

*Santora CPA Group*

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

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*Fiscal Year Ended June 30, 2013*

Report Issued: February 25, 2014

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## Independent Accountants' Report

Robert S. Fulton  
Superintendent  
Cape Henlopen School District  
1270 Kings Highway  
Lewes, Delaware 19958

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 Cape Henlopen 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.

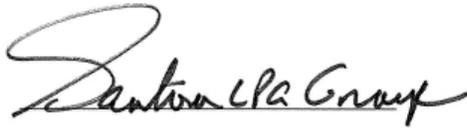
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and,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

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 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**

Robert S. Fulton  
Superintendent  
Cape Henlopen School District  
1270 Kings Highway  
Lewes, Delaware 19958

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 Cape Henlopen 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.

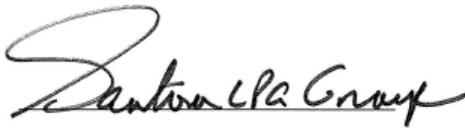
Our consideration of internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting applicable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

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(1), 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 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
Roof Renovation/Boiler - Fred Thomas Building	2012	50384	100/0	\$ 650,000	\$ -	\$ 650,000	\$ 76,943	\$ 535,588	\$ 612,531	\$ 37,469
Construct New 1600 Pupil High School	2009	50036	60/40	13,237,700	-	13,237,700	13,220,454	17,246	13,237,700	-
Renovations - Lewes 9th Grade Academy	2008	50136	60/40	390,600	-	390,600	380,749	9,851	390,600	-
<b>Construction Projects Total</b>				<b>\$ 14,278,300</b>	<b>\$ -</b>	<b>\$ 14,278,300</b>	<b>\$ 13,678,146</b>	<b>\$ 562,685</b>	<b>\$ 14,240,831</b>	<b>\$ 37,469</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 (COSO), 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 control 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, as detailed below:

- Expended in Prior Years for the 1600 Pupil High School project (appropriation 50036) was reported as \$13,233,454. The correct Expended in Prior Years Amount for this project is \$13,220,454.
- Expended in Current Year for the Roof Renovation/ Boiler - Fred Thomas Building project (appropriation 50384) was reported as \$552,749. The correct Expended in Current Year Amount for this project is \$535,588.
- Expended in Current Year for the 1600 Pupil High School project (appropriation 50036) was reported as \$14,246. The correct Expended in Current Year Amount for this project is \$17,246.

Note: The *Schedule of Construction Projects* presented on page 7 of this report reflects the corrected balance for Expended in Prior Years and Expended in Current Year columns.

***Cause***

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

***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, 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 District acknowledges the finding and will implement the recommendation.

**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.”*

***Condition***

During Fiscal Year 2013, the District processed four change orders totaling \$3,002. In testing a sample of one change order totaling \$(840), 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 Department of Education and OMB have implemented a systematic change in FSF. The District will maintain documentation of approvals for all purchase orders and purchase order modifications for audit purposes.