Cherokee County
Board of Education

Performance Audit on
Special Purpose Local Option Sales Tax

For The Year Ended June 30, 2011

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Introduction

To the Members of the Board of Education
Cherokee County School District
Canton, Georgia

Georgia Code Section 20-2-491 requires public school systems to obtain continuing performance audits for expenditure of sales tax for capital outlays if the tax generates $5 million or more annually. The independent performance audit shall:

1. Include a goal of ensuring, to the maximum extent possible, that the tax funds are expended efficiently and economically so as to ensure that the school district receives maximum benefit from the dollars collected.
2. Provide for issuance of periodic reports, not less than once annually, with respect to the extent to which tax funds are expended efficiently and economically as described in item 1 above.
3. Provide for issuance of periodic public recommendations, not less than annually for improvements in meeting the goal specified in item 1 above.

SPLOST, or "Special Purpose Local Option Sales Tax," is a referendum voted and approved by Cherokee County voters in which one percent is added to the local sales tax for the purpose of funding School District building and renovation projects that would otherwise require financing through increasing residents' property taxes.

The School District works under the direction of the School Board and its superintendent, and the projects selected for SPLOST funding are chosen by the School Board. (1) The 2002 SPLOST funds are used to fund the School District's Capital Improvements Program, to pay (i) a portion of the costs of (a) acquiring, constructing and equipping new school buildings and other buildings or facilities useful or desirable in connection therewith, including but not limited to, six new elementary schools, two new middle schools and one new high school; (b) adding to, renovating, repairing, improving and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith, (c) acquiring, installing and equipping system-wide technology improvements, and (d) acquiring any property useful or desirable therefor, both real and personal (the "Projects"), (ii) capitalized interest on the $152,325,000 Cherokee County School System General Obligation Bonds (the "Bonds") through and including February 1, 2003, and (iii) the payment of a portion of the principal of and interest on (a) the Cherokee County School System General Obligation Refunding Bonds, Series 1992, (b) the Cherokee County School System General Obligation School Bonds, Series 1993, and (c) the Cherokee County School System General Obligation Refunding School Bonds, Series 1999 (the "Prior Bonds"), with the maximum amount of debt service to be paid on the Prior Bonds not to exceed $5,000,000; (iii) the payment of a portion of the principal of and interest on the Bonds to be issued under this referendum, with the maximum amount of debt service to be paid on the Bonds not to exceed $67,000,000, and (iv) a portion of the costs of the Projects listed in (i), with the maximum amount of the Projects to be funded not to exceed the balance of the one percent sales and use tax proceeds. The approved resolution for 2002 SPLOST tax revenue amount was up to $157,000,000. (2) The 2007 SPLOST funds are used to fund the School District's Capital Improvements Program, to pay (i) a portion of the costs of (a) acquiring, constructing and equipping new school buildings and other buildings or facilities useful or desirable in connection therewith,

including but not limited to, five new/replacement elementary schools, one new middle school and one new high school; (b) adding to, renovating, repairing, improving and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith, (c) acquiring, installing and equipping portable classrooms, (d) acquiring, installing and implementing system-wide technology improvements, and (e) acquiring any property useful or desirable therefor, both real and personal (the "Projects"), (ii) capitalized interest on the $430,000,000 Cherokee County School System General Obligation Bonds (the "Bonds") through and including February 1, 2008, (iii) the costs of issuing the Bonds, and (iv) the payment of a portion of the principal of and interest on (a) the Cherokee County School System General Obligation Bonds, Series 1993, (b) the Cherokee County School System General Obligation Refunding Bonds, Series 1999, (c) the Cherokee County School System General Obligation Bonds, Series 2001, (d) the Cherokee County School System General Obligation Refunding Bonds, Series 2002, (e) the Cherokee County School System General Obligation Bonds, Series 2003, and (f) the Cherokee County School System General Obligation Bonds, Series 2006 (the "Prior Bonds"), with the maximum amount of debt service to be paid on the Prior Bonds not to exceed $72,000,000; (iv) the payment of a portion of the principal of and interest on the Bonds to be issued under this referendum, with the maximum amount of debt service to be paid on the Bonds not to exceed $104,000,000, and (v) a portion of the costs of the Projects listed in (i), with the maximum amount of the Projects to be funded not to exceed the balance of the one percent sales and use tax proceeds. The approved resolution for 2002 SPLOST tax revenue amount was up to $210,000,000.

Audit Scope, Objectives, and Methodology

Audit Scope

Mauldin & Jenkins was engaged to conduct a performance audit of the SPLOST program. The audit focused on the School District's compliance with state and local laws and mandates and the receipt and expenditure of sales tax proceeds for allowable SPLOST educational purposes.

The audit covers the year of the SPLOST program from July 1, 2010 to June 30, 2011. From a listing of all disbursements made during the specified time frame, we randomly selected sixty (60) disbursements to test, totaling $29,126,031 representing 40% of the total disbursements, which amounted to $73,340,538 for the audit period.

Audit Objectives

The overall objective of the performance audit was to evaluate whether the tax funds are expended efficiently and economically so that the School District is receiving maximum benefit from the dollars collected. The specific audit objectives were:

- To determine whether the schedule of projects adheres to the approved resolution adopted by the Cherokee County Board of Education,
- To determine that the reporting effectiveness between the School District and the Board of Education communicates the status of capital outlay projects to ensure that legislative, regulatory, and organizational goals and objectives were achieved,
- To determine the reliability of the monitoring function to verify that actual project expenditures are not exceeding budgeted amounts,

- To determine whether there is an effective means of monitoring program performance within a projected timeline, to evaluate the validity of expenditures, and to evaluate the timely completion of each capital project,
- To determine the reliability, validity or relevance of financial analyses to verify that cash flows conform to forecasted projections by project and priority, and that intended economic results are accomplished,
- To determine whether effective procedures exist to verify that design and construction of capital projects adhered to applicable quality control standards,
- To determine the effectiveness of financial controls in place to ensure that the receipt and expenditure of tax revenue funds are in compliance with applicable laws and regulations, and
- To determine whether management of the School District is following Board approved procurement policies and procedures.

Audit Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To ensure that the SPLOST performance audit is adequately planned, performed and supervised, we performed the following steps:

Planning

Prior to the conduct of the audit, we determined mutual expectations in performing the engagement and meeting time lines. We discussed policies and procedures, methodologies, and other relevant aspects of the School District's SPLOST program with relevant staff. We requested various schedules from the School District's staff and discussed with them the date the fieldwork was expected to begin.

Preliminary Analytical Review

The preliminary analytical review provided direction to our audit approach. In this analysis, we developed expectations related to projects, program documentation, key personnel, program organization, and account balances and relationships among those account balances. During the audit, tests were designed to confirm the expectations developed during our preliminary analytical review. We also performed a preliminary analytical review to analyze the laws governing SPLOST funds and to identify in advance the critical audit risk areas.

Risk Assessment

Our audit approach is risk-based, whereby we assess risks for each identified objective. These assessments include an assessment of inherent and control risks to determine a combined risk assessment. Depending on the combined risk assessment, we perform substantive or analytical procedures, or a combination of both, to test the related objectives. These assessments were made during the planning process and throughout the engagement.

Understanding the Control Environment and Testing Key Controls

We examined the School District's internal controls related to the SPLOST program, focusing on formulating comments and suggestions for improving operations. We used a discussion memorandum format to document the relevant accounting cycles and processes from start to finish. We also completed questionnaires to further document an understanding of the School District's internal controls over the expenditures of the SPLOST program. Utilizing our understanding of the control environment, we walked through certain internal controls to provide further support for the audit.

Preparation of a Tailored Audit Program

Based upon preliminary analytical review, control documentation and walk through procedures, audit programs were designed in order for conclusions to be reached for each audit objective.

Reporting

At the conclusion of the performance audit, we prepared a preliminary report of findings and a written analysis of proposed recommendations in draft form. This preliminary report and analysis was presented to the School District's representative(s). Upon completion of the presentation and review of the report and analysis by the School District's representative(s), we provided a public report of the results of the annual performance audit.

Audit Results

Based on the results of our audit, we conclude that the Cherokee County School District's SPLOST Program is operating in compliance with all applicable laws and regulations, the referendum approved by the County's citizens, and industry best practices. The following are the specific results of our audit:

Objective #1: To determine whether the schedule of projects adheres to the approved resolution adopted by the Cherokee County Board of Education.

Procedures: We obtained a copy of the 2002 SPLOST Resolution and 2007 SPLOST Resolutions as approved by the Board of Education of the School District and the voters of Cherokee County. We then conducted a disbursement test for disbursements made during the audit period to ensure that the projects for which expenditures were incurred were included in the approved resolutions.

Results: Based on the results of our disbursement test, the expenditures tested were related to projects approved in the SPLOST resolutions.

Objective #2: To determine that the reporting effectiveness between the School District and the Board of Education communicates the status of capital outlay projects to ensure that legislative, regulatory and organizational goals and objectives were achieved.

Procedures: We discussed the policies and procedures for communication with the Board with the Project Manager. Per discussion with the Project Manager, he prepares a monthly board summary report that shows construction jobs that are in the planning stage as well as currently under construction. We reviewed these reports on-line in the Board meetings section of the Cherokee County Schools website. For those projects under construction the project manager includes the status of the construction, as well as a copy of the current status letter from the contracted engineer/architect firm responsible for each project.

Results: Based on the results of the inquiry made and the review of the reports included in the minutes, the School District has an effective method in place to communicate with the Board in regard to the financial and project status of each project to ensure that legislative, regulatory, and organizational goals and objectives are achieved.

Objective #3: To determine the reliability of the monitoring function to verify that actual project expenditures are not exceeding budgeted amounts.

Procedures: We discussed the monitoring of expenditures versus budget with the Accounting Clerk. The Project Manager maintains and reviews the Board Summary Report to review the budget and project status before the meeting with the Board. In addition, the Accounting Clerk reviews each invoice before it is processed to ensure that sufficient funding is available. The School District has established separate general ledger accounts for each project, as a means to help monitor the project status. This enables the Accounting Clerk and the Project Manager to look one place to see what is available for payment and future project requirements.

Results: Based on the results of inquiries made and review of disbursements as part of our disbursement test, an adequate process is in place to monitor expenditures to ensure that actual project expenditures do not exceed budgeted amounts.

Objective #4: To determine whether there is an effective means of monitoring program performance within a projected timeline, to evaluate the validity of expenditures, and to evaluate the timely completion of each capital project.

Procedures: We discussed the monitoring of projects with the Project Manager. Per discussion, the Project Manager visits each site on a daily basis. Additionally, the Project Manager meets with the architect and contractor for each project where they discuss the status of each project and any concerns that exist. Also, the Project Manager performs a walk through when invoices are received from the contractors to ensure the work was actually performed by the contactors. Additionally, we conducted a disbursement test to ensure that the Board has policies and procedures in place to ensure that expenditures are properly approved by an individual who reviews the work to ensure that invoices submitted are valid in regard to work completed. We noted that for each project a schedule or timeline is created and changes are noted and kept in the file by project. We also noted that the architect performs on site reviews, and reports are typed and maintained on file in the facilities department.

Results: Based on the results of inquiries made, review of reports prepared for submission to the Board (including budget to actual financial status reports and project status reports), and review of reports completed upon inspection of project sites, the Board has an effective program in place to monitor program performance and to ensure the timely completion of each capital project within the projected timeline. Additionally, the Board has policies and procedures in place to ensure that expenditures incurred and paid are valid expenditures of the SPLOST proceeds.

Objective #5: To determine the reliability, validity or relevance of financial analyses to verify that cash flows conform to forecasted projections by project and priority, and that intended economic results are accomplished.

Procedures: In order to determine the reliability, validity, and relevance of financial analyses prepared by various staff involved in the SPLOST projects, we inquired as to the procedures performed in regard to the financial analyses. Per discussions with the Project Manager, he maintains three spreadsheets which summarize the activity and status of each project, as compared to the original budget from the SPLOST referendum. The reports used include a Projected Expenditure Cash Flow report, A Budget to Actual report and a Cost Analysis Worksheet. We reviewed the worksheets for the Ball Ground Elementary School Project and the Univeter Road Project (Indian Knoll), noting the School District was properly tracking the expenditures and the status of each project to ensure all work was monitored, accounted for and the project was on path for timely completion.

Results: Based on the results of inquiries made, review of tracking reports used by the Project Manager, review of reports submitted to the Board, and reconciliations completed by School District accounting personnel, there is an adequate process in place to monitor cash flows to ensure that financial analyses to verify that cash flows conform to forecasted projections by project and priority are reliable, valid, and relevant and that the intended economic results are accomplished.

Objective #6: To determine whether effective procedures exist to verify that design and construction of capital projects adhere to applicable quality control standards.

Procedures: We discussed procedures in place to monitor the design and construction of capital projects with the Project Manager. Per discussion with the Project Manager, the School District has a five year facility plan. We reviewed the five year plan noting the most recent version was revised on January 13, 2012. Per discussion with the Project Manager, the School District established an ongoing contract with two architect firms prior to the issuance of the 2002 SPLOST. They have remained engaged with the two firms for consistency and familiarity with the School District's projects. The School District has several projects which lapse from year to year and even over SPLOST series. All on-site visits are performed by the contracted architects or by separately engaged quality control inspection firms.

Results: Based on the results of inquiries made and review of supporting documentation of on-site inspections, effective procedures are in place to verify that the design and construction of capital projects adhere to applicable quality control standards.

Objective #7: To determine the effectiveness of financial controls in place to ensure that the revenue and expenditure of tax revenue funds are in compliance with applicable laws and regulations.

Procedures: We discussed financial controls in place with the Assistant Superintendent over Finance. All sales tax collections are deposited into the appropriate debt service fund, as the School District primarily uses the tax revenues to service the debt, as authorized in the referendums. The proceeds from the bond issuances are originally reported in one capital projects fund and then are subsequently transferred out to another capital projects fund, which is used to account for the status of each project approved through the resolutions. The School District has an approval process in place whereby all expenditures are verified (goods have been received and/or work has been completed) before an invoice is approved for payment, which requires the Project Manager to certify the work was performed and/or goods were received. The invoices are then provided to the Planning Director for his review of the project status and approval of the project. Additionally, as part of our Disbursement Test, we reviewed disbursements for proper approval and to verify that the expenditures were related to projects approved in the SPLOST resolutions.

Results: Based on the results of inquiries made, review of monthly financial reports submitted to the Board, and review of disbursements, effective financial controls are in place to ensure that the receipt and expenditure of tax revenue funds are in compliance with applicable laws and regulations.

Objective #8: To determine whether the School District is following Board approved procurement policies and procedures.

Procedures: In order to test the procurement practices of the program, we held discussions with the Assistant Superintendent of Finance and the Project Manager. All construction projects are required to be bid out through RFP's and are evaluated by the Project Manager. Prior to the Board meetings, all Board Members are provided a copy of each proposal received for their review and evaluation. At the voting Board meeting, the evaluation and recommendation is provided to the Board for their review and acceptance.

Results: Based on inquiries made and our review of bid documents, the School District is following Board approved procurement policies and procedures.

Closing

This report is intended solely for the information and use of the Cherokee County Board of Education and its management and other officials, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 27, 2012