 1,800,193	\$ 2,638,759	\$ 71,141
Sussex Technical High School HVAC Renovations	2012	50388	60/40	1,350,000	-	1,350,000	419,443	431,896	851,339	498,661
	2013	50388	60/40	4,050,000	-	4,050,000	-	16,998	16,998	4,033,002
	2014	50388	60/40	1,350,000	-	1,350,000	-	-	-	1,350,000
Sussex Technical High School Instructional Shop Renovation	2013	50395	60/40	3,415,800	-	3,415,800	6,766	1,502,648	1,509,414	1,906,386
	2014	50395	60/40	3,415,800	-	3,415,800	-	-	-	3,415,800
District Office Renovation	2014	50407	60/40	983,700	-	983,700	-	-	-	983,700
Sussex Technical High School Renovations	2012	50283	60/40	1,912,500	-	1,912,500	1,848,042	64,458	1,912,500	-
Construction Projects Total				\$ 19,187,700	\$ -	\$ 19,187,700	\$ 3,112,817	\$ 3,816,193	\$ 6,929,010	\$ 12,258,690

**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 the District has a management review process regarding the *Schedule of Construction Projects*, the process is not documented in written District policies and procedures and the review control was not effective to ensure the completeness and accuracy of the amounts reported in the *Schedule of Construction Projects*.

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

- The District reported a total remaining project balance of \$10,575,152 in the Balance as of 6/30/14 column. The amount reported by the District improperly excluded encumbrances of \$1,683,538, causing the Balance as of 6/30/14 column in the District-prepared *Schedule of Construction Projects* to be understated by this amount. The correct total for the Balance as of 6/30/14 column is \$12,258,690.

Note: The *Schedule of Construction Projects* presented on page 5 of this report reflects the corrected balance for the Balance as of 6/30/14 column.

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* reported inaccurate amounts for construction project remaining balances for the District before the above adjustments were made.

Recommendation

We recommend that the District enhance their 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.). In addition, we recommend that the District enhance its current written policies and procedures by adding documentation of the preparation and review process for the *Schedule of Construction Projects*.

District Response

Policy and procedures have been drafted and reviewed by management on the process of completing the *Schedule of Construction Projects* report. A copy of this draft document was provided to the auditors on October 29, 2014.

The error occurred due to an oversight during the transfer of the numbers when completing the Excel worksheet. Unfortunately, the encumbrance numbers were added in a column at the end of the worksheet, but were overlooked when finalizing the report and bringing the final numbers in the last column.

The report has been corrected to reflect the correct numbers, and a revised copy has been sent to the Office of Auditor of Accounts.

The District will apply the policy and procedures for all future reporting and will ensure that management reviews the report and signs off with approval before submission.