

# APPOQUINIMINK SCHOOL DISTRICT

## Statewide School District Construction

Fiscal Year Ended June 30, 2019



**Kathleen K. McGuinness, RPh, CFE**  
**Delaware State Auditor**

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## *School Construction: Appoquinimink School District*

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**What Was Performed?** An examination of the Appoquinimink School District's Schedule of Construction Projects for Fiscal Year Ended June 30, 2019.

**Why This Engagement?** School construction examination engagements, which are mandated by Delaware Code, are performed to determine compliance with *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 was performed in accordance with 29 Del. C. §7526 and examines Bond Bill construction project expenditures incurred by the school district.

**What Was Found?** It is my pleasure to report this engagement contained an unmodified opinion.<sup>1</sup> Our examination did disclose two findings required to be reported under *Government Auditing Standards*:

- Of the 29 construction purchase orders we sampled, 15 of them – totaling \$34,176,340 – did not contain the Facilities Manager's signature.
- The district did not properly document \$9,245,875 for the Fairview Campus: Cantwell's Bridge Middle School and Odessa High School projects on its Schedule of Construction Projects.

The Fiscal Year Ended June 30, 2019 Statewide School Districts' Construction Projects Examination Engagements for Appoquinimink School District can be found on our website: [click here](#).

Please do not reply to this email. For any questions regarding the attached report, please contact State Auditor Kathleen McGuinness at [Kathleen.Mcguinness@delaware.gov](mailto:Kathleen.Mcguinness@delaware.gov).

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<sup>1</sup> An unmodified opinion is sometimes referred to as a "clean" opinion. It is one in which the auditor expresses an opinion that the referenced schedule(s) present fairly, in all material respects, the information based on established criteria as stated in the audit report.

## **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 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 late October of each fiscal year, 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 (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.<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 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.

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<sup>1</sup> DOE's School Construction Technical Assistance Manual, Section 1.10, *Summary of Steps in the Major Capital Improvement Process*

<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 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.<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, 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.<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 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 between 20% and 40%<sup>8</sup>, depending on an assessment of the District's ability to meet its obligations.<sup>9</sup>

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.

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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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Abbreviations:

<b>OAOA</b>	Office of Auditor of Accounts
<b>FSF</b>	First State Financials
<b>BAM</b>	<i>State of Delaware Budget and Accounting Policy Manual</i>
<b>SCM</b>	<i>State of Delaware Department of Education School Construction Technical Assistance Manual</i>

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The Delaware State Auditor serves Delawareans by ensuring accountability in the use of taxpayer dollars to identify fraud, waste and abuse through independent assessments, including the use of various audits, special reports and investigations of financial operations, performance management and statutory compliance of state government and to evaluate economy, efficiency and effectiveness.

For further information on this release please contact:

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**State of Delaware**  
**Office of Auditor of Accounts**  
**Kathleen K. McGuiness, RPh, CFE**  
**State Auditor**

**Independent Accountants' Report**

Dr. Matthew Burrows  
Superintendent  
Appoquinimink School District  
118 South Sixth St.  
Odessa, Delaware 19730

The Honorable Susan S. Bunting, Ed.D.  
Secretary, Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, Delaware 19901

We have examined the accompanying State of Delaware Appoquinimink School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2019 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 above. Our responsibility is to express an opinion on the *Schedule of Construction Projects* 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the *Schedule of Construction Projects* is in accordance with the criteria listed above, in all material respects. An examination involves performing procedures to obtain evidence about the *Schedule of Construction Projects*. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the *Schedule of Construction Projects*, 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.

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, 2019, based on the criteria set forth in the *Delaware Code*, the SCM, and the BAM.

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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 deficiencies described in the accompanying *Schedule of Current Year Findings* as Finding 2019-1 to be a material weakness and 2019-2 to be a significant deficiency. Our examination 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.

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. Under 29 Del. C., §10002(1), this report is public record and its distribution is not limited.



Kathleen K. McGuinness, RPh, CFE  
State Auditor

Dover, Delaware  
December 11, 2020

*Schedule of Construction Projects  
Fiscal Year Ended June 30, 2019*

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 6/30/19
Fairview Campus: Cantwell's Bridge Middle School and Odessa High School	2018	25391	(100/0)	\$ -	\$ 2,215,791	\$ 2,215,791	\$ 1,488,787	\$ 577,875	\$ 2,066,662	\$ 149,129
	2019	25391	(100/0)	-	1,919,030	1,919,030	-	280,576	280,576	1,638,454
	2018	50480	(35/65)	25,367,943	-	25,367,943	5,779,853	18,308,640	24,088,493	1,279,450
	2019	50480	(71/29)	52,153,932	-	52,153,932	-	25,525,917	25,525,917	26,628,015
	2018	59946	(100/0)	3,416,266	-	3,416,266	-	1,555,937	1,555,937	1,860,329
	2019	50187	(75/25)	-	9,245,875	9,245,875	-	2,647,303	2,647,303	6,598,572
Lorewood Grove Elementary School	2018	50478	(63/37)	8,952,812	-	8,952,812	2,529,196	6,233,173	8,762,369	190,443
	2019	50478	(78/22)	14,978,200	-	14,978,200	-	8,215,887	8,215,887	6,762,313
	2018	59947	(100/0)	6,972,197	-	6,972,197	2,185,261	4,181,844	6,367,105	605,092
Replace Everett Meredith Middle School	2019	50484	(50/50)	5,000,000	-	5,000,000	-	1,149,402	1,149,402	3,850,598
Renovate Silver Lake Elementary School	2019	50486	(41/59)	3,000,000	-	3,000,000	-	1,152,365	1,152,365	1,847,635
<b>Construction Projects Total</b>				<b>\$ 119,841,350</b>	<b>\$ 13,380,696</b>	<b>\$ 133,222,046</b>	<b>\$ 11,983,097</b>	<b>\$ 69,828,919</b>	<b>\$ 81,812,016</b>	<b>\$ 51,410,030</b>

**Schedule of Current Year Findings  
June 30, 2019**

**Finding 2019-1**

***Criteria***

Internal Control – The State of Delaware Budget and Accounting Manual, Section 2.1 defines internal control as a process affected by an Organization’s oversight body, management and other personnel that provides reasonable assurance that the objectives of an Organization will be achieved. One of the categories encompassing the objectives and related risks is reporting and the assurance of reliability of reporting for both internal and external use.

***Condition***

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

The *Schedule of Construction Projects* erroneously omitted appropriation 50187 (\$9,245,875), along with the appropriation’s financial activity from the Fairview Campus: Cantwell's Bridge Middle School and Odessa High School project.

Note: The *Schedule of Construction Projects* included on page 3 of this report reflects the corrected list of appropriations and associated funds.

***Cause***

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

***Effect***

The management review control was not effective to ensure that the *Schedule of Construction Projects* was completely and accurately stated.

***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 Response***

The Appoquinimink School District acknowledges the fact that this mistake occurred and was omitted. The reason for the omission was due to a complicated set of circumstances regarding a shifting of funding requested by OMB several years earlier that was not discovered by Director of Finance until after the Schedule had been prepared and submitted. The circumstances related back to 2017 when the State of Delaware was going through some budget cuts. OMB reached out to ASD and an agreement on major capital project funding was reached in which ASD would pay a larger share in the early years on projects

and the State would pay larger shares on the back end. The new Finance Director was not aware of the plan till midway into FY 19, at which point a revised Schedule of Construction Projects should have been submitted to correct the oversight.

In an effort to correct this type of issue, our Annual Budget includes a breakdown of all major capital projects with the State and Local breakout. This allows for the public to see our funding and allows the District to notate any types of deviations from a standard 75/25 split with the State.

**Finding 2019-2**

***Criteria***

The District represented that the Facilities Manager, Superintendent, and a representative from the construction management firm meet and approve Purchase Orders prior to board approval. A copy of the AIA approved contract, as applicable, is reviewed and initialed by the Facilities Manager and the Construction Manager.

***Condition***

During Fiscal Year 2019, the District processed 120 construction purchase orders totaling \$89,447,631. In our sample of 29 purchase orders, totaling \$34,577,730, 15 purchase orders, totaling \$34,176,340, lacked evidence of the Facilities Manager’s review and approval.

***Cause***

The District’s Supervisor of Facilities Management did not provide proper oversight regarding the review and approval of all purchase orders. These two documents were inadvertently missed by management and did not receive the proper approval.

***Effect***

The potential effect of processing purchase orders without the Facilities Manager’s review and approval is wasteful or unauthorized expenditure of the State of Delaware’s resources

***Recommendation***

We recommend that the District adopt a management review process to ensure the Facilities Manager’s review and approval is documented in accordance with District policy prior to endorsement and submission for Board approval.

***District Response***

The Appoquinimink School District acknowledges that the current procedures the District provided indicates the Facilities Manager would initial or sign to indicate approval. The Facilities Manager does review all purchase orders, and then presents them to the School Board with a recommendation of approval, and is prepared to answer any questions the Board members may have. While we thought this was an implied review and approval, we understand that we need to change our process to align with our procedures. The Facilities Manager does not bring any purchase order or contract to the Board for approval unless he has reviewed and fully understands the PO or contract, and going forward, the District will ensure that there is a signed proof of this fact.