

*Santora CPA Group*

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

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*Fiscal Year Ended June 30, 2013*

Report Issued: February 25, 2014

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## Independent Accountants' Report

Deborah D. Wicks  
Superintendent  
Smyrna School District  
82 Monrovia Avenue  
Smyrna, Delaware 19977

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 Smyrna 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.

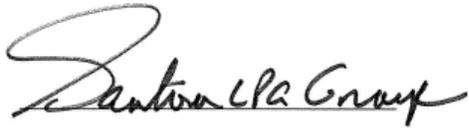
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, 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.

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.

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***

Deborah D. Wicks  
Superintendent  
Smyrna School District  
82 Monrovia Avenue  
Smyrna, Delaware 19977

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 Smyrna 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 consider the deficiency described in the accompanying *Schedule of Current Year Findings* as finding 2013-1 to be a material weakness.

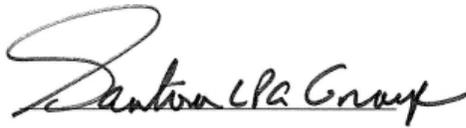
## Compliance and Other Matters

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 and 2013-3.

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
Clayton Intermediate School	2010	50297	80/20	\$ 8,508,125	\$ -	\$ 8,508,125	\$ 8,404,946	\$ 64,403	\$ 8,469,349	\$ 38,776
	2011	50297	80/20	17,966,575	-	17,966,575	8,665,892	3,697,967	12,363,859	5,602,716
	2011	50359	80/20	-	969,017	969,017	969,017	-	969,017	-
	2012	50359	80/20	242,254	-	242,254	-	1,211	1,211	241,043
Smyrna High School	2009	50113	80/20	30,000,000	-	30,000,000	29,980,393	19,607	30,000,000	-
	2010	50113	80/20	27,401,600	-	27,401,600	25,804,389	1,470,781	27,275,170	126,430
Sunnyside Elem School	2007	50263	80/20	9,154,200	-	9,154,200	9,069,489	1,462	9,070,951	83,249
<b>Construction Projects Total</b>				<u>\$ 93,272,754</u>	<u>\$ 969,017</u>	<u>\$ 94,241,771</u>	<u>\$ 82,894,126</u>	<u>\$ 5,255,431</u>	<u>\$ 88,149,557</u>	<u>\$ 6,092,214</u>

**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, 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***

Although amounts reported in the *Schedule of Construction Projects* provided by the District were correctly reported, we noted that 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* is currently prepared and reviewed by the same person.

***Cause***

The District did not provide proper oversight regarding the review of amounts included in the *Schedule of Construction Projects*.

***Effect***

Although the *Schedule of Construction Projects* was completely and accurately stated, lack of a management review control or reconciliation process and lack of segregation of duties may result in incomplete or inaccurate amounts being reported for construction project activity for the District.

***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* is completed by entering information from existing FSF reports and, as stated, was reported correctly. In the future, the District will have one individual enter the data into the report and a second will review to confirm that the information is accurately transcribed.

**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, the OMB, and the Division of Accounting (DOA).

***Condition***

During Fiscal Year 2013, the District processed 173 construction expenditures totaling \$5,255,431. In testing a sample of 40 expenditures totaling \$891,298, we noted that one direct claim voucher totaling \$1,223 did not have the required OMB workflow approval in FSF prior to processing.

***Cause***

The transaction was not routed to the OMB for workflow approval or, if routed correctly, was not approved by the agency 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***

The document in question is associated with a P-card transaction. This is an automated FSF process, and the District does not have the ability to ad hoc other approvers into workflow.

**Finding 2013-3**

***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 the 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 approved 18 change orders totaling \$285,284. In testing a sample of four change orders totaling \$81,889, 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.

In addition, we noted that two change orders totaling \$21,602 had not been processed in FSF yet, despite Board approval in October of 2012 and March of 2013.

***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.

The District did not provide proper oversight to ensure that change orders to construction projects were processed on an individual basis when they were 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.

***District Response***

Until such time as a system change addresses this issue, the District will take screen shots of the FSF approval screens when the change order transactions are entered since it is unclear at this time if the District will be able to access the approval screens once the change order has received final approval.