Forsyth County
Board of Education

Performance Audit on
Special Purpose Local Option Sales Tax

For The Year Ended June 30, 2012

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

200 Galleria Parkway, Suite 1700
Atlanta, Georgia 30339
Phone: (800) 277-0080
Web: www.mjcpa.com

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Introduction

To the Members of the Board of Education
Forsyth County School District
Cumming, 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 Forsyth 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 2001 SPLOST funds are used to fund the School District's Capital Improvements Program, to pay the costs of acquiring, constructing and equipping four new elementary schools, one new middle school, and one new high school, acquiring school buses, land for future schools, and instructional and administrative technology improvements for existing school buildings and outer buildings and facilities of the Forsyth County School District and the cost of retiring a portion of the School District's General Obligation Bonds, Series 1999, by paying or making provision for the payment of principal and interest on such bonds coming due on February 1, 2003 through August 1, 2007. The approved resolution for 2001 SPLOST tax revenue amount was up to $200,000,000. (2) The 2006 SPLOST funds are used to fund the School District's Capital Improvements Program, to pay the cost of acquiring, constructing, and equipping two new elementary schools, one new middle school, and one new high school, acquiring land for future schools and instructional and administrative technology improvements for existing schools, adding to, renovating, repairing, improving and equipping existing school buildings and other buildings and facilities of the Forsyth County School District, and the cost of acquiring school buses, the maximum cost of the projects described above to be $207,500,000, and the cost of retiring a portion of the School District's General Obligation Bonds, Series 1999 and 2005, by paying or making provision for the payment of the principal of and interest on such bonds coming due on February 1, 2008 through August 1, 2012. The approved resolution for 2006 SPLOST tax revenue amount was up to $265,000,000. (3) The 2011 SPLOST resolution noting that the resolution was for Forsyth County Board of Education for the continuation of a one percent sales tax, for a maximum period of time of 20 calendar quarters for the purposes of providing funds to pay (a) the cost of acquiring land for future schools, instructional and administrative technology improvements for existing schools, and school

buses, adding to, renovating, repairing, improving, and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith, and acquiring any necessary property therefore, both real and personal, all at a maximum cost of $53,624,925, and (b) the cost of retiring a portion of the Prior Bonds by paying or making provision for the payment of the principal of and interest on the Prior Bonds coming due on December 1, 2012 through August 1, 2017, in the maximum amount of $141,375,075.

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, 2011 to June 30, 2012. From a listing of all disbursements made during the specified time frame, we tested all debt service expenditures and randomly selected an additional sixty (60) disbursements to test, totaling $21,175,881 representing 75.35% of the total disbursements, which amounted to $28,104,044 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 Forsyth 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 performed 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 Forsyth 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 Forsyth County Board of Education.

Procedures: We obtained a copy of the 2001 SPLOST, 2006 SPLOST, and 2011 SPLOST Resolutions as approved by the Board of Education and the voters of Forsyth County. Using a random number generator, we then selected a sample of sixty (60) disbursements from the listing of total disbursements made during the fiscal year 2012. We also tested all debt service disbursements. The total sample size was determined to be sufficient in order to test the transaction's processing and compliance with the approved SPLOST resolution. For each sample item we vouched the expenditure to supporting documentation such as vendor invoices.

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

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 Facilities Director. Per discussion with the Facilities Director, he prepares a monthly board summary report that shows construction jobs that are in the planning stage and under construction. For those under construction, he includes the status of the construction, and change orders, the adjusted price and compares the total draws to the contract total. We obtained and reviewed all twelve (12) monthly financial reports submitted to the Board. Based on our discussions with management, the process for communicating the construction and/or programmatic status of the SPLOST projects with the Board is documented and is presented formally at the School District's monthly Board meetings.

Results: Based on the results of the inquiries made and review of reports submitted to the Board, the School District has an effective method in place to communicate with the Board in regard to the financial and construction 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 Facilities Director. The Facilities Director maintains and reviews the Board Summary Report showing the budget to actual prior to submitting the reports to the Board. In addition, the Facilities Administrator maintains a ledger which records the payments to the accounts which is posted and balanced by the Finance Department. This includes a review of individual transactions to the budget. We reviewed disbursements as described in Objective #1 for the Finance Director's approval and the Board Summary Report.

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 Facilities Director. Per discussion, the School System's Construction Coordinator visits each site on a daily basis. Additionally, the Construction Manager meets with the Architect and Contractor for each project where he discusses the status of each project and any project concerns. Also, the Construction 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, as described in Objective #1, 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 and appropriate for the SPLOST Program. We also reviewed the photos that were taken by the Construction Manager noting the documentation of work performed and the written reports of the Architect onsite reviews submitted to 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 projects.

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 Facilities Director, he reviews the Year to Date Project Report for each project which details the original budget, revised budget, the year to date expenditures, and the available budget. Also, per review and discussion with the Facilities Director, the Facilities department maintains a contractor payment log for each program which details, the payment number, invoice date and amount, expenditures to date, change orders (if any) and the balance to finish. In addition, per discussion with the Chief Financial Officer he maintains a log of the SPLOST receipts. We obtained and reviewed the contractor payment log, the SPLOST receipts log, and reconciliations completed by School District Accounting personnel.

Results: Based on the results of inquiries made, review of contractor payment log, review of SPLOST receipts log, 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 adhered to applicable quality control standards.

Procedures: We discussed procedures in place to monitor the design and construction of capital projects with the Facilities Director. Per discussion with the Facilities Director, the School System has a seven year facility plan. Per review of requests for qualifications issued and proposals submitted, the BOE did pre-qualify architects for each project to ensure the architects used were familiar with standards and specifications necessary for schools. The BOE only uses three architects for the three school designs – elementary, middle, and high school as they use prototypical school designs. Additionally, the Facilities Director performs on-site visits to ensure that the construction adheres to the specifications for that project and that work performed is correct and of good quality. We obtained and reviewed the bid documents and construction meeting minutes for the projects in progress during the audit period; however, for FY 2012 none were noted. Additionally, we conducted a disbursement test, as described in Objective #1, to ensure that the Board had policies and procedures in place to ensure that expenditures are properly approved by an individual who reviews the work on site to ensure that invoices submitted are valid in regard to work completed.

Results: Based on the results of inquiries made and review of reports compiled by the School District Construction Department staff documenting its assessment of work performed, 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 receipt and disbursement of tax revenue funds are in compliance with applicable laws and regulations.

Procedures: We discussed financial controls in place with the Finance Director and the Facilities Director. The School System 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. We obtained and reviewed the twelve (12) monthly financial reports submitted to the Board during the audit period. We performed confirmation procedures to verify receipts. Additionally, as described in Objectives #1 and #3, we performed a disbursement test over expenditures, noting approvals.

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 obtained a copy of Board policy in regard to bids and procurements and held discussions with senior management. We then reviewed the procurement process and related documents, denoting evidence that Board procurement policies and procedures were followed, for all projects procured in the audit period.

Results: Per discussion and review of payments made during the year, no requests for proposals were sent out in the current year therefore testing of this requirement is not direct or material for the current year.

Closing

This report is intended solely for the information and use of the Forsyth 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
January 18, 2013