

Santora CPA Group

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

Fiscal Year Ended June 30, 2012

Issued: March 1, 2013

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Independent Accountants' Report

Dorothy A. Linn, Ed.D.
Superintendent
Colonial School District
318 East Basin Road
New Castle, Delaware 19720-4214

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 Colonial School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2012. 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.

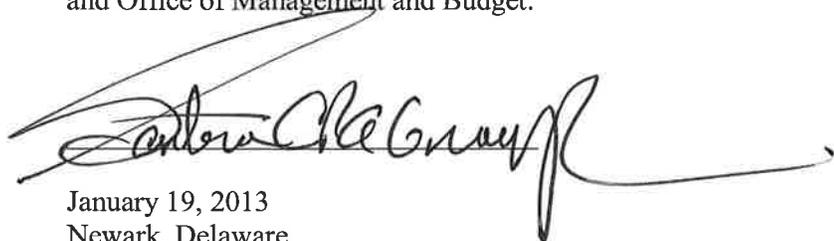
As discussed in the *Schedule of Current Year Findings*, the District is not classifying expenditures properly on the *Schedule of Construction Projects*, creating either an overstatement or understatement of expenditures by project. As a result, the amounts reported in the Expended in Current Year column are correct in total, but not accurately stated by project.

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, 2012, 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 January 19, 2013, 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.

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., Section 10002(d), 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 "Andrew R. Grady", with a long horizontal flourish extending to the right.

January 19, 2013
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

Dorothy A. Linn, Ed.D.
Superintendent
Colonial School District
318 East Basin Road
New Castle, Delaware 19720-4214

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 Colonial School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2012, and have issued our report thereon dated January 19, 2013. 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 (internal control) applicable to preparing the *Schedule of Construction Projects* 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 over financial reporting applicable to preparing the *Schedule of Construction Projects*. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting applicable to preparing the *Schedule of Construction Projects*.

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 over financial reporting applicable to preparing the *Schedule of Construction Projects* was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiency described in the accompanying *Schedule of Current Year Findings* as finding 2012-1 to be a material weakness.

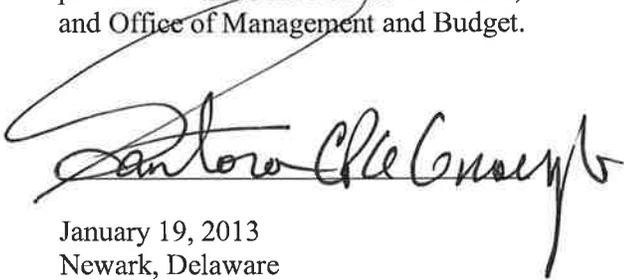
Compliance and Other Matters

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 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 2012-1, 2012-2, and 2012-3.

The District's response to the findings identified in our examination are 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 management of the District in a separate letter dated January 19, 2013.

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., Section 10002(d), 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.



January 19, 2013
Newark, Delaware

Schedule of Construction Projects
Fiscal Year Ended June 30, 2012

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 6/30/12
Colwyck Elementary	2011	50111	67/33	\$ 4,499,000	\$ (3,200,000)	\$ 1,299,000	\$ 1,276,833	\$ 16,122	\$ 1,292,955	\$ 6,045
New Castle Middle	2010	50115	67/33	5,472,400	(1,822,565)	3,649,835	3,635,008	-	3,635,008	14,827
George Read	2008	50124	67/33	6,047,300	2,564,962	8,612,262	5,077,086	629,652	5,706,738	2,905,524
William Penn	2009	50152	67/33	10,674,200	620,000	11,294,200	10,382,542	20,219	10,402,761	891,439
McCullough	2008	50160	67/33	5,143,600	(92,511)	5,051,089	4,727,965	323,124	5,051,089	-
Castle Hills	2010	50342	67/33	4,059,700	1,376,119	5,435,819	5,422,730	6,799	5,429,529	6,290
Eisenberg	2010	50349	67/33	4,236,700	1,526,677	5,763,377	5,749,273	4,001	5,753,274	10,103
Leach 9553	2010	50348	100/0	2,678,400	-	2,678,400	1,493,619	8,031	1,501,650	1,176,750
Construction Projects Total				\$ 42,811,300	\$ 972,682	\$ 43,783,982	\$ 37,765,056	\$ 1,007,948	\$ 38,773,004	\$ 5,010,978

**Schedule of Current Year Findings
June 30, 2012**

Finding 2012-1

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 Office of Management and Budget 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.”

In addition, 29 Del. C. §6528 defines the necessary approvals needed for transfer of funds between projects.

Condition

In testing a sample of 18 expenditures totaling \$1,015,357, we noted one transaction related to William Penn project (appropriation 50152) for \$3,912 that was incorrectly charged to the George Reed project (appropriation 50124).

In addition, we noted several transactions in the 2011 examination engagement where the detail of project costs per the First State Financials (FSF) voucher did not agree to the breakout of costs, by project, on supporting invoices. The misclassification lead 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)
McCullogh	(34,860.00)
Pleasantville	110,806.09
William Penn	82,096.04

We noted that the District did not correct the above errors in the *Schedule of Construction Projects* for the year ended June 30, 2012. As a result, the *Schedule of Construction Projects* remains misstated for amounts Expended in Prior Years, by project.

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 2012, the District elected not to correct the balances, resulting in the Expended in Prior Years column for each project being overstated or (understated) in the June 30, 2012 *Schedule of Construction Projects*.

Effect

Expenditures are 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 and that any necessary transfers are properly approved and processed in FSF.

District Response

The \$3,912 that was incorrectly charged to the George Read project (appropriation 50124) has been correctly recoded to William Penn (appropriation 50152).

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 review process, that all invoices are properly coded to the appropriate project(s).

Auditor Comment

We reviewed supporting documentation that demonstrates the District corrected the coding on the above transaction after receiving notification of the improper coding via the finding above.

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 this point forward, invoices are properly coded to projects.

Finding 2012-2

Criteria

The *State of Delaware Budget and Accounting Policy Manual* (BAM) Chapter 5, Section 5.4.5, Exceptions to Bid Laws, and 29 Del. C. §6904 states:

“Materials may be purchased and work contracted to be performed without competitive bidding in the following instances:

Where, because of changed situations, unforeseen conditions, strikes and acts of God, change orders, supplemental agreements, or extra work determined to be necessary and requested by the agency and not specified in the agency's solicitation or advertisement for bids and in the awarded contract the awarding agency may issue a change order or supplemental work agreement(s) on a Public Works contract, which shall not:

- *Be subject to competitive bidding requirements; or*
- *Invalidate the contract, provided the change is within the scope of the contract as set forth in the standard specifications, special provisions or similar publication of the agency.”*

The BAM Chapter 5, Section 5.3.2 states:

“For purchases related to Public Works projects, the dollar amount thresholds listed below are on a contract by contract basis.

<i>Less than \$25,000</i>	<i>Open Market Purchase</i>
<i>\$25,000 - \$49,999</i>	<i>3 Letter Bids</i>
<i>\$50,000 and over</i>	<i>Formal Bid”</i>

Condition

In testing a sample of 18 expenditures totaling \$1,015,357, we noted one expenditure that had significant increases in contract value through a change order for additional work to be completed at different school sites. A contract to I.D. Griffith Inc., originally valued at \$6,600,000 for work at various schools, was increased by \$724,122 by Change Order 006 dated June 1, 2010 for additional work to be completed at George Read Middle School and McCullough Middle School in order to install new emergency generators, which was not included as part of the original contract. The change order was executed under the prior Superintendent and administration.

Cause

The projects above did not meet any of the exceptions to the procurement law described in 29 Del. C. §6904 and the BAM Chapter 5, Section 5.4.5. Management failed to adhere to the bid requirements of the BAM Chapter 5, Section 5.3.2.

Effect

The District is not in compliance with the requirements of the Delaware Code and the BAM, as noted above.

Recommendation

We recommend that the District enhance their transaction review and approval process to ensure that all new work that requires a new contract be granted through a formal bid process to meet the requirements of the Delaware Code and the BAM.

District Response

This finding is not from the fiscal year that was audited but is from a prior year (2010) and has been addressed in a previous audit report. The District acknowledges that this action was taken under a previous administration and the current administration has not and will not execute contracts without following all proper policies and procedures.

Auditor Comment

The change order was initiated in prior years; however, because there was current year spending against that change order, we discovered the issue with the change order in completion of our expenditure testing (the change order noted above was related to one of the 18 expenditures tested).

Finding 2012-3

Criteria

The BAM Chapter 7, Section 7.5.2 states:

“If a Purchase Order is supported by a contract, the contract number must be listed on the Purchase Order or Direct Claim voucher.”

Condition

In testing six purchase orders totaling \$3,289,135, we noted one purchase order for \$2,864,000 that did not have the related contract number listed on the purchase order document.

Cause

Management failed to adhere to the purchase order approval requirements of the BAM Chapter 7, Section 7.5.2.

Effect

The District is not in compliance with the requirements of the BAM, as noted above.

Recommendation

We recommend that the District enhance their transaction review and approval process to ensure that all purchase orders supported by contracts have the contract number listed on the purchase order document to meet the requirements of the BAM Chapter 7, Section 7.5.2.

District Response

FSF does not provide a field for the contract number on the purchase order (the previous system did provide this field). The BAM needs to be rewritten at the State level to accommodate the recently implemented accounting system (FSF) that all state agencies and school districts are required to use.