

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Deborah H. Zych
Superintendent
Polytech School District
P.O. Box 22
823 Walnut Shade Road
Woodside, Delaware 19980-0022

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

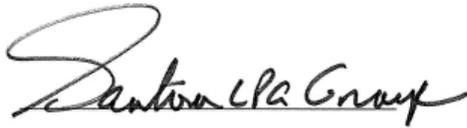
We have examined the accompanying State of Delaware Polytech School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on 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 2, 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 that reads "Stanton CPA Group". The signature is written in black ink and is positioned above the date and location text.

January 2, 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. Deborah H. Zych
Superintendent
Polytech School District
P.O. Box 22
823 Walnut Shade Road
Woodside, Delaware 19980-0022

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 Polytech School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013, and have issued our report thereon dated January 2, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

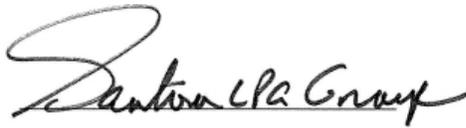
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's *Schedule of Construction Projects* for the year ended June 30, 2013 is free from material misstatements, 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 finding 2013-1.

The District's response to the finding 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 2, 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 2, 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
Polytech Additions / Renovations	2012	50391	75/25	\$ 11,758,500	\$ -	\$ 11,758,500	\$ 1,122,951	\$ 4,999,188	\$ 6,122,139	\$ 5,636,361
	2013	50391	75/25	11,758,500	-	11,758,500	-	2,662,128	2,662,128	9,096,372
Polytech Renovate High School Supplemental	2013	50397	75/25	522,600	-	522,600	-	522,600	522,600	-
Construction Projects Total				<u>\$ 24,039,600</u>	<u>\$ -</u>	<u>\$ 24,039,600</u>	<u>\$ 1,122,951</u>	<u>\$ 8,183,916</u>	<u>\$ 9,306,867</u>	<u>\$ 14,732,733</u>

**Schedule of Current Year Findings
June 30, 2013**

Finding 2013-1

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 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 First State Financials (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 64 construction change orders totaling \$456,558. In testing a sample of 16 change orders totaling \$99,908, 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 fully complies with obtaining all required approvals for change order documents. District personnel ensure that both Department of Education officials and Office of Management and Budget officials are included in the approval path for all construction change orders. The State of Delaware is responsible for the operation of the underlying financial management system and is, therefore, the entity that should address concerns regarding how the system records and archives electronic approvals. Recently, the State improved the system by ensuring that OMB is automatically included in the approval path when required, without the need for districts to manually add them to the approval path. Similarly, the District is in support of the need for the State to further automate the electronic approval process by automatically adding the Department of Education to the approval path when required. This could be accomplished by simply having all fund 300 documents automatically routed through the Department of Education, as well as the OMB, for electronic approval. Despite the current system limitations, the District ensures that all required electronic approvals are obtained and will continue to do so.