

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

John D. Ewald
Superintendent
Laurel School District
1160 South Central Avenue
Laurel, Delaware 19956

The Honorable Mark Murphy
Secretary, Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, Delaware 19901

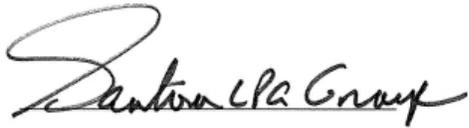
We have examined the accompanying State of Delaware Laurel School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on our 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 January 1, 2014, on our consideration of the District's internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* (internal control) and on our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of District management and Board Members, the Office of Auditor of Accounts, and the Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del. C., §10002(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 cursive script, appearing to read "Denton CPA Group".

January 1, 2014
Newark, Delaware

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination Performed in Accordance With Government Auditing Standards

John D. Ewald
Superintendent
Laurel School District
1160 South Central Avenue
Laurel, Delaware 19956

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 Laurel School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013, and have issued our report thereon dated January 1, 2014. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our examination, we considered the District's internal control over financial reporting (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 2013-2 to be material weaknesses.

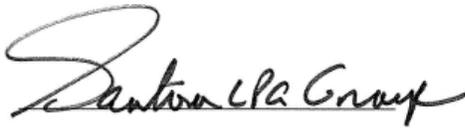
Compliance and Other Matters

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 2013-3, and 2013-4.

The District's response to the findings identified in our examination is described in the accompanying *Schedule of Current Year Findings*. We did not audit the District's response, and accordingly, we express no opinion on it.

We noted certain matters that we reported to the management of the District in a separate letter dated January 1, 2014.

This report is intended solely for the information and use of District management and Board Members, the Office of Auditor of Accounts, and the Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del. C., §10002(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 cursive script, appearing to read "Denton CPA Group".

January 1, 2014
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
Construction Combined MS/HS	2012	50381	76/24	\$ 14,033,700	\$ -	\$ 14,033,700	\$ 1,261,617	\$ 6,009,637	\$ 7,271,254	\$ 6,762,446
	2013	50381	76/24	28,067,500	-	28,067,500	-	6,323,351	6,323,351	21,744,149
Land Acquisition Combined MS/HS	2012	50382	76/24	400,000	-	400,000	-	217,925	217,925	182,075
Construction 1,400 Student ES	2013	50394	76/24	8,722,500	-	8,722,500	-	-	-	8,722,500
Construction Projects Total				\$ 51,223,700	\$ -	\$ 51,223,700	\$ 1,261,617	\$ 12,550,913	\$ 13,812,530	\$ 37,411,170

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 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 include activity for the 2012 appropriations for the Construction Combined MS/HS (50381) or Land Acquisition for MS/HS (50382) projects. As a result, the Schedule did not properly present information, as detailed below:

- \$14,433,700 was improperly excluded from the Original Funding Amount and Total Funding to Date columns,
- \$1,261,617 was improperly excluded from the Expended in Prior Years column,
- \$6,227,562 was improperly excluded from the Expended in Current Year column,
- \$7,489,179 was improperly excluded from the Total Expended to Date column, and
- \$6,944,521 was improperly excluded from the Balance as of 6/30/13 column.

Note: The *Schedule of Construction Projects* presented on page 7 of this report reflects the corrected balance for Original Funding Amount, 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

The *Schedule of Construction Projects* will reflect the entire project to date of fiscal year end.

The District's Policy and Procedure manual will include a statement that the Director of Facilities will review and verify the *Schedule of Construction Projects* before submission to the Office of Auditor of Accounts.

Finding 2013-2***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 107 construction expenditures totaling \$12,541,334. In testing a sample of 27 expenditures totaling \$4,351,869, we noted six vouchers totaling \$788,044 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 expenditures 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 or charged when work was not actually performed.

Recommendation

We recommend that the District develop and implement a Facilities Department review process to ensure that expenditures 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

Currently, the Facilities Director approves all expenditures relating to major and minor capital transactions before they are processed in FSF. The District will prepare a written policy and procedure for staff reference and use.

Finding 2013-3

Criteria

The *State of Delaware Budget and Accounting Policy Manual* (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 28 construction purchase orders with remaining balances totaling \$11,243,385 as of June 30, 2013. In testing a sample of seven purchase orders totaling \$3,325,608 (remaining balances totaling \$1,721,805 as of June 30, 2013), we noted three purchase orders for \$1,751,200 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

The District will 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.

Finding 2013-4

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 by the Division of Accounting (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.”

The *State of Delaware Department of Education School Construction Technical Assistance Manual (SCM) 2.0*, Sections 7.2 and 7.2.1 state:

“7.2 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.

7.2.1 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.”

Condition

During Fiscal Year 2013, the District approved 13 construction change orders totaling \$761,475. In testing a sample of four change orders totaling \$33,559, 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, or included the documentation required by SCM 2.0, Sections 7.2 and 7.2.1.

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.

Due to funding limitations and cash flow monitoring, the District creates a purchase order at an amount determined by available funding, and then increases purchase orders with FSF change orders when the original purchase order balance runs low. The District does not process true change orders to construction projects on an individual basis when they are initiated and approved by the Board.

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.

Change orders for construction projects should be processed timely in FSF at the time they are initiated and approved by the Board. In addition, documentation should be retained for all change orders, as required by SCM 2.0, Sections 7.2 and 7.2.1.

District Response

The District will provide screen shots of FSF approvals for each purchase order and subsequent change order including the purchase order number, amount, and approval dates.

All change orders for construction will be processed in a timely manner.