

SPLOST Performance Audit

Fiscal Year Ended June 30, 2013

WILLIAMSON & CO. CPA's

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LLOYD WILLIAMSON
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To the Superintendent and Members of
The Cherokee County Board of Education
Canton, Georgia

The Official Code of Georgia Annotated §20-2-491 requires a performance audit or review on educational sales tax expenditures of a School District if that sales tax generates $5 million or more. The performance audit should be designed and executed so that:

1. It provides assurance to the "maximum extent possible that the tax funds are expended efficiently and economically, so as to secure to the expending School District the maximum possible benefit from the tax dollars collected"

2. Public reports are issued at least once a year, to provide insight as to the extent that funds are being expended efficiently and economically in order to maximize the benefit from tax collections as described in (1) above.

3. Periodic public recommendations are issued at least once a year for the purpose of improving the School District's operations in regards to efficiently and economically maximizing the use of the educational sales tax collections.

On November 7 of 2006, the voters of Cherokee County approved by referendum the establishment of a special local option sales tax (SPLOST) in which one percent is added to the local sales tax in order to (1) to pay up to $72,000,000 of a portion of the principal and interest on the School District's Series 1993, 1999, 2001, 2002, 2003, and 2006 general obligation bond issues, (2) to pay up to $104,000,000 of a portion of the principal and interest on the School District's Series 2007 general obligation bond issue, and (3) to use the remaining amounts to fund 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, (b) adding to, renovating, repairing, improving, and equipping existing school buildings and other buildings and facilities useful or desirable, (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.

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

On November 11 of 2011, the voters of Cherokee County approved by referendum the establishment of a special local option sales tax (SPLOST) in which one percent is added to the local sales tax in order to (1) to pay up a portion of the principal and interest on the School District's Series 2003, 2006, 2007, 2009, 2010, and 2011 general obligation bond issues and (2) to fund 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 athletic buildings and facilities, (b) adding to, renovating, repairing, improving, and equipping existing administrative, school buildings and other buildings and facilities useful or desirable, including but not limited to athletic buildings and facilities, (c) acquiring, installing, and equipping portable classrooms, (d) acquiring installing, and implementing system-wide technology improvements, (e) acquiring school buses, (f) acquiring any property useful or desirable therefor, both real and personal. Total collections are not to exceed $170,000,000.

Audit Objectives

The primary objective of a performance audit of educational sales tax expenditures is to determine that sales tax dollars are being disbursed efficiently and economically so the School District receiving the funds is obtaining the maximum benefit possible from the tax dollars collected. This is achieved through the design and execution of a series of procedures to meet more specific audit objectives in order to determine that:

1. Construction projects and equipment purchases were executed in accordance with the SPLOST resolution approved by the Cherokee County School District.
2. Debt service payments made with SPLOST funds during the fiscal year were within the guidelines of the voter approved resolution.
3. The School District has established and adhered to specific policies regarding the requisitions and approvals and the selection of contractors for its construction projects and vendors for significant equipment purchases.
4. Management is monitoring the progress of construction projects through routine status checks on site in addition to budget versus actual comparisons at various stages of construction.
5. Accumulated sales tax proceeds are invested in a manner that yields a competitive investment return for the School District while remaining compliant with the deposit and investment guidelines set forth by the State of Georgia.

Audit Scope

The Cherokee County School District engaged Williamson & Company, CPA's to conduct the annual performance audit of the District's Special Purpose Local Option Sales Tax (SPLOST) program for the fiscal year ended June 30, 2013. In order to complete the performance audit, we examined a sample of disbursements made with SPLOST funds during the fiscal year, reports and schedules related to various construction projects funded through SPLOST

collections, applicable statements from financial institutions, and the School District's purchasing and procurement policies as they relate to the type of expenditures paid for with SPLOST funds.

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.

In order to achieve the objectives of the performance audit we:

- Developed an adequate plan that facilitates an efficient and effective performance audit of the School District's SPLOST program
- Obtained an understanding of the policies, procedures, and personnel involved, along with the provisions of local laws and regulations as they pertain to the School District's current SPLOST resolution
- Gained an understanding of the internal control's employed by the School District to ensure SPLOST funds are being deposited, maintained, and disbursed in a manner that is within the guidelines set forth by the State of Georgia and local legislation
- Designed effective procedures to achieve the audit objectives and provide a reasonable basis for our conclusions including findings, comments, and recommendations
- Summarized our objectives, scope, methodology, and conclusion in a written audit report

The following documents and procedures were obtained in order to form our conclusions on the Cherokee County School District's SPLOST program for the fiscal year ended June 30, 2013:

- Reviewed Official Code of Georgia Annotated §20-2-491, which sets forth the requirements related to SPLOST performance audits
- Reviewed the SPLOST resolutions that were approved in November 2006 and 2011, which the School District operated under during the fiscal year ended June 30, 2013
- Interviewed management and staff of the School District that are involved with the SPLOST program
- Reviewed the School District's policies and procedures relating to deposits, purchasing, disbursements, and the procurement and contracting of services
- Obtained the general ledger detail for the School District's capital projects fund and debt service funds and identified specific transactions for examination
- Obtained and reviewed documentary evidence that supports our conclusions in regards to the School District's use of SPLOST funds.

Results of Audit Procedures

Based on the results of our audit procedures, we have determined that the Cherokee County School District's SPLOST program is operating within the guidelines set forth by the State of Georgia and the local resolution passed by voters and approved by the School Board. A detailed description of the objectives, procedures and results are as follows:

Objective 1 Projects and Purchases – To determine if construction projects and equipment purchases were executed in accordance with the SPLOST resolution approved by the Cherokee County Board of Education.

Procedures – We reviewed the SPLOST resolutions that the School District operated under for fiscal year ended June 30, 2013 to determine the types of expenditures that were allowed. Next, we obtained the general ledger for the System's capital projects fund and selected a sample of 36 SPLOST disbursements totaling $13,722,921. From this sample, we examined the supporting documentation to confirm that the transactions were recorded in the proper period, amounts recorded matched the invoice, and the nature of the expenditure was within the parameters set forth by the resolution.

Conclusion – Within the sample tested, we did not identify any transactions that were not permitted by the SPLOST resolutions under audit. All items examined were recorded in the proper period.

Objective 2 Debt Service Payments – To confirm that debt service payments made with SPLOST funds during the fiscal year were for the Series 1999, 2001, 2003, 2006, 2007, 2009, or 2011 bonds and/or any bonds issued since the tax levy to refund all or a portion of the Series 1998 and or 1999 Bonds.

Procedures – We examined the debt service accounts within the general ledger to identify the timing and amount of the bond payments made out of the debt service fund. We traced the amounts per the general ledger to supporting documentation provided by the management and to amortization schedules that we have on file.

Conclusion – The debt service payments examined were for bond payments that were either covered under the SPLOST resolutions or were debt payments made as repayments for capital projects approved by the resolution that were advance funded using debt proceeds. In each instance, the debt service expenditures were within the compliance requirements of the SPLOST resolution.

Objective 3 Policies and Procedures – To verify that the School Board has established and adhered to specific policies regarding the requisitions and approvals and the selection of contractors for its construction projects and vendors for significant equipment purchases.

Procedures – We obtained and reviewed the School District's purchasing policy manual and flowchart detailing the requirements for different types of expenditures. From the disbursement sample selected in Objective 1, we examined the supporting documentation to verify that expenditures and disbursements are being executed in accordance with the School District's purchasing policy. We also selected 3 projects that were started during fiscal 2013 to test the School District's adherence to its procurement policy for capital projects.

Conclusion – Based on the sample examined, the School System is following its own policies and procedures in regards to purchases and projects exceeding thresholds that require the submission of formal proposals.

Objective 4 Monitoring - To verify that management is monitoring the progress of construction projects through routine status checks on site in addition to budget versus actual comparisons at various stages of construction.

Procedures – We interviewed the Assistant Superintendent of Financial Management and Construction/Project Manager to gain an understanding of the School System's procedures in place that facilitate a strong line of communication from the construction site to the School Board. This included reviewing the School Board minutes and viewing the project updates via the School District's website. We also examined the lead and subsidiary schedules for SPLOST projects that were current during the year under audit that detailed the budgeted amounts as well as the amounts spent to date on each project.

Conclusion – Based on our discussions with management and evidence that supports those discussions, the School District appears to have sound procedures in place for the continual monitoring of construction projects from the beginning to the end of the project.

Objective 5 Accumulated Proceeds – To determine that accumulated unspent sales tax proceeds are invested in a manner that yields a competitive investment return for the School District while remaining compliant with the deposit and investment guidelines set forth by the State of Georgia.

Procedures – We discussed the School System's policy for accumulated SPLOST funds that have been collected and not disbursed. We also examined the statements of the financial institutions where the SPLOST funds are originally deposited, and examined any movement of funds that were not expenditure related to verify that any excess SPLOST funds are being maintained responsibly and within the guidelines set forth by the Official Code of Georgia Annotated.

Conclusion – Based on our discussions with management, accumulated SPLOST funds that do not remain in the Georgia Fund 1 are held in accounts that are offering competitive yields with financial institutions currently doing business in Georgia until being disbursed for goods and services.

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.

Williamson and Company
Certified Public Accountants
Cartersville, Georgia
December 13, 2013