

Fayette County School System

Performance Audit on SPLOST I & II Revenues

For the Year ended June 30, 2016



300 Mulberry Street, Suite 300
P.O. Box 1877
Macon, Georgia 31202-1877

Phone: (800) 277-0050
Facsimile: (478) 464-8051

Web: www.mjcpa.com

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Introduction

To the Members of the Board of Education
Fayette County School System
Fayetteville, 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 system 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 Fayette County voters in which one percent is added to the local sales tax for the purpose of funding building and renovation, including technology, projects for the Fayette County School System (the “School System”) that would otherwise require financing through increasing residents’ property taxes. SPLOST funds are also available for retiring general obligation bonded debt incurred with respect only to capital outlay projects.

The School System works under the direction of the Fayette County Board of Education (the “School Board”) and its superintendent, and the projects selected for SPLOST funding are chosen by the School Board. The SPLOST I funds are used specifically for (i) paying a portion of the principal and interest due on School District Series 1999, 2001 and 2005 general obligation bonds; (ii) adding to, renovating, repairing, improving, and equipping existing school buildings and school system facilities; (iii) purchasing miscellaneous new equipment, fixtures and furnishings for the school system, including technology infrastructure, equipment and software, and safety and security equipment; (iv) acquiring textbooks; and (v) acquiring school buses and transportation and maintenance equipment. The approved resolution for the SPLOST was for raising up to \$115,000,000.

The SPLOST II funds are used specifically for (i) paying a portion of the principal and interest due on School District Series 2005, 2007, and 2009, the maximum amount of total debt service to be paid shall not exceed \$10,000,000; (ii) adding to, renovating, repairing, improving, and equipping existing school buildings and school facilities, including but not limited to, paving, drainage systems, fencing, playground equipment, flooring, painting, HVAC, electrical wiring, lighting, plumbing, suspended ceiling systems, roofing and physical education/athlete facilities; (iii) acquiring miscellaneous new equipment, fixtures and furnishings for the school system, including technology equipment and software, safety and security equipment; (iv) acquiring textbooks and instructional equipment, including but not limited to computing devices, audio/visual equipment, interactive classroom equipment; (v) acquiring school buses and transportation and maintenance equipment; and (vi) paying

expenses incident thereto, the maximum amount sales and use tax proceeds to be spent on projects (i) through (vi) shall not exceed \$107,000,000.

Audit Scope, Objectives and Methodology

Audit Scope

M&J was engaged to conduct a performance audit of the SPLOST I and II programs. The audit focused on the School System's compliance with state and local laws, mandates, and the receipt and expenditure of sales tax proceeds for allowable SPLOST educational purposes.

The audit covers the period from July 1, 2015 to June 30, 2016. From a listing of all disbursements made during the specified time frame, we selected 60 disbursements to test, totaling \$4,178,506.

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 System is receiving maximum benefit from the dollars collected. The specific audit objectives were:

- To determine whether the schedule of projects adheres to the approved resolutions adopted by the Fayette County Board of Education,
- To determine that the reporting effectiveness between management of the School System and the Board of Education communicates the status of SPLOST 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 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 implementation of SPLOST 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 management of the School System 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 System's SPLOST program with relevant staff. We requested various schedules from the School System'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 System's internal controls related to the SPLOST programs, 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 System's internal controls. 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 System's representatives. After obtaining and incorporating management comments in our report and upon completion of the presentation and review of the report and analysis by the School System's representatives, 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 Fayette County School System's SPLOST I and II Program is operating in compliance with all applicable laws and regulations, the referendums 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 Fayette County Board of Education

Procedures: M&J obtained a copy of the SPLOST I and II Resolutions as approved by the Board of Education and the voters of Fayette County. M&J also noted that a SPLOST committee was formed in efforts to get the public, teacher, and parent involvement in prioritizing SPLOST purchases. We reviewed minutes from the ESPLOST committee meeting held March 2009 for SPLOST I and in May of 2012 for SPLOST II. Per discussions with management, the role of the ESPLOST committee was to help with the preparation of a list of needed projects for the SPLOST Resolution. The ESPLOST Committee did not have a recurring role in the monitoring of ongoing projects & expenditures. 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 resolution. See also Disbursement Test. M&J elected to test 60 expenditures in the capital projects funds.

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

Objective #2: To determine that the reporting effectiveness between management of the School System and the Board of Education communicates the status of SPLOST projects to ensure that legislative, regulatory and organizational goals and objectives are achieved

Procedures: M&J discussed the policies and procedures for communication with the Board with the Coordinator of Audits. Per this discussion, the Assistant Superintendent discusses the status of SPLOST projects at each Board meeting. The Assistant Superintendent's roles include oversight, monitoring, and reporting to the Board. He maintains an excel spreadsheet of receipts based on the Department of Revenue website posting of monthly distributions and amounts spent by category (technology, textbooks, etc.). The Assistant Superintendent makes monthly updates to the spreadsheet and prepares more detailed reporting to the Board. Additionally, Board members contact the Coordinator of Audits and/or the Assistant Superintendent periodically throughout the month to inquire as to the status of the various projects. M&J reviewed copies of the Agendas for the Board meetings during FY 2016, and noted that most all included a section for "SPLOST Update". Additionally, M&J noted details of the Assistant Superintendent's SPLOST Update are documented in the minutes.

Results: Based on the results of the inquiries made and review of agendas and minutes of the Board meetings, management of the School System 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: M&J discussed the monitoring of expenditures versus budget with the Coordinator of Audits. Per this discussion, the Assistant Superintendent maintains a spreadsheet as a management tool for cash flow. He enters information on receipts based on the Department of Revenue website posting of monthly distributions. He also obtains the monthly file of SPLOST disbursements and logs amount spent by category and provides this information to the Board each month. He also reviews and approves all invoices before payments are made. M&J reviewed the Assistant Superintendent's cash flow spreadsheet, minutes from the Board meetings noting inclusion of SPLOST updates, and invoices, noting Assistant Superintendent's approval.

Results: Based on the results of inquiries made, review of Board minutes, 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 project

Procedures: M&J discussed the monitoring of projects with the Coordinator of Audits. Per this discussion, the Facilities Director and the Technology Services Director monitor projects as applicable to ensure work is being completed in a timely manner and as specified. Additionally, M&J 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.

Results: Based on the results of inquiries made and review of Board minutes, the School System has an effective program in place to monitor program performance and to ensure the timely completion of each project within the projected timeline. Additionally, the School System 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 I and II Program, M&J inquired as to the procedures performed in regard to the financial analyses. Per discussions with the Coordinator of Audits, the Assistant Superintendent maintains a spreadsheet as a management tool for cash flow. He enters information on receipts based on the Department of Revenue website posting of monthly distributions. He also obtains the monthly file of SPLOST disbursements and logs amount spent by category, and also includes a section in the minutes for purchase commitments so each month the board is made aware of budgeted amounts for each project, SPLOST receipts, and expenditures for each project. He

also reviews and approves all invoices before payments are made. M&J reviewed the Assistant Superintendent's cash flow spreadsheet, minutes from the Board meetings noting inclusion of SPLOST updates, and invoices, noting the Assistant Superintendent's approval.

Results: Based on the results of inquiries made, review of Board agendas and minutes, and review of cash flow analyses, 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 implementation of SPLOST projects adhere to applicable quality control standards

Procedures: M&J discussed procedures in place to monitor the design and construction of SPLOST projects with the Coordinator of Audits and Purchasing and the Purchasing Agent. As part of the development of each project, the Purchasing Agents, the Facilities Director, the Technology Services Director, and the principal for each school worked together to determine scope of each project. The Facilities Director monitors the progress of all facility-related projects. The Technology Services Director monitors technology-related projects.

Results: Based on the results of inquiries made and review of invoices, effective procedures are in place to verify that the design and implementation of the SPLOST 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: M&J discussed financial controls in place with senior management. M&J obtained and reviewed the Board meeting agendas and minutes for the audit period noting inclusion of a SPLOST financial update. Additionally, as described in Objective #1, M&J performed a disbursement test over expenditures.

Results: Based on the results of inquiries made, review of Board agendas and minutes, 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 management of the School System is following Board approved policies and procedures

Procedures: In order to test the procurement practices of the SPLOST Programs, M&J obtained a copy of Board policy in regard to bids and procurements, and held discussions with senior management regarding the procurement process for those contracts procured during the fiscal year. We then reviewed the procurement process and related documents, denoting evidence that Board procurement policies and procedures were followed for all projects procured during the audit period.

Results: Based on discussions with senior management, review of Board policy, and review of procurement documents, M&J ascertained that Board policy is being followed for contracts procured for SPLOST projects.

Closing

This report is intended solely for the information and use of the Board of Education of Fayette County School System 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

Macon, Georgia
December 13, 2016

