

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Michael D. Thomas
Superintendent
Capital School District
945 Forest Street
Dover, Delaware 19904-3498

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 Capital 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.

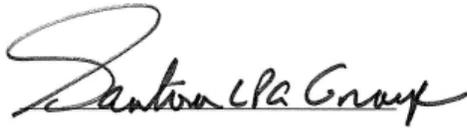
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, 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. Michael D. Thomas
Superintendent
Capital School District
945 Forest Street
Dover, Delaware 19904-3498

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 Capital 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.

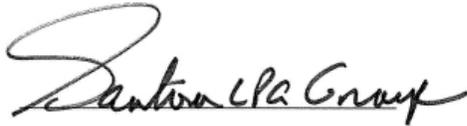
Compliance and Other Matters

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 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.

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 cursive script, appearing to read "Denton CPA Group".

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
Central Middle School - Gym	2010	50281	72/28	\$ 1,710,800	\$ -	\$ 1,710,800	\$ 1,559,942	\$ 150,858	\$ 1,710,800	\$ -
New Dover High School	2011	50285	21/79	21,633,400	-	21,633,400	15,901,166	5,458,666	21,359,832	273,568
	2011	50286	70/30	3,300,000	-	3,300,000	2,898,968	401,032	3,300,000	-
	2012	99132	100/0	10,454,500	-	10,454,500	103,882	6,582,529	6,686,411	3,768,089
	2012	50285	63/37	44,214,400	-	44,214,400	868,171	28,907,274	29,775,445	14,438,955
	2013	50285	70/30	34,732,300	-	34,732,300	-	-	-	34,732,300
Land Acquisition - New Dover High School	2008	50080	72/28	11,000,000	(500,000)	10,500,000	10,041,991	458,009	10,500,000	-
William Henry - Site Renovations	2012	50299	70/30	3,423,700	-	3,423,700	2,662,602	446,679	3,109,281	314,419
	2012	50376	70/30	279,800	-	279,800	10,529	170,961	181,490	98,310
	2012	50377	70/30	213,100	-	213,100	1,393	47,892	49,285	163,815
Maintenance Office	2011	50294	0/100	3,858,900	-	3,858,900	3,623,686	191,017	3,814,703	44,197
Professional Center / District Office	2011	50295	0/100	8,400,000	-	8,400,000	7,000,290	1,166,097	8,166,387	233,613
Kent County Community School	2013	50401	100/0	1,998,300	-	1,998,300	-	1,998,300	1,998,300	-
Construction Projects Total				<u>\$ 145,219,200</u>	<u>\$ (500,000)</u>	<u>\$ 144,719,200</u>	<u>\$ 44,672,620</u>	<u>\$ 45,979,314</u>	<u>\$ 90,651,934</u>	<u>\$ 54,067,266</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

The *Schedule of Construction Projects* prepared by the District did not properly present information as detailed below:

- The percentage of state and local funding for each appropriation was missing from the *Schedule of Construction Projects*.
- The fourth appropriation line for the New Dover High School project (appropriation 50285) was reported as being funded in Fiscal Year 2012. The correct Fiscal Year for the line of the funding is 2013.
- Increases/Decreases in Funding for the Land Acquisition - New Dover High School project (appropriation 50080) was reported as \$0 due to improper classification of a prior year transfer for \$(500,000) as Expended in Prior Years. The correct Increases/Decreases in Funding amount is \$500,000, and the correct amount Expended in Prior Years is \$10,041,991.

Note: The *Schedule of Construction Projects* presented on page 7 of this report reflects the corrected balance for Source of Funding (State/Local), Increases (Decreases) in Funding, and Expended in Prior Years 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 will follow the format of the revised *Schedule of Construction Projects* to ensure that the notated deviations are adhered to as suggested.

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.

Condition

During the year, the District processed 407 construction vouchers totaling \$45,979,314. In testing a sample of 40 expenditures totaling \$5,390,361, we noted two direct claim vouchers totaling \$3,520 that did not have the proper OMB workflow approval in FSF prior to processing.

Cause

The transactions were not routed to the OMB for workflow approval or, if routed correctly, were 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 6.4 and 6.5.7. The *Schedule of Construction Projects* may include unauthorized expenditures.

Recommendation

We recommend that the District enhance management review processes to ensure that required approvals are obtained on all expenditure transactions prior to processing.

District Response

The District was unable to add the OMB into the workflow when these two construction vouchers were issued. Since the issuance of these construction vouchers, the District has worked with the OMB and FSF to formulate a strategy to incorporate the OMB into the workflow for construction vouchers below the \$5,000 threshold. Consequently, the District has already implemented a methodology to include the OMB into the workflow for construction vouchers under \$5,000.