Walton County

School District

Performance Audit on
Special Purpose Local Option Sales Tax

For The Year Ended June 30, 2012

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Introduction

To the Members of the Board of Education
Walton County School District
Monroe, 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 Walton County voters in which one percent is added to the local sales tax for the purpose of funding Walton County School District (the "School District") building and renovation projects that would otherwise require financing through increasing residents' property taxes. SPLOST funds are also available for retiring general obligation bond debts incurred with respect only to capital outlay projects and to issue new general obligation bonds for specific capital outlay projects to be paid with SPLOST funds.

The School District works under the direction of the Walton County Board of Education (the "School Board") and its superintendent, and the projects selected for SPLOST funding are chosen by the School Board. The 2008 SPLOST funds are used to fund the School District's Capital Improvements Program, to pay the costs of acquiring, constructing, and equipping two new elementary/middle schools, acquiring land for future school sites, and adding to, renovating, repairing, improving, furnishing and equipping existing educational buildings, properties and facilities of the Walton County School District. The approved resolution for the 2008 SPLOST tax revenue was estimated to raise up to $80,000,000.

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, 2011 to June 30, 2012. From a listing of all disbursements made during the specified time frame, we selected 60 disbursements to test, totaling $479,559 of the total disbursements, which amounted to $9,825,584 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 School Board,
- To determine that the reporting effectiveness between the School District and the School Board communicates the status of capital outlay projects to ensure that legislative, regulatory, and organizational goals and objectives are 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 adhere 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 the management of the School District is following School 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 tested certain internal controls to provide further support for the audit.

Preparation of a Tailored Audit Program

Based upon preliminary analytical review, control documentation and testing, 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 Walton 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 School Board.

Procedures: We obtained a copy of the 2008 SPLOST Resolution as approved by the Board of Education of the School District and the voters of Walton County. Using a random number generator, we then selected a sample of sixty (60) checks out of the total checks written during fiscal year 2012. A sample size of sixty (60) 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 capital projects approved in the SPLOST resolution.

Objective #2: To determine that the reporting effectiveness between the School District and the School Board 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 School Board with the Chief Financial Officer. He provides the School Board a monthly Year to Date Budget Report for each project on-going during that month. We obtained and reviewed all twelve (12) monthly financial reports submitted to the School Board. We also reviewed the board minutes noting capital project items were discussed with the School Board during the meetings.

Results: Based on the results of the inquiries made and review of reports submitted to the School Board, the School District has an effective method in place to communicate with the School 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 capital project expenditures are not exceeding budgeted amounts.

Procedures: We discussed the monitoring of expenditures versus budget with the Chief Financial Officer and the Assistant Superintendent Facilities, Maintenance, and Operations. The Chief Financial Officer maintains and reviews the Year to Date Budget Report prior to submitting the

reports to the School Board. Additionally, the Architect provides budget information to the School District regularly. We reviewed disbursements as described in Objective #1 for Chief Financial Officer approval, as well as the Year to Date Budget Reports.

Results: Based on the results of inquiries made, review of disbursements as part of our disbursement test, and review of reports submitted to the School Board, an adequate process is in place to monitor expenditures to ensure that actual capital 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 capital projects with the Chief Financial Officer. Per discussions held, the School System's Construction Manager visits each site on a weekly basis. Additionally, the Construction Manager meets with the Architect and Contractor bi-weekly for each project where he discusses the status of each project and any concerns he has. The Construction Manager also 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 School 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, review of reports prepared for submission to the School Board, and review of reports completed upon inspection of project sites, the School 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, based on review of disbursements as part of our disbursement test the School 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 capital 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 Chief Financial Officer, he reviews the Year to Date Project Report for each capital project which details the original budget, revised budget, the year to date expenditures, and the available budget. Also, per review and discussion with the Chief Financial Officer, 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. We obtained and reviewed all twelve (12) monthly financial reports submitted to the School Board.

Results: Based on the results of inquiries made and review of reports submitted to the School Board, there is an adequate process in place to monitor cash flows to ensure that financial analyses used for verifying 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 Chief Financial Officer. The School District has a five year facility plan. We obtained and reviewed the bid documents for qualifications for the capital projects in progress during the audit period. The School District did pre-qualify architects for each capital project to ensure the architects used were familiar with standards and specifications necessary for schools. The Construction Manager 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. Additionally, we conducted a disbursement test, as described in Objective #1, to ensure that the School 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, review of bid documents, and review of disbursements, 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 expenditure of tax revenue funds are in compliance with applicable laws and regulations.

Procedures: We discussed financial controls in place with the Chief Financial Officer. 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. The receipt of funds is reconciled to the amount reported by the State of Georgia. We obtained and reviewed the twelve (12) monthly financial reports submitted to the School Board during the audit period noting no unusual variances. Additionally, as described in Objective #1, we reviewed disbursements for proper approval and to verify that the expenditures were related to projects approved as per the SPLOST resolution.

Results: Based on the results of inquiries made, review of reports submitted to the School Board, and results of our disbursement test, 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 School Board approved procurement policies and procedures.

Procedures: In order to test the procurement practices of the SPLOST Program, we obtained a copy of the School 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 the School Board approved procurement policies and procedures were followed, for all projects procured in the audit period.

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

Closing

This report is intended solely for the information and use of the School Board of the Walton County School District 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
February 4, 2013