

*Santora CPA Group*

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

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*Fiscal Year Ended June 30, 2012*

Issued: March 1, 2013

**Table of Contents**

|  |   |
|--|---|
| Independent Accountants' Report  | 3 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination Performed in Accordance With <i>Government Auditing Standards</i> | 5 |
| Schedule of Construction Projects  | 7 |
| Schedule of Current Year Findings  | 8 |

### Independent Accountants' Report

Dr. Phyllis Kohel  
Superintendent  
Milford School District  
906 Lakeview Avenue  
Milford, Delaware 19963-1799

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 Milford 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.

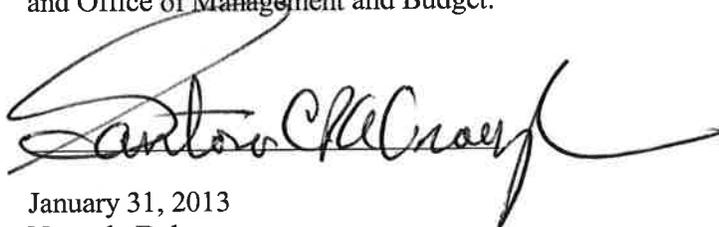
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, 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.

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, 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 31, 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 "Santoro McCrae". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

January 31, 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**

Dr. Phyllis Kohel  
Superintendent  
Milford School District  
906 Lakeview Avenue  
Milford, Delaware 19963-1799

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 Milford School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2012, and have issued our report thereon dated January 31, 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 deficiencies described in the accompanying *Schedule of Current Year Findings* as findings 2012-1 and 2012-5 to be material weaknesses.

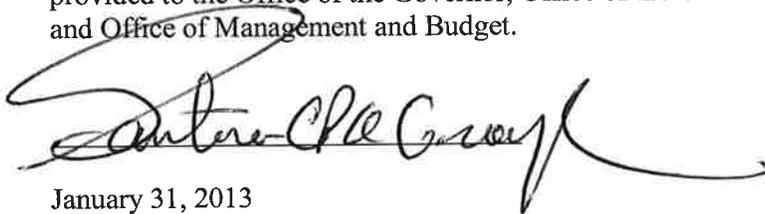
We identified deficiencies in internal control over financial reporting applicable to the *Schedule of Construction Projects* described in the accompanying *Schedule of Current Year Findings* as finding 2012-4, which we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### 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 2012-2 through 2012-8.

The District's responses 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.

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 31, 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 | Project Expended to Date | Balance as of 6/30/12 |
|---|------|-------|---------------------------------|-------------------------|----------------------------------|-----------------------|-------------------------|--------------------------|--------------------------|-----------------------|
| Middle Academy                                  | 2008 | 50079 | 77/23                           | \$ 4,000,000            | \$ -                             | \$ 4,000,000          | \$ 3,997,401            | \$ 2,599                 | \$ 4,000,000             | \$ -                  |
|   | 2009 | 50287 | 77/23                           | 21,387,900              | (88,590)                         | 21,299,310            | 21,236,747              | 61,145                   | 21,297,892               | 1,418                 |
|   | 2010 | 50296 | 77/23                           | 12,296,200              | (1,160,073)                      | 11,136,127            | 10,214,042              | 792,030                  | 11,006,072               | 130,055               |
| Mispillion Elementary School                    | 2009 | 50282 | 77/23                           | 3,094,000               | (250,000)                        | 2,844,000             | 2,686,755               | 125,245                  | 2,812,000                | 32,000                |
|   | 2010 | 50282 | 77/23                           | 14,000,000              | -                                | 14,000,000            | 13,137,640              | 729,914                  | 13,867,554               | 132,446               |
|   | 2011 | 50282 | 77/23                           | 2,174,500               | (16,667)                         | 2,157,833             | 1,586,516               | 565,335                  | 2,151,851                | 5,982                 |
| Land Acquisition - Mispillion Elementary School | 2008 | 50078 | 77/23                           | 1,000,000               | (50,000)                         | 950,000               | 948,862                 | 1,138                    | 950,000                  | -                     |
|   | 2011 | 50078 | 77/23                           | 1,194,000               | (513,469)                        | 680,531               | 88,052                  | 530,801                  | 618,853                  | 61,678                |
| Renovations - Morris ECC                        | 2008 | 50122 | 77/23                           | 230,700                 | 509,079                          | 739,779               | 708,308                 | 29,819                   | 738,127                  | 1,652                 |
| Renovations - Milford High School               | 2008 | 50139 | 77/23                           | 3,216,200               | 500,000                          | 3,716,200             | 3,702,027               | 8,957                    | 3,710,984                | 5,216                 |
|   | 2011 | 50139 | 77/23                           | 1,233,600               | 1,468,626                        | 2,702,226             | 319,238                 | 1,168,733                | 1,487,971                | 1,214,255             |
| Renovations - Lulu Ross Elementary School       | 2009 | 50332 | 77/23                           | 357,900                 | 1,326,894                        | 1,684,794             | 1,684,794               | -                        | 1,684,794                | -                     |
| <b>Construction Projects Total</b>              |      |       |                                 | <b>\$ 64,185,000</b>    | <b>\$ 1,725,800</b>              | <b>\$ 65,910,800</b>  | <b>\$ 60,310,382</b>    | <b>\$ 4,015,716</b>      | <b>\$ 64,326,098</b>     | <b>\$ 1,584,702</b>   |

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

**Finding 2012-1**

***Criteria***

*Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 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 noted that the District does not have a management review control or reconciliation process in place for the *Schedule of Construction Projects* to ensure that amounts presented in the *Schedule of Construction Projects* exist, are completely and accurately stated, and properly reconcile to supporting documentation.

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

- Expended in Current Year was reported as \$4,788,862. This amount includes Fiscal Year 2012 expenditures and encumbrances; encumbrances should not be included in this column. The correct Total Expended in Current Year amount, supported by First State Financials (FSF) reports, is \$4,015,716.
- Increases/Decreases in Funding was reported as \$1,279,431. This amount includes FSF increases/decreases per the June 30, 2012 DGL049 – *Statement of Available Funds* Report; however, it improperly excludes the increases/decreases on those appropriations prior to Fiscal Year 2011. The correct Increases/Decreases in Funding amount is \$1,725,800, the total cumulative increases/decreases for all years on the appropriations included in the Schedule.

*Note: The Schedule of Construction Projects presented on page 7 of this report reflects the corrected balance for Expended in Current Year and Increases/Decreases in Funding.*

***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* may be incomplete or report inaccurate amounts for construction project activity for the District.

***Recommendation***

We recommend that the District develop and implement a formal management review control 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, FSF reports, etc.). We further recommend that this process be documented in the District's written policies and procedures.

***District Response***

New staff will be trained to properly complete this report. The report will be properly completed using only expenditures to be reported, leaving the encumbrances in the final column as the instructions state. The report will be reviewed by the buildings and grounds supervisor and forwarded to the chief financial officer for further review and submittal.

**Finding 2012-2**

***Criteria***

The State of Delaware *Budget and Accounting Manual* (BAM), Chapter 13, Section 13.5.2 states:

*“The following expenditures are examples that are not capitalized as improvements to buildings and should be recorded as maintenance expenses: ....Any other maintenance-related expenditure, which does not increase the value of the building.”*

***Condition***

In testing a sample of 40 expenditures totaling \$424,189, we noted five vouchers totaling \$1,832 for supplies, copier rental, and generator maintenance agreements that were improperly capitalized to the Mispillion Elementary School project (appropriation 50282).

***Cause***

The District did not have an effective management review control for the Generally Accepted Accounting Principles (GAAP) package to ensure the completeness and accuracy of amounts reported.

***Effect***

Management oversight in the preparation of the GAAP package resulted in improper inclusion of these transactions in Construction Work In Progress (CWIP). Improper capitalization of expenditures results in an overstatement in the asset value of a project when closed out of CWIP and added to the State's fixed asset ledger.

***Recommendation***

We recommend that the District enhance their management review and approval process for expenditure transactions and GAAP package preparation to ensure that amounts reported therein represent capitalizable activity.

***District Response***

New staff will be trained on proper coding of maintenance versus capitalized expenditures. The building and grounds supervisor as well as the chief financial officer will provide management oversight to ensure accuracy.

**Finding 2012-3**

***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.”*

The BAM, Chapter 2, Section 2.4.3 states:

*“A centrally located Construction file, external to the State’s financial management and accounting system, should be established to include, but not necessarily be limited to, the following: ...*

*4h. Construction file includes Purchase Orders, Payment Vouchers, and Books of Account, including any District of Technology and Information reports, ledgers, or any other type of accounts used and any significant backup.*

*4i. Construction file includes Change Orders, including any significant backup.”*

***Condition***

In testing a sample of 46 purchase orders totaling \$4,550,915, we noted that the District could not provide supporting documentation for 15 purchase orders totaling \$40,547.

In testing 45 change orders totaling \$466,067, we noted that the District could not provide supporting documentation for eight change orders totaling \$185,901.

***Cause***

Management oversight in the maintenance of construction project files.

***Effect***

The District did not comply with the requirements of 29 Del. C. §6504 and the BAM, as noted above.

***Recommendation***

We recommend that the District develop and implement a management review process (i.e., checklist) to ensure that all required documentation is maintained in construction project files to ensure compliance with the provisions of 29 Del. C. §6504 and the BAM.

***District Response***

During the course of the audit, the staff member responsible for maintaining the construction documentation was not permitted to have access to the records that were questioned and missing. The records were sequestered until January 24<sup>th</sup> at which point the staff member was no longer employed by the district, and any additional documentation was unable to be accepted by the audit firm.

The District also plans to implement the use of a “Construction Checklist” to prevent the improper retention of documents.

**Finding 2012-4**

***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 40 expenditures totaling \$424,189, we noted one voucher for \$8,887 related to the Milford High School project (appropriation 50139) that was incorrectly charged to the Central Academy project (appropriation 50296).

***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.

***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***

During the course of the audit, the staff member responsible for maintaining the construction documentation was not permitted to have access to the records that were questioned and missing. The records were sequestered until January 24<sup>th</sup> at which point the staff member was no longer employed by the district, and any additional documentation was unable to be accepted by the audit firm.

The District also plans to implement the use of a “Construction Checklist” to prevent the improper retention of documents.

**Finding 2012-5**

***Criteria***

The BAM, Chapter 6, Section 6.5.7 states:

*“All requisitions, purchase orders, change orders, and direct claim vouchers coded to bond accounts (other than Highway and School - Minor Capital) must be sent to the Office of Management and Budget (OMB) for approval prior to processing...”*

Chapter 6, Section 6.4 requires all bond-coded purchases to have the following minimum approvals: Agency Business Manager, Office of Management and Budget (OMB), and Division of Accounting (DOA).

District policy requires Construction Manager approval on expenditure transactions prior to processing.

***Condition***

In testing a sample of 40 expenditures totaling \$424,189, we noted three transactions for \$1,168 that did not have OMB workflow approval in FSF prior to processing.

In addition, we noted 30 expenditures for \$392,283 that did not have the required Construction Manager approval prior to processing in accordance with District policy.

***Cause***

Management failed to adhere to the expenditure approval requirements of the BAM, Chapter 6, Sections 6.4 and 6.5.7, and internal policies regarding Construction Manager approval of expenditures.

***Effect***

The *Schedule of Construction Projects* may include unauthorized expenditures.

**Recommendation**

The District will develop and implement a management review process to ensure that required approvals are obtained on all expenditure transactions prior to processing. The State accounting system is not structured to require the approval of the Department of Education (DOE) and OMB through FSF workflow. As such, the process of including OMB and DOE in the approval chain is an ad-hoc process. The District will make every effort to comply with the requirements of BAM.

**Finding 2012-6**

**Criteria**

The BAM Chapter 6, Section 6.5 states the following regarding special approvals for capital improvements transactions:

*“For all Purchase Orders, Change Orders, and Direct Claims coded to Bond Accounts, Exceptions: Highway and School – Minor Capital. School-Minor Capital transactions require approval of the DOE, School Plant Maintenance.”*

Chapter 6, Section 6.5.7 states: *“All requisitions, purchase orders, change orders, and direct claim vouchers coded to bond accounts (other than Highway and School - Minor Capital) must be sent to the OMB for approval prior to processing...”*

*The DOE School Construction Technical Assistance Manual (SCM) 2.0, Section 6.0 states that purchase orders for any major capital improvement project must be approved by both the DOE and the Director of Capital Budget and Special Projects prior to submission to the DOA.*

**Condition**

In testing a sample of 46 purchase orders totaling \$4,550,915, we noted one purchase order for \$21,385 that did not have the required OMB and DOE workflow approvals in FSF prior to processing.

**Cause**

Management failed to adhere to the approval requirements of the BAM Chapter 6, Section 6.5 and 6.5.7 and the SCM 2.0, Section 6.0.

**Effect**

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

**Recommendation**

We recommend that the District develop and implement a management review process to ensure that required approvals are obtained on all purchase orders prior to processing.

***District Response***

The District will develop and implement a management review process to ensure that required approvals are obtained on all expenditure transactions prior to processing. The State accounting system is not structured to require the approval of DOE and OMB through workflow. As such, the process of including OMB and DOE in the approval chain is an ad-hoc process. The District will make every effort to comply with the requirements of BAM and SCM.

**Finding 2012-7**

***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 a sample of 46 purchase orders totaling \$4,550,915, we noted five purchase orders totaling \$3,440,541 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.

**Finding 2011-8**

***Criteria***

The SCM, Section 2.0, Paragraphs 7.2 and 7.2.1 state:

*“All Change Orders must be agreed upon by the architect, the school district and the contractor and shall be forwarded to the Department of Education along with the purchase order.*

*Submission of a Change Order must include the following documents: Completed purchase order as applicable; local board of education minutes identifying and approving the changes; completed AIA document G701, and correspondence which gives a breakdown in materials mark-up and other expenses.”*

The BAM Chapter 2, Section 2.4.3 states:

*“A centrally located Construction file, external to the State’s financial management and accounting system, should be established to include, but not necessarily be limited to, the following: ...*

*Paper files and additional supporting documentation for each individual project to be retained include...change orders, including any significant backup.”*

***Condition***

In testing a sample of 45 change orders totaling \$466,067, we noted one change order for \$6,062 that did not have the required approval from the design architect.

***Cause***

The District did not comply with the documentation requirements in the SCM, Section 2.0, Paragraphs 7.2 and 7.2.1 and the BAM, Chapter 2, Section 2.4.3.

***Effect***

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

***Recommendation***

We recommend that the District enhance their transaction review and approval process to ensure that all change orders have attached supporting documentation required by the SCM, Section 2.0, Paragraphs 7.2 and 7.2.1 and the BAM, Chapter 2, Section 2.4.3.

***District Response***

New staff has been trained on the proper payment procedure for major capital projects, which includes obtaining proper approval from the design architect.