

Santora CPA Group

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

Fiscal Year Ended June 30, 2013

Report Issued: February 25, 2014

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Independent Accountants' Report

Dr. Phyllis Kohel
Superintendent
Milford School District
906 Lakeview Avenue
Milford, Delaware 19963-1799

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 Milford 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.

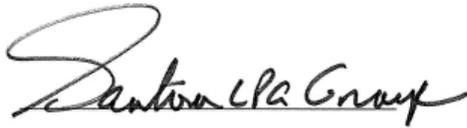
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, 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. Phyllis Kohel
Superintendent
Milford School District
906 Lakeview Avenue
Milford, Delaware 19963-1799

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 Milford 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.

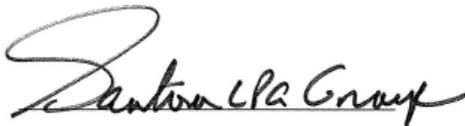
Our consideration of internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompanying *Schedule of Current Year Findings* as findings 2013-1 and 2013-2 to be material weaknesses.

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.

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, with a large initial letter.

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
Middle Academy	2009	50287	77/23	\$ 21,387,900	\$ (88,590)	\$ 21,299,310	\$ 21,297,892	\$ 1,418	\$ 21,299,310	\$ -
	2010	50296	77/23	12,296,200	(1,160,073)	11,136,127	11,006,072	121,038	11,127,110	9,017
Mispillion Elementary School	2009	50282	77/23	3,094,000	(250,000)	2,844,000	2,812,000	32,000	2,844,000	-
	2010	50282	77/23	14,000,000	-	14,000,000	13,867,554	123,927	13,991,481	8,519
	2011	50282	77/23	2,174,500	(16,667)	2,157,833	2,151,852	5,981	2,157,833	-
Land Acquisition - Mispillion Elementary School	2011	50078	77/23	1,194,000	(513,469)	680,531	618,853	60,310	679,163	1,368
Renovations - Morris ECC	2008	50122	77/23	230,700	509,079	739,779	738,127	1,652	739,779	-
Renovations - Milford High School	2008	50139	77/23	3,216,200	500,000	3,716,200	3,710,984	5,216	3,716,200	-
	2011	50139	77/23	<u>1,233,600</u>	<u>1,468,626</u>	<u>2,702,226</u>	<u>1,487,971</u>	<u>878,474</u>	<u>2,366,445</u>	<u>335,781</u>
Construction Projects Total				<u>\$ 58,827,100</u>	<u>\$ 448,906</u>	<u>\$ 59,276,006</u>	<u>\$ 57,691,305</u>	<u>\$ 1,230,016</u>	<u>\$ 58,921,321</u>	<u>\$ 354,685</u>

Senate Bill No. 202 was passed, which allowed the District to transfer funds between any major capital improvement certificates of necessity that were part of the referendum approved on February 15, 2007. In addition, House Bill No. 260 was passed, which approved the District to use non-obligated major capital improvement funds from the Central Academy Middle School Project for the construction of an animal science facility and land sciences laboratory on the Kent County Campus. During the year ended June 30, 2013, the project to construct a proper animal science facility and land sciences laboratory was not assigned an appropriation, nor did it receive its own funding. Current year expenditures, included in the respective appropriations above, related to the construction of the animal science facility and land sciences laboratory were as follows:

Appropriation	Project	
50287	Middle Academy	\$ 1,418
50296	Middle Academy	121,038
50282	Mispillion Elementary School	107,622
50122	Morris ECC Renovations	1,651
50139	Milford High School Renovations	883,689
		<u>\$ 1,115,418</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:

- Original Funding Amount for the Middle Academy project (appropriation 50287) was not included in the District prepared *Schedule of Construction Projects*. The correct Original Funding Amount for this project is \$21,387,900.
- Expended in Prior Years was reported as \$36,465,465. The District reported amount improperly excluded the amount that was expended in prior years for the Middle Academy project (appropriation 50287) of \$21,297,892, and improperly reported the expended in prior year amounts for the following projects: Middle Academy (appropriation 50296), Mispillion Elementary School (appropriation 50282 for 2009 and 2010), Renovations – Morris ECC (appropriation 50122), and Renovations – Milford High School (50139 for 2008). The correct Total Expended in Prior Years amount, supported by the final June 30, 2012 *Schedule of Construction Projects*, is \$57,691,305.
- Expended in Current Year for the Middle Academy project (appropriation 50287) of \$1,418 was not included in the District prepared *Schedule of Construction Projects*. The correct Total Expended in Current Year is \$1,230,016.
- Increases/Decreases in Funding was reported as \$534,590. This amount includes First State Financials (FSF) increases/decreases per the June 30, 2013 DGL049 – *Statement of Available Funds* Report; however, it improperly excluded the increases/decreases on project appropriations with Delaware Financial Management System activity, as well as increases/decreases of \$(88,590) for the Middle Academy project (appropriation 50287) that was not included in the District prepared *Schedule of Construction Projects*. The correct Increases/Decreases in Funding amount is \$448,906, the total cumulative increases/decreases for all years on the appropriations included in the *Schedule of Construction Projects*

Note: The *Schedule of Construction Projects* presented on page 7 of this report reflects the corrected balance for Original Funding Amount, Increases (Decreases) in Funding, Expended in Prior Years, and Expended in Current Year.

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 enhance their 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

The District has processes in place which provide for management review, control, and reconciliation of the Schedule of Construction Projects. The Operations Department Financial Secretary populates the report, and sends it to the Chief Financial Officer for review and final submission.

Auditor Comment

We agree that the District did have a management review and reconciliation process in place; however, this review and reconciliation process was not effective to ensure that the 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.).

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).

District policy requires Construction Manager approval on expenditure transactions prior to processing.

Condition

During Fiscal Year 2013, the District processed 110 construction vouchers totaling \$1,230,016. In testing a sample of 40 expenditures totaling \$703,063, we noted:

- two direct claim vouchers totaling \$1,550 that did not have the proper OMB workflow approval in FSF prior to processing, and
- one transaction for \$53,601 that did not have the required DOA workflow approval in FSF prior to processing.

In addition, we noted nine transactions totaling \$118,172 that did not have the required Construction Manager approval prior to processing in accordance with District policy.

Cause

The transactions were not routed to the OMB or the DOA for workflow approval or, if routed correctly, were not approved by the agencies in FSF workflow prior to processing. The transactions were not routed to the Construction Manager for approval 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, and internal policies regarding Construction Manager approval of expenditures. 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 OMB and FSF have put controls in place which automatically push all Fund 300 (bond funding) encumbrances and expenditures to the OMB for approval. The Department of Education is still added manually; however, if this step is missed, the OMB “pushes” the document back for correction and resubmission.

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 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 five construction change orders totaling \$61,262. In testing a sample of two change orders totaling \$143, 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 Milford School District has added processes to improve audit trails for future audits. Copies of all documents are maintained centrally in the finance department, and all original transactions are maintained when “JVed” or if a change order is processed showing the original transaction to the updated transaction.