

*Santora CPA Group*

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**State of Delaware  
Statewide School Districts' Construction  
Projects Attestation Engagements  
Caesar Rodney 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. Kevin Fitzgerald  
Superintendent  
Caesar Rodney School District  
7 Front Street  
Wyoming, Delaware 19934

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 Caesar Rodney 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.

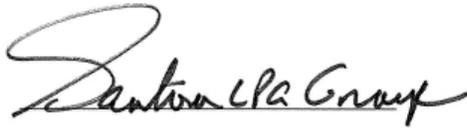
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and,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

Dr. Kevin Fitzgerald  
Superintendent  
Caesar Rodney School District  
7 Front Street  
Wyoming, Delaware 19934

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 Caesar Rodney 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.

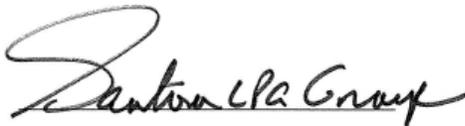
Our consideration of internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting applicable 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, 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.

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 2, 2014  
Newark, Delaware

*Schedule of Construction Projects  
Fiscal Year Ended June 30, 2013*

<b>Project Name</b>	<b>FY</b>	<b>APPR</b>	<b>Source of Funding (State/Local)</b>	<b>Original Funding</b>	<b>Increases (Decreases) in Funding</b>	<b>Total Funding to Date</b>	<b>Expended in Prior Years</b>	<b>Expended in Current Year</b>	<b>Total Expended to Date</b>	<b>Balance as of 6/30/13</b>
Renovate W. Reily Brown Elementary School	2010	50144	80/20	\$ 8,272,600	\$ (100,000)	\$ 8,172,600	\$ 8,161,874	\$ 10,726	\$ 8,172,600	\$ -
Renovate W. B. Simpson Elementary School	2011	50335	80/20	19,007,900	305,505	19,313,405	18,945,197	247,084	19,192,281	121,124
Allen Frear Elementary School	2011	50276	80/20	15,387,200	156,024	15,543,224	12,937,709	2,302,766	15,240,475	302,749
<b>Construction Projects Total</b>				<b>\$ 42,667,700</b>	<b>\$ 361,529</b>	<b>\$ 43,029,229</b>	<b>\$ 40,044,780</b>	<b>\$ 2,560,576</b>	<b>\$ 42,605,356</b>	<b>\$ 423,873</b>

**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***

The District does not have a formal management review or reconciliation process in place for the *Schedule of Construction Projects* to ensure that amounts presented in the *Schedule of Construction Projects* exist, are completely and accurately stated, and properly reconcile to supporting documentation.

In addition, the *Schedule of Construction Projects* prepared by the District did not properly present information for the Renovate W. Reily Brown Elementary School project (appropriation 50144), as detailed below:

- Original Funding Amount, Total Funding to Date, Expended in Prior Years, and Total Expended to Date columns were each understated by \$6,712,342. The amounts reported by the District for these columns for the project were based on First State Financials (FSF) activity only; prior accounting system activity through June 30, 2010 was improperly excluded from the amounts reported.

Note: The *Schedule of Construction Projects* presented on page 7 of this report reflects the corrected balance for Original Funding Amount, Total Funding to Date, Expended in Prior Years, and Total Expended to Date columns.

***Cause***

The District did not provide proper oversight regarding the review of amounts included in the *Schedule of Construction Projects*. In addition, the District did not use reports from FSF and the prior accounting system in the preparation of the *Schedule of Construction Projects*. FSF reports do not include funding or expenditure information prior to the implementation of the system (July 2011).

***Effect***

The *Schedule of Construction Projects* was incomplete or reported inaccurate amounts for construction project activity for the District before the above adjustments were made.

***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, FSF reports, etc.). We further recommend that this process be documented in the District’s written policies and procedures.

***District Response***

Although the District did follow instructions provided by the Department of Education (DOE), the District recognizes the *Schedule of Construction Projects* should include funding and expenditure information prior to the implementation of FSF and will improve oversight regarding the review of the amounts included in the *Schedule of Construction Projects*.

**Finding 2013-2**

***Criteria***

The following *State of Delaware Department of Education School Construction Technical Assistance Manual (SCM)* requirements apply to construction files for completed projects:

<b>Guidance Reference</b>	<b>Requirement</b>
SCM 2.0, Section 3.4	All Final Construction Drawings shall be approved by the local school board and the DOE. The DOE requires one set of Final Construction Drawings.
SCM 2.0, Section 3.5.1 through 3.5.6, SCM 5.0, Section 5.4	3.5 The local school district must involve the following groups in reviewing Final Construction Drawings prior to the final approval. Copies of all local and State agency approvals shall be submitted to the DOE for final approval. 3.5.1 Fire Marshal to review the plans for fire safety. 3.5.2 Division of Public Health, Bureau of Environmental Health, Sanitary Engineering for Swimming Pools, and the County Health Unit for information on Kitchens and Cafeterias. 3.5.3 Division of Facilities Management, Chief of Engineering & Operations for compliance with building codes. 3.5.4 Division of Highways for review of the Site Plan showing entrances and exits. 3.5.5 Architectural Accessibility Board for access for persons with disabilities. 3.5.6 Department of Natural Resources and Environmental Control for wastewater and erosion control.

<b>Guidance Reference</b>	<b>Requirement</b>
	3.6 Exemptions: Major Capital Projects that do not include structural changes or wall modifications such as, but not limited to, window replacement, HVAC, electrical or plumbing infrastructure upgrades do not require submission to the DOE.
	NOTE: Section 5.4 requires the same approval as 3.5.1 through 3.5.6, and adds the requirement for local board of education and DCET (Delaware Center for Educational Technology) Approvals
SCM 2.0, Section 5.2	The District shall notify the DOE, the State Budget Director, and the Insurance Coverage Office at the completion of the construction, which is defined as when the District, with the concurrence of the architect, accepts the building as complete.
SCM 5.0, Section 5.63	Present regulation requires that the school district will notify the State Office of School Plant Planning, the State Auditor, the Budget Director, and the State Insurance Coverage Office upon substantial completion. When using the CM technique a notification of substantial completion will be made for each prime contract.
SCM 2.0, Section 5.3	The District shall notify the DOE, the State Auditor, and the State Budget Director upon approval of the Certificate of Occupancy.
SCM 2.0, Section 5.4	Local district shall submit to the DOE a copy of the electronic AUTOCAD files. Electronic AUTOCAD files shall be submitted no later than 30 calendar days after the completion of any major renovation, addition to an existing facility, new school, or replacement school.

***Condition***

In testing the construction file for the Renovate W.B. Simpson Elementary School (appropriation 50335) and Allen Frear Elementary School (appropriation 50276) projects, we noted that the District did not have documentation in each project’s construction file to demonstrate compliance with the provisions of the SCM 2.0, Section 3.4; SCM 2.0, Section 3.5.1 through 3.5.6; SCM 5.0, Section 5.4; SCM 2.0, Section 5.2; SCM 5.0, Section 5.63; SCM 2.0, Section 5.3; and SCM 2.0, Section 5.4, as noted above.

***Cause***

Management of the District did not provide proper oversight in the maintenance of construction project files.

***Effect***

The District is not in compliance with the provisions of the SCM, as noted above.

***Recommendation***

We recommend that the District develop and implement a management review process (i.e., checklist) to ensure that all required documentation is maintained in construction project files to ensure compliance with the provisions of the SCM.

***District Response***

Although provisions in the SCM were followed by the District, the District recognizes the construction project file should include documentation that demonstrates compliance with the provisions of the SCM. The District is developing and implementing a management review process to ensure that all required documentation is maintained in construction project files.

**Finding 2013-3**

***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 282 construction expenditure transactions totaling \$2,560,576. In testing a sample of 40 expenditures totaling \$355,828, we noted six direct claim vouchers totaling \$1,005 that 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 District follows a management process to ensure that required approvals are inserted into Workflow; but once a document is approved in FSF Workflow at the District level, the District no longer has control or authority to ensure that required approvals by other agencies are obtained prior to processing. Five (5) of the six (6) vouchers were approved at the District level during a time when the Business Manager was out on unexpected and extended sick leave. Future occurrences of this condition have been minimized now that the OMB has been automatically inserted as an approver in FSF.

**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 24 construction change orders totaling \$15,633. In testing a sample of six change orders totaling \$13,864, 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 agrees that FSF is limited and requests the system be modified.