

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Mark Holodick
Superintendent
Brandywine School District
1311 Brandywine Boulevard
Wilmington, Delaware 19809

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 Brandywine School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on our examination.

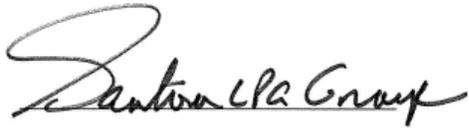
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, 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, 2013, 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 December 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., §10002(l), 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 that reads "Stanton CPA Group". The signature is written in a cursive, flowing style.

December 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. Mark Holodick
Superintendent
Brandywine School District
1311 Brandywine Boulevard
Wilmington, Delaware 19809

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 Brandywine School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013, and have issued our report thereon dated December 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.

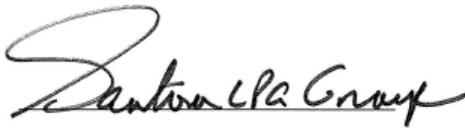
Our consideration of internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting applicable 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 2013-1 and 2013-3 to be material weaknesses.

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 2013-2, 2013-4, and 2013-5.

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 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(l), 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 "Denton CPA Group". The signature is written in a cursive, flowing style.

December 31, 2013
Newark, Delaware

**Schedule of Construction Projects
Fiscal Year Ended June 30, 2013**

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 6/30/13
Talley Middle School	2005	50213	60/40	\$ 956,800	\$ 248,741	\$ 1,205,541	\$ 1,205,401	\$ -	\$ 1,205,401	\$ 140
P.S. DuPont Elementary School	2008	50141	60/40	3,123,800	449,977	3,573,777	3,564,902	-	3,564,902	8,875
Lancashire Elementary School	2008	50039	45/55	13,159,600	300,000	13,459,600	13,459,449	(3,598)	13,455,851	3,749
Hanby Middle School (A)	2008	50127	60/40	2,666,700	-	2,666,700	2,611,708	38,704	2,650,412	16,288
Brandywood Elementary School	2009	50284	60/40	1,166,700	-	1,166,700	1,142,777	23,923	1,166,700	-
Brandywood Elementary School	2010	50284	60/40	12,976,400	-	12,976,400	12,791,467	181,071	12,972,538	3,862
Brandywood Elementary School	2011	50298	0/100	4,267,700	600,000	4,867,700	4,546,434	235,778	4,782,212	85,488
Bush Elementary School	2010	50357	60/40	579,100	-	579,100	2,316	417,730	420,046	159,054
Harlan Elementary School	2010	50053	60/40	-	150,000	150,000	149,955	-	149,955	45
District Office	2007	50176	60/40	3,123,800	600,000	3,723,800	3,691,220	31,904	3,723,124	676
Brandywine - Transportation/Facility	2009	50327	0/100	3,000,000	-	3,000,000	2,986,855	3,871	2,990,726	9,274
Brandywine - Transportation/Facility	2010	50358	0/100	3,079,000	(2,400,000)	679,000	73,729	99,044	172,773	506,227
Brandywine - Transportation/Facility	2011	50274	60/40	2,026,300	(600,000)	1,426,300	103,359	96,711	200,070	1,226,230
Brandywine - Playground for Hanby	2013	50393	60/40	75,000	-	75,000	-	73,747	73,747	1,253
Construction Projects Total				\$ 50,200,900	\$ (651,282)	\$ 49,549,618	\$ 46,329,572	\$ 1,198,885	\$ 47,528,457	\$ 2,021,161

(A) The Hanby project was going to be a total renovation of the school, but due to declining enrollment, a decision was made not to do the renovation, but rather move those students to other schools. House Bill 525 was passed, which approved the District to use the \$2.6M from Hanby towards other projects. Prior year expenditures were split out among the following projects: Brandywine Operations Center, Claymont Kindergarten, Hanby Middle School, Harlan Bathrooms, Lombardy Addition, Mt. Pleasant Elementary School, P.S. Dupont Elementary School, Talley Science Room, Springer Elementary School, and Brandywood Elementary School. Fiscal year 2013 expenditures for this appropriation were primarily related to Brandywood Elementary School, with minor amounts charged to the other projects listed above.

Schedule of Current Year Findings June 30, 2013

Finding 2013-1

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

The District does not have a management review 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.

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

- The District's *Schedule of Construction Projects* did not include activity for the 2013 appropriation for Brandywine - Playground for Hanby (50393). As a result, \$75,000 was improperly excluded from the Original Funding column, and \$73,747 was improperly excluded from the Expended in Current Year column.
- Increases/Decreases in Funding for the Brandywine Transportation Facility project (appropriation 50358) was reported as \$(600,000). This amount included the Transfers In/Out activity per the DGL049, *Statement of Available Funds*, but improperly excluded Transfers In/Out activity from the prior accounting system through June 30, 2010 for the project of \$(1,800,000). The correct Increases/Decreases in Funding for the project is \$(2,400,000), and the correct Total Funding to Date is \$679,000.
- Expended in Prior Years for the Brandywine Transportation Facility project (appropriation 50358) was reported as \$1,873,730. The correct Expended in Prior Years amount for this project is \$73,729.

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

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* was incomplete or reported inaccurate amounts for construction project activity for the District before the above adjustments were made.

Recommendation

We recommend that the District develop and implement a formal 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.). We further recommend that this process be documented in the District’s written policies and procedures.

District Response

We will implement an internal policy regarding review and approval of the *Schedule of Construction Projects*.

Finding 2013-2

Criteria

The *State of Delaware Budget and Accounting Policy Manual* (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, OMB, and Division of Accounting (DOA).

Condition

During Fiscal Year 2013, the District processed 55 construction expenditure transactions totaling \$1,198,885. In testing a sample of 14 expenditures totaling \$127,560, we noted three direct claim vouchers totaling \$(104,494) to recode expenditures from capital projects (fund 300) to local school district funds (fund 270) that did not have the required OMB workflow approval in FSF prior to processing. In addition, two direct claim vouchers totaling \$(104,559) to recode expenditures from capital projects (fund 300) to local school district funds (fund 270) did not have the required DOA workflow approval in FSF prior to processing.

Cause

The transaction was not routed to the OMB or the DOA for workflow approval or, if routed correctly, was not approved by the agencies in FSF workflow prior to processing.

Effect

Management failed to adhere to the expenditure approval requirements of the BAM Chapter 6, Sections 6.5.7 and 6.4. The *Schedule of Construction Projects* may include unauthorized expenditures.

Recommendation

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

District Response

These five transactions are either direct claim vouchers or correcting journal entries (recodes). In the future, the District will enter OMB into the workflow when data entering direct claim vouchers. Regarding correcting journal entries, it is our understanding that these types of transactions only require internal approvals at the District level.

Finding 2013-3***Criteria***

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.

District policy requires Facilities Department approval on all expenditure transactions prior to processing.

Condition

During Fiscal Year 2013, the District processed 55 construction expenditure transactions totaling \$1,198,885. In testing a sample of 14 expenditures totaling \$127,560, we noted five direct claim vouchers totaling \$(104,032) to recode expenditures from capital projects (fund 300) to local school district funds (fund 270) that did not have Facilities Department approval prior to processing in FSF.

Cause

The District does not have a formal, effective Facilities Department review and approval process in place for direct claim vouchers to ensure that the District’s capital projects transactions are legitimate expenditures for the project and are coded to the correct project.

Effect

Management failed to adhere to internal policies regarding Facilities Department approval of expenditure transactions. The *Schedule of Construction Projects* may include unauthorized expenditures, or amounts may be charged to the incorrect project.

Recommendation

We recommend that the District develop and implement a Facilities Department review process to ensure that direct claim vouchers relate to capital projects for the District, are legitimate expenditures for the project, and that supporting documentation is coded to the correct project prior to processing.

District Response

The District's school facilities supervisor, John Read, is aware of all expenditures on a real-time basis, but he is not required to go into FSF and approve these correcting journal entries and/or direct claims vouchers.

Auditor Comment

The Facilities Department review process recommended above should be documented, as evidenced by signature on supporting documentation (i.e. invoice), the direct claim voucher, or via FSF workflow approval.

Finding 2013-4

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

During Fiscal Year 2013, the District processed 12 construction purchase orders with remaining balances totaling \$239,120 as of June 30, 2013. In testing a sample of three purchase orders totaling \$130,199 (remaining balances totaling \$31,020 as of June 30, 2013), we noted one purchase order for \$121,300 that did not have the related contract number listed on the purchase order document.

Although not in compliance with the above provision of the BAM, we observed that the District uploaded the related contract information, including the related request for proposal, to FSF, and attached it to the purchase order document in the system.

Cause

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

Effect

The District was not in compliance with the requirements of the BAM Chapter 7, Section 7.5.2.

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

This was a Request for Qualifications (RFQ) for Architect of Record for the District. There aren't contract or bid numbers for RFQs. In the future, we can assign contract numbers to these RFQs when advertised, and we can use the District's standard contract form as an attachment when the firm/company has been selected for the RFQ.

Auditor Comment

There was an identifying contract number on the supporting documentation reviewed for this transaction; however, it was not disclosed on the face of the purchase order, as required by the BAM Chapter 7, Section 7.5.2.

Finding 2013-5

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 OMB for approval prior to processing by the DOA."

The BAM, Chapter 7, Section 7.2 includes the approval requirements for purchase order transactions (these requirements are referenced in the BAM Chapter 7, Section 7.5.6 below):

"Requisitions, POs, and Direct Claims are initiated at the agency. After receiving all required agency approvals, agencies must determine if the purchase is subject to any special approvals. All Requisitions, POs, and Direct Claims for \$5,000 or more require DOA review and approval for processing in FSF. For more information on standard and special approval requirements for transactions, agencies should refer to Chapter 6 – Approvals."

If no special approvals are required to process the transaction, and the purchase is for less than \$5,000, the Requisition, PO, or Direct Claim is processed in the FSF system with only agency approvals required. If special approvals are required to process the purchase transaction, and the purchase is for \$5,000 or more, the Requisition, PO, or Direct Claim is to be forwarded for the needed additional special approvals before it is submitted to the DOA for review and special processing."

The BAM Chapter 7, Section 7.5.6 includes the following requirements for use and approval of change orders:

“All adjustments to encumbrances, where the aggregate total is \$5,000 or greater, (approved POs) must be initiated by agencies using a Change Order transaction, and submitted to the DOA. Change orders are to be used for all adjustments (increases or decreases) to both regular and Open Order POs.

The same approvals required to approve the original encumbrance are necessary to adjust the PO...when a modified PO amount exceeds a higher dollar threshold (e.g. \$5,000), additional approvals are required.”

Condition

During Fiscal Year 2013, the District processed eight construction change orders totaling \$45,892. In testing a sample of two change orders totaling \$11,568, we could not verify that the change orders received the same approvals as the original purchase order, as required by the BAM Chapter 7, Section 7.5.6.

Cause

FSF system limitations prevent conclusively determining whether change orders received the same approvals as the original purchase order transaction. When a change order is processed, the original purchase order workflow approvals are overwritten in FSF. As subsequent change orders are processed, all previous data is no longer available. In addition, FSF workflow does not show the dollar amount or purchase order/change order number to which the approvals relate.

The District did not maintain other hard copy documentation outside of FSF.

Effect

Unauthorized change orders could be processed. There is no audit trail to support the validity and propriety of approved purchase orders and change orders.

Recommendation

Absent any system changes to resolve this issue, we recommend that screen shots of FSF transactions be maintained that reflect a detailed approval history for all activity for each purchase order and subsequent change order, including:

- each set of approvals,
- purchase order/change order number being approved, and
- corresponding approved dates and amounts.

District Response

We will begin taking screen shots of change orders when they are processed and approved in FSF, due to FSF system limitations.