

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Shawn Joseph
Superintendent
Seaford School District
390 North Market Street Extended
Seaford, Delaware 19973

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

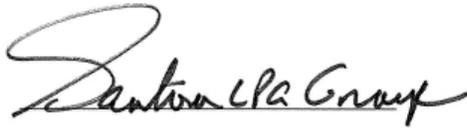
We have examined the accompanying State of Delaware Seaford School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based on our 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. Shawn Joseph
Superintendent
Seaford School District
390 North Market Street Extended
Seaford, Delaware 19973

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 Seaford 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 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 did not identify any deficiencies in internal control over financial reporting applicable to the *Schedule of Current Year Findings* that we consider to be material weaknesses, as defined above.

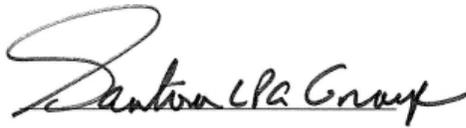
Compliance and Other Matters

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 2013-1 and 2013-2.

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 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 black ink, appearing to read "Denton CPA Group". The signature is fluid and cursive, written over a horizontal line.

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
Seaford Orthopedic HC Wing	2011	50280	100/0	\$ 2,299,500	\$ -	\$ 2,299,500	\$ 2,247,828	\$ 32,404	\$ 2,280,232	\$ 19,268
Fred Douglass Roof Replacement	2011	50291	73/27	1,082,700	-	1,082,700	1,070,267	12,433	1,082,700	-
MS ADA Improvements	2011	50292	73/27	662,700	(45,000)	617,700	616,552	1,148	617,700	-
Ren/Roof Replace Central Elem	2012	50378	73/27	1,097,700	225,000	1,322,700	678,153	633,357	1,311,510	11,190
Ren/ADA Access Imp HS	2012	50379	73/27	319,300	(70,000)	249,300	28,202	141,727	169,929	79,371
Renovate/Roof Replace WS	2012	50380	73/27	1,178,900	(110,000)	1,068,900	613,701	439,829	1,053,530	15,370
Seaford Senior HS Addition	2012	50390	0/100	911,400	-	911,400	303,598	569,040	872,638	38,762
	2012	99134	100/0	2,734,200	-	2,734,200	910,795	1,707,120	2,617,915	116,285
	2013	50396	75/25	21,873,300	-	21,873,300	-	6,200,418	6,200,418	15,672,882
Construction Projects Total				\$ 32,159,700	\$ -	\$ 32,159,700	\$ 6,469,096	\$ 9,737,476	\$ 16,206,572	\$ 15,953,128

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

Finding 2013-1

Criteria

The *State of Delaware Department of Education School Construction Technical Assistance Manual (SCM) 2.0, Section 7.2* states:

“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.”

Condition

During Fiscal Year 2013, the District processed 14 construction change orders totaling \$1,433,722. In testing a sample of four change orders totaling \$38,972, documentation could not be provided to verify that the change orders had been presented to, or approved by, the School Board, as required by SCM 2.0, Section 7.2.

In addition, we noted one change order for \$19,272 for which the District could not provide documentation to demonstrate the approvals of the design architect, school district, and contractor.

Cause

Board meetings do not include a review and approval of change orders for construction projects.

Management failed to maintain proper supporting documentation in construction files for change orders as required by SCM 2.0, Section 7.2.

Effect

Unauthorized change orders could be processed. Without maintaining appropriate documentation in the construction project file as required by SCM 2.0, Section 7.2, there is no audit trail to demonstrate that all required approvals were obtained prior to processing.

Recommendation

We recommend that the District present any construction change orders to the District’s school board on a monthly basis and note the discussion and approval of the respective change orders within the board minutes.

In addition, we recommend that the District develop and implement a process for reviewing and maintaining original supporting documentation for each transaction, including change orders, for each construction project file.

District Response

All construction change orders were approved by the Seaford School Board's designee, the Superintendent, which has been past practice for the last 18 years. Major capital improvement change orders will now be presented and approved at the board of education meetings.

In addition, the noted change order for \$19,272 was not a change order. The cost was for a reimbursable expense as outlined with the properly executed and approved Professional Services contract with StudioJAED. In particular, the AIA B101 Exhibit A, Section 2.5.2 page 5 lists four firms that would be paid as reimbursable expenses; which represents the \$19,272 charge by Crabtree McGrath. The District has also supplied documentation dated November 6, 2013 from StudioJAED stating there is no AIA document that would be used for processing reimbursable expenses.

Auditor Comment

SCM 2.0, Section 7.2 requires local board of education minutes identifying and approving the changes for each change order transaction. There is no SCM provision that provides an exception to this requirement.

The transaction for \$19,272 was included in the District prepared listing of change orders processed in Fiscal Year 2013. The District could not provide documentation to demonstrate the approvals of the design architect, school district, and contractor for this transaction. For transactions without AIA documents, the District is still required to maintain proof of approvals of the design architect, school district, and contract as required by SCM 2.0, Section 7.2.

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 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."

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 14 change orders totaling \$1,433,722. In testing a sample of four change orders totaling \$38,972, we could not verify that the change orders received the same approvals as the original purchase order, as required by BAM Chapter 7, Section 7.5.6, or included the documentation required by SCM 2.0, Sections 7.2 and 7.2.1.

Cause

The First State Financials (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, at the correct project amounts, 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 maintains hard copies of all Purchase Orders, Payment Vouchers, and Direct Claims processed in FSF. All change orders include the Purchase Order/Change Order number and the transaction dates and amounts, which is printed and maintained. A screen shot of electronic approvals is not printed at this time; however, the automated workflow has been enhanced this year to automatically ad hoc OMB into the workflow as it does for DOA approval. The District will communicate this finding with DOE, OMB, and DOA to seek system enhancements to eliminate the need for additional printing/paper.