

Walton County
Board of Education

Performance Audit on
Special Purpose Local Option Sales Tax

For The Year Ended June 30, 2008



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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 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. Presently, the School District has the two following SPLOST Capital Improvements Programs.

The 2001 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 schools and a new high school, 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 2001 SPLOST tax revenue amount was up to \$40,390,000.

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 schools and a new high school, acquiring land for future schools 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 2001 SPLOST tax revenue amount was 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, 2007 to June 30, 2008. From a listing of all disbursements made during the specified time frame, we selected 25 disbursements to test.

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 Walton 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 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 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 report of findings and a written analysis of proposed recommendations.

Audit Results and Management Comments

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 Walton County Board of Education

Procedures: We obtained a copy of the 2001 and 2008 SPLOST Resolutions 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 twenty-five (25) checks out of the eighty-seven (87) checks written during fiscal year 2008. A sample size of twenty-five (25) 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, it appears that 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 Director of Budget and Finance. He provides the 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 Board. We also reviewed the board minutes noting capital project items were discussed with the Board during the meetings. 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 formal.

Results: Based on the results of the inquiries made and review of reports submitted to the Board, it appears that 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 Director of Budget and Finance and the Interim Associate Superintendent of Facilities and Pupil Services. The Director of Budget and Finance maintains and reviews the Year to Date Budget Report prior to submitting the

reports to the Board. Also, the Interim Associate Superintendent of Facilities and Pupil Services reviews the budget for each project when an invoice is received for that project to determine funds are available and will not exceed the budget. Also, the Architect provides budget information to the School System regularly. We reviewed disbursements as described in Objective #1 for the Director of Budget and Finance approval and the Year to Date Budget Reports.

Results: Based on the results of inquiries made, review of reports submitted to the Board, and reconciliations completed by School District Accounting personnel, it appears that 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 Interim Associate Superintendent of Facilities and Pupil Services. Per discussion, 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 projects and any concerns he has. 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 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 Board (including budget to actual financial status reports and project status reports), and review of reports completed upon inspection of project sites, it appears that 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, it appears that 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 Director of Budget and Finance and the Interim Associate Superintendent of Facilities and Pupil Services, the Director of Budget and Finance 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 Interim Associate Superintendent of Facilities and Pupil Services, the Facilities departments maintains a contractor payment log for each programs 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 Board.

Results: Based on the results of inquiries made and review of reports submitted to the Board and reconciliations completed by School District Accounting personnel, it appears that 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 Director of Budget and Finance. The School System has a five year facility plan. We obtained and reviewed the bid documents for qualifications for the projects in progress during the audit period. The School System did pre-qualify architects for each 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 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, it appears that 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 Director of Budget and Finance and the Interim Associate Superintendent of Facilities and Pupil Services. 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. We obtained and reviewed the twelve (12) monthly financial reports submitted to the Board during the audit period. Additionally, as described in Objective #1, we performed a disbursement test over expenditures.

Results: Based on the results of inquiries made, review of reports submitted to the Board, and results of our disbursement test, it appears that 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 SPLOST 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 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, it appears that the School District is following Board approved procurement policies and procedures.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 4, 2009