

Santora CPA Group

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

Fiscal Year Ended June 30, 2012

Issued: March 1, 2013

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Independent Accountants' Report

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

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

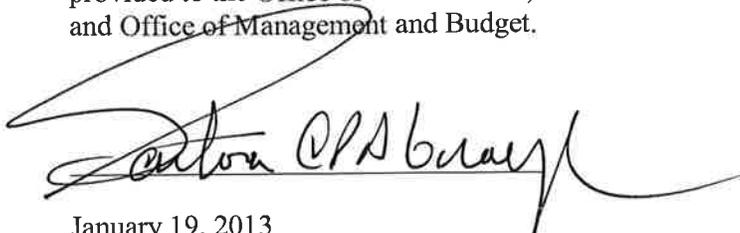
We have examined the accompanying State of Delaware Sussex Technical School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2012. The District's management is responsible for the *Schedule of Construction Projects*. Our responsibility is to express an opinion based 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, 2012, 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 19, 2013, 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., Section 10002(d), 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 "Dalton QPS Bryant", written over a horizontal line.

January 19, 2013
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. Ed.D.
Superintendent
Sussex Technical School District
17137 County Seat Highway
P.O. Box 351
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, 2012, and have issued our report thereon dated January 19, 2013. 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 did not identify any deficiencies in internal control over financial reporting applicable to preparing the *Schedule of Construction Projects* that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting applicable to the *Schedule of Construction Projects*, described in the accompanying *Schedule of Current Year Findings* as finding 2012-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control less severe than a material weakness, yet important enough to merit attention by those charged with governance.

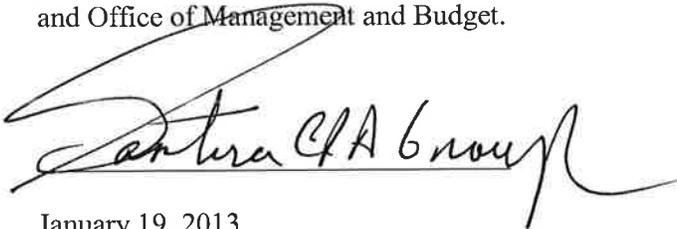
Compliance and Other Matters

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 2012-1, 2012-2, and 2012-3.

We noted certain matters that we reported to management of the District in a separate letter dated January 19, 2013.

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., Section 10002(d), 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.



January 19, 2013
Newark, Delaware

Schedule of Construction Projects
Fiscal Year Ended June 30, 2012

Project Name	FY	APPR	Source of Funding (State/Local)	Original Funding Amount	Increases (Decreases) in Funding	Total Funding to Date	Expended in Prior Years	Expended in Current Year	Total Expended to Date	Balance as of 6/30/12
Sussex Tech Environmental Building Renovation	2011	50277	60/40	\$ 1,282,000	\$ -	\$ 1,282,000	\$ 194,344	\$ 1,083,544	\$ 1,277,888	\$ 4,112
Sussex Tech High School Renovation	2011	50283	60/40	478,200	-	478,200	103,565	365,274	468,839	9,361
	2012	50283	60/40	1,912,500	-	1,912,500	-	1,261,986	1,261,986	650,514
Sussex Tech Bus Entrance Renovation	2012	50387	60/40	2,709,900	-	2,709,900	-	290,021	290,021	2,419,879
Sussex Tech High School HVAC Renovation	2012	50388	60/40	1,350,000	-	1,350,000	-	246,341	246,341	1,103,659
Construction Projects Total				\$ 7,732,600	\$ -	\$ 7,732,600	\$ 297,909	\$ 3,247,166	\$ 3,545,075	\$ 4,187,525

**Schedule of Current Year Findings
June 30, 2012**

Finding 2012-1

Criteria

The State of Delaware *Budget and Accounting 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, OMB, and Division of Accounting (DOA).

Condition

In testing a sample of 40 expenditure transactions totaling \$1,011,220, we noted four vouchers totaling \$42,113 that did not have proper OMB workflow approval in First State Financials (FSF) prior to processing. Of those four vouchers, three vouchers totaling \$42,032 did not have proper DOA workflow approval in FSF prior to processing.

Cause

Management failed to adhere to the expenditure approval requirements of the BAM, Chapter 6, Sections 6.4 and 6.5.7.

Effect

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 three vouchers were Journal Vouchers (JV) that were recoded. They were originally sent to the Department of Education (DOE) and OMB when they were first paid because we knew they were going to be recoded to major cap when we received it. In the future, we will send all JV to DOE and OMB.

Finding 2012-2

Criteria

The BAM, Chapter 13, Section 13.5.2 states:

*“The following expenditures are examples that **are not** capitalized as improvements to buildings and should be recorded as maintenance expenses: ...Any other maintenance-related expenditure, which does not increase the value of the building.”*

Condition

In testing a sample of 40 expenditures totaling \$1,011,200, we noted six vouchers totaling \$1,056 related to container rental, dumpster hauling, and landfill fees that were improperly capitalized to the Sussex Tech High School Renovation project (appropriation 50283).

Cause

The District did not have an effective management review control for the Generally Accepted Accounting Principles (GAAP) Package to ensure the completeness and accuracy of amounts reported.

Effect

Management oversight in the preparation of the GAAP Package resulted in improper inclusion of these transactions in Construction Work In Progress (CWIP). Improper capitalization of expenditures results in an overstatement in the asset value of a project when closed out of CWIP and added to the State’s fixed asset ledger.

Recommendation

We recommend that the District enhance their management review and approval process for expenditure transactions and GAAP Package preparation to ensure that amounts reported therein represent capitalizable activity.

District Response

When working on the CWIP report, the District contacted DOA and asked for direction on how to handle the capitalization on appropriation 502863 (High School Renovations). I have all emails stating how we should handle this project since it was not a substantially completed project.

Finding 2012-3

Criteria

The Capital Asset Accounting Policy (CAPM), as merged into the *State of Delaware Generally Accepted Accounting Principles Reporting Package Manual*, Section II.D.2 states:

“Each local school district and Delaware Technical and Community College is responsible for the reporting of construction projects as well as additions, betterments, and renovations to existing buildings. The Business Manager will report CWIP balances in the State’s annual GAAP Package for inclusion in the State’s financial statements. ... Documentation to support the buildings/improvements and

construction-in-progress will be maintained by the School, subject to review by the Division of Accounting. To assist with end-of-year reporting for CWIP, these balances will be updated on a quarterly basis.”

The CAPM Section IV.B.3 states:

“As construction progresses, the cumulative expenditures of all vendors involved in the project are tracked and then sorted to be capitalized as CWIP if the vendors meet the criteria for construction items.”

Condition

We noted that the District capitalizes all costs for CWIP projects in their GAAP Package as projects are ongoing, and completes a true up for each project when substantial completion is reached to back out non-capitalizable activity. The amount to back out for non-capitalizable activity is calculated by the State’s Central Assets Management and provided to the District for use in preparation of the GAAP Package.

We noted that the District reported a \$98,585 adjustment to Beginning Value of CWIP in the June 30, 2012 GAAP Package for the Environmental Classroom project (appropriation 50277).

Cause

The District did not review expenditures as construction projects progress to ensure that only capitalizable items were reported in the GAAP Package.

Effect

CWIP GAAP Package amounts reported for projects may be overstated until adjustments are made for non-capitalizable activity, at the time when projects are substantially complete and closed out to fixed assets.

Recommendation

We recommend that the District enhance its management review of the CWIP GAAP Package to ensure the accuracy of CWIP amounts reported prior to submission to DOA.

District Response

When working on the CWIP report for the GAAP Package, we asked DOA for direction. I sent them the full spreadsheet, and they informed me what to back out and what to put on the CWIP report. We did everything they way they directed us to.