

Santora CPA Group

**State of Delaware
Statewide School Districts' Construction
Projects Attestation Engagements
New Castle County Vocational-
Technical School District**

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Victoria C. Gehrt
Superintendent
New Castle County Vocational-Technical
School District
1417 Newport Road
Wilmington, Delaware 19804

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

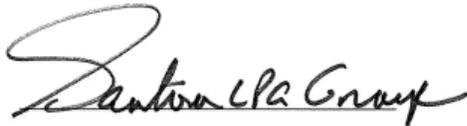
We have examined the accompanying State of Delaware New Castle County Vocational-Technical School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to 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 black ink, appearing to read "Denton CPA Group". The signature is written in a cursive, flowing style.

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***

Dr. Victoria C. Gehrt
Superintendent
New Castle County Vocational-Technical
School District
1417 Newport Road
Wilmington, Delaware 19804

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 New Castle County Vocational-Technical 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 deficiency described in the accompanying *Schedule of Current Year Findings* as finding 2013-1 to be a material weakness.

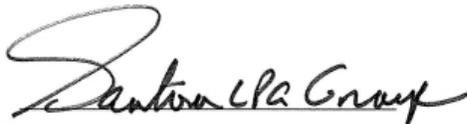
Compliance and Other Matters

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 2013-2, 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 End 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
Renovation - Howard High School	2012	50385	52/48	\$ 20,058,700	\$ -	\$ 20,058,700	\$ 7,996,731	\$ 9,741,229	\$ 17,737,960	\$ 2,320,740
	2012	99133	100/0	8,802,700	-	8,802,700	2,084,449	5,771,318	7,855,767	946,933
	2013	50385	52/48	7,215,200	-	7,215,200	-	4,426,777	4,426,777	2,788,423
St. George's High School - Auditorium	2012	50386	61/39	1,531,500	-	1,531,500	381,694	1,038,660	1,420,354	111,146
Construction Projects Total				\$ 37,608,100	\$ -	\$ 37,608,100	\$ 10,462,874	\$ 20,977,984	\$ 31,440,858	\$ 6,167,242

**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.

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

Condition

During Fiscal Year 2013, the District processed 59 construction purchase orders with remaining balances totaling \$6,149,510 as of June 30, 2013. In testing a sample of 15 purchase orders totaling \$9,395,183 (remaining balances of \$1,735,310 as of June 30, 2013), we noted four purchase orders totaling \$2,649,887 that did not have Facilities Department approval prior to processing in the First State Financials (FSF) system.

Cause

Management failed to adhere to internal policies regarding Facilities Department approval of purchase orders. The District does not have a formal, effective Facilities Department review and approval process in place for direct claim vouchers to ensure that transactions relate to capital projects for the District, are legitimate expenditures for the project, and that supporting documentation is coded to the correct project.

Effect

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 purchase orders 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 recognizes the importance of effective internal controls. As it relates to the approval of documents, the Facilities Department reviews all documents related to capital projects. In the rare instance in which the Facilities Supervisor is unavailable, the Director of Business approves the documents. As the supervisor of the Facilities Supervisor, the Director of Business communicates with the Supervisor prior to any approvals. In the future, the Director of Business will indicate on the voucher that a conversation took place with the Facilities Supervisor in those instances in which they are unable to signoff.

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).

The *State of Delaware Department of Education School Construction Technical Assistance Manual* (SCM) 2.0, Section 6.0 states:

“All purchase orders for any Major Capital Improvement project shall be approved by both the Department of Education and the Director of Capital Budget and Special Projects prior to submission to the DOA.”

Condition

During Fiscal Year 2013, the District processed 334 construction vouchers totaling \$20,977,983. In testing a sample of 40 expenditures totaling \$2,737,458, we noted one direct claim voucher for \$71,830 that did not have the required OMB and DOA workflow approvals in FSF prior to processing. In addition, we noted one additional direct claim voucher for \$782 that did not have the required OMB workflow approval in FSF prior to processing.

During Fiscal Year 2013, the District processed 59 construction purchase orders with remaining balances totaling \$6,149,510 as of June 30, 2013. In testing a sample of 15 purchase orders totaling \$9,395,183 (remaining balances of \$1,735,310 as of June 30, 2013), we noted one purchase order for \$2,581,527 that did not have the required Department of Education (DOE) workflow approval in FSF prior to processing.

Cause

Management failed to adhere to the expenditure approval requirements of the BAM Chapter 6, Sections 6.4 and 6.5.7 and the SCM 2.0, Section 6.0. The transaction was not routed to the OMB, DOA, or DOE for workflow approval or, if routed correctly, was not approved by the agencies in FSF workflow prior to processing.

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 order and expenditure transactions prior to processing.

District Response

The District recognizes the importance of effective internal controls. We also recognize that limitations exist within the FSF system. At the time these vouchers were processed, the system did not automatically route vouchers to the OMB. Because of this, districts relied upon the DOA, as the final approver, to return any vouchers that were not approved by the OMB. This should no longer be an issue as the vouchers are now automatically routed to the OMB after District and DOE approval.

Finding 2013-3

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

During Fiscal Year 2013, the District processed 59 construction purchase orders with remaining balances totaling \$6,149,510 as of June 30, 2013. In testing a sample of 15 purchase orders totaling \$9,395,183 (remaining balances of \$1,735,310 as of June 30, 2013), we noted one purchase order for \$54,400 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 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

The District recognizes the importance of effective recordkeeping. The system in place at the District to track and monitor projects and vendors allows the District to effectively and efficiently manage projects. We recognize that the contract number should be listed on all requisitions and will ensure in the future that the necessary information is provided.

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 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 34 construction change orders totaling \$384,155. In testing a sample of nine change orders totaling \$99,160, 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

The District has no comment on this finding, as the condition represents a limitation of the FSF system.