

*Santora CPA Group*

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

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*Fiscal Year Ended June 30, 2013*

Report Issued: February 25, 2014

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### Independent Accountants' Report

Dr. Allen Lathbury, Jr.  
Superintendent  
Sussex Technical School District  
P.O. Box 351  
17137 County Seat Highway  
Georgetown, Delaware 19947

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

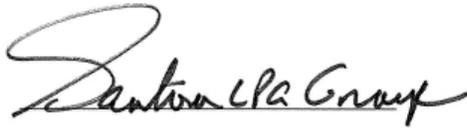
We have examined the accompanying State of Delaware Sussex Technical School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2013. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based 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 that reads "Stanton 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. Allen Lathbury, Jr.  
Superintendent  
Sussex Technical School District  
P.O. Box 351  
17137 County Seat Highway  
Georgetown, Delaware 19947

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 Sussex 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.

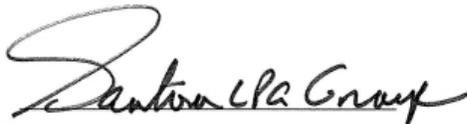
#### Compliance and Other Matters

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 2013-1 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 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 that reads "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
Sussex Tech Environmental Building Renovation	2011	50277	60/40	\$ 1,282,000	\$ -	\$ 1,282,000	\$ 1,277,888	\$ 4,112	\$ 1,282,000	\$ -
Sussex Tech High School Renovations	2011	50283	60/40	478,200	-	478,200	468,839	9,361	478,200	-
	2012	50283	60/40	1,912,500	-	1,912,500	1,261,986	586,056	1,848,042	64,458
Sussex Tech Bus Entrance Renovation	2012	50387	60/40	2,709,900	-	2,709,900	290,021	548,545	838,566	1,871,334
Sussex Tech High School HVAC Renovations	2012	50388	60/40	1,350,000	-	1,350,000	246,341	173,102	419,443	930,557
	2013	50388	60/40	4,050,000	-	4,050,000	-	-	-	4,050,000
Sussex Technical High School Instructional Shop Renovation	2013	50395	60/40	3,415,800	-	3,415,800	-	6,766	6,766	3,409,034
<b>Construction Projects Total</b>				<b><u>\$ 15,198,400</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 15,198,400</u></b>	<b><u>\$ 3,545,075</u></b>	<b><u>\$ 1,327,942</u></b>	<b><u>\$ 4,873,017</u></b>	<b><u>\$ 10,325,383</u></b>

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

**Finding 2013-1**

***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 21 construction purchase orders with remaining balances totaling \$1,528,939 as of June 30, 2013. In testing a sample of six purchase orders totaling \$1,622,492 (remaining balances totaling \$292,446 as of June 30, 2013), we noted four purchase orders totaling \$1,586,889 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. Failure to identify the contract related to the purchase order prevents the use of data inquiry to identify all contract related activity.

***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***

Steps have been taken to ensure contract numbers will be assigned to future purchase orders and direct claim vouchers. Although most contracts awarded by the District are not part of the “State awarded contract” numbering system, a process has been established to ensure a contract number is either assigned by the awarded contractor or the District office. Purchase orders written since the audit was performed that have been supported by a contract were assigned an internal contract number by the awarded contractor and referenced on the purchase order in the description box. Future contract agreements that may be awarded through solicitation or awarded by district will be assigned a contract number and duly noted on purchase orders and/or direct claim vouchers.

**Finding 2013-2**

***Criteria***

The BAM Chapter 5, Section 5.4.5, Exceptions to Bid Laws, and 29 Del. C. §6904 state:

*“Materials may be purchased and work contracted to be performed without competitive bidding in the following instances:*

*Where, because of changed situations, unforeseen conditions, strikes ,and acts of God, change orders, supplemental agreements, or extra work determined to be necessary and requested by the agency and not specified in the agency's solicitation or advertisement for bids and in the awarded contract, the awarding agency may issue a change order or supplemental work agreement(s) on a Public Works contract, which shall not:*

- *Be subject to competitive bidding requirements; or*
- *Invalidate the contract, provided the change is within the scope of the contract as set forth in the standard specifications, special provisions, or similar publication of the agency.”*

The BAM Chapter 5, Section 5.3.2 states:

*“For purchases related to Public Works projects, the dollar amount thresholds listed below are on a contract by contract basis.*

<i>Less than \$25,000</i>	<i>Open Market Purchase</i>
<i>\$25,000 - \$49,999</i>	<i>3 Letter Bids</i>
<i>\$50,000 and over</i>	<i>Formal Bid”</i>

***Condition***

During Fiscal Year 2013, the District processed 21 construction purchase orders with remaining balances totaling \$1,528,939 as of June 30, 2013. In testing a sample of seven purchase orders totaling \$1,717,812 (remaining balances totaling \$387,766 as of June 30, 2013), we identified two purchase orders for the Environmental Building Renovations project that had significant change orders processed against them for work unrelated to the original contract. The original contract value for the two purchase orders (\$1,181,371) was increased by \$782,371 for work to be completed at the Athletic Care classroom/ Strength and Conditioning lab, which was not included as part of the original contract awarded to the vendor.

***Cause***

The projects above did not meet any of the exceptions to the procurement law described in 29 Del. C. §6904 and the BAM Chapter 5, Section 5.4.5. Management failed to adhere to the bid requirements of the BAM Chapter 5, Section 5.3.2.

***Effect***

The District is not in compliance with the requirements of the Delaware Code and the BAM, as noted above.

***Recommendation***

We recommend that the District enhance their transaction review and approval process to ensure that all new work that requires a new contract be granted through a formal bid process to meet the requirements of the Delaware Code and the BAM.

***District Response***

The District did fail to state phases to the project in original bid package; however, the change orders were specifically related to original purchase orders being physically attached and the mechanical systems serving the entire structure. Phase I (LMES Building) and Phase II (Athletic Health Care, Physical Therapy and Strength/Conditioning Building) have been in existence since 1975 and have always shared common walls, HVAC system, fire system, telephone, and PA systems. These contracts were all part of the certificate of necessity to enhance our buildings.

The original AIA Document A101-1997 made between Sussex Technical School District and Power Plus Electrical did not reference the project as LMES building. The Project is noted as Sussex Technical School Building Enhancement Project Bid Package C, Contract 4 – Electric Service. The change order was quoted and labeled Phase II but work was a continuation of the project. Same language applies to Ralph Obizzi & Sons, with original AIA Document noting the project as Sussex Technical Building Enhancement Project Bid Package C, Contract 2 – Mechanical/Geothermal/HVAC/Hydronic Piping/Ductwork. Change order was quoted, and work was a continuation of the project.

The District had no intention of noncompliance regarding Title 29. We disagree with change orders not being related to original bids.

***Auditor Comment***

Phase II of the project for work at the Athletic Health Care, Physical Therapy and Strength/Conditioning Building was not included in the original bidding process. The District added Phase II to the work awarded to the Phase I contractor because they were happy with the contractor's work and did not want to incur the fees associated with the completion of a new bidding process. This does not meet any of the exceptions to the procurement law described in 29 Del. C. §6904 and the BAM Chapter 5, Section 5.4.5.