

City of Cartersville
Board of Education

Performance Audit on
Special Purpose Local Option Sales Tax

For The Year Ended June 30, 2018



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Introduction

To the Members of the Board of Education
City of Cartersville Board of Education
Cartersville, 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 Bartow 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. The 2012 SPLOST resolution for City of Cartersville Board of Education to be distributed between the City of Cartersville School District (21.65%) and the Bartow County School System (78.35%) for the continuation of a one percent sales tax, for a maximum period of time of 20 calendar quarters. The City of Cartersville School District is provided a percentage of the funds to pay for the Cartersville System, (a) the cost of retiring all or a portion of the Cartersville Bonds by paying or making provision for the payment of the principal of (either at scheduled maturity or by redemption prior to maturity) and interest on the Cartersville Bonds coming due on May 1, 2013 through November 1, 2022, in the maximum amount of \$13,900,000, and (b) the cost of acquiring system-wide technology improvements (including necessary software), adding to, renovating, repairing, improving, and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith, acquiring and installing playgrounds at existing schools, acquiring land for future schools, acquiring school buses and vehicles, and acquiring any necessary property therefor, both real and personal, all at a maximum cost of \$17,270,000.

The 2017 SPLOST resolution for City of Cartersville Board of Education to be distributed between the City of Cartersville School District (23.6075%) and the Bartow County School System (76.3925%) for the continuation of a one percent sales tax, for a maximum period of time of 20 calendar quarters. City of Cartersville School District is provided a percentage of the funds to pay for the Cartersville System, the cost of acquiring system-wide technology improvements (including necessary software), adding to, renovating, repairing, improving, and equipping existing school buildings, athletic facilities, and other

buildings and facilities useful or desirable in connection therewith, acquiring and installing playgrounds at existing schools, acquiring land for expansion of Cartersville High School and for future schools, acquiring school buses and other vehicles, and acquiring any necessary property therefor, both real and personal, all at a maximum cost of \$34,000,000.

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, 2017 to June 30, 2018. From a listing of disbursements made during the specified time frame, we tested all disbursements of SPLOST expenditures totaling \$2,952,012.

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 City of Cartersville 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. 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 City of Cartersville Board of Education'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 City of Cartersville Board of Education.

Procedures: We obtained a copy of the 2012 and 2017 SPLOST Resolution as approved by the Board of Education and the voters of Bartow County. Using a listing of disbursements for the period July 1, 2017 to June 30, 2018, we tested all expenditures in order to ensure that spending of SPLOST funding was compliant with the approved activity in the resolution. For each disbursement 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 activities 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 School Board with management. The Director of Operations presents a verbal update to the Board on a monthly basis that discusses the status of the construction, change orders and any issues encountered. The Finance Director prepares the monthly financial reports, including a summary of SPLOST accounts' financial activity. We obtained the SPLOST cash flow analysis and budget versus actual reports that are provided to the Board. Based on inquires and review of Board minutes, there is monthly communication with the School Board on the financial or construction status of projects. The School

Board receives reports on the status of a project monthly after the project is approved and construction begins. We obtained the agendas of the Building and Grounds committee noting project updates.

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 Finance Director. The Finance Director maintains and reviews the Board Summary Report showing the monthly revenue and expenditure activity prior to submitting the reports to the Board. The Finance Director maintains a ledger which records the payments to the accounts which is posted and balanced by the Finance Department and a spreadsheet that totals budget to actual expenditures from year to year. 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 reports, adequate processes are 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: During construction projects, the Architect presents a verbal project status report to the Building and Grounds committee on a monthly basis or as needed according to the progress of the project. The presentation may include pictures of the site work and architectural updates to the Board on the status of the project and estimated completion dates. In addition to presentation by architects, items associated with different projects may also be shared with Board members by email. We obtained various communications to the Board related to the status of construction projects. The architect and the Director of Operations review and approve all contractor pay requests prior to payment. Also, the Director of Operations performs a walk through when invoices are received from the contractors to ensure the work was actually performed by the contractors. 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.

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 Finance Director and Director of Operations, they both review 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 of year to date project reports and discussion with the Director of Operations, he and the Finance department maintains a copy of contractor invoices and a spreadsheet 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 Finance Director he maintains a log of the SPLOST receipts. We obtained and reviewed the contractor payment log and the SPLOST receipts log.

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, 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 Finance Director. Per review of proposals submitted, the School District pre-qualified architects for the project to ensure the architects used were familiar with standards and specifications necessary for schools. Additionally, the School District and the architects work together to perform 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. Field status reports are prepared to document their review of the construction. The Contractor must submit the Change Order Proposal (COP) to the Architect for review and approval. The Architect then forwards the COP to the Director of Operations stating whether the COP is fair and reasonable and whether he recommends it for approval. The COP is reviewed by the Building and Grounds committee and placed on the agenda for Board approval. The Architect will then forward the Owner's approval to the Contractor and provide his/her authorization for the change. 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 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 Director of Operations. The architect and Director of Operations review and approve all contractor pay requests. The Accounting Clerk codes the pay requests and enters them into accounts payable for payment. Each project is setup by fund. The Payroll Supervisor reconciles the bank statements each month. SPLOST funds are automatically deposited monthly into the School District's investment fund at the Georgia Department of Treasury by the Department of Revenue. The money remains there until needed for expenditure payments. The amount of SPLOST collections is reviewed by the Finance Committee each month and includes a spreadsheet of the history of SPLOST collections. All transfers from the investment accounts are made by the Accounting Clerk, with prior approval from the Director of Finance. Documentation is maintained electronically with the journal entry within Munis. Furthermore, the School District provided a SPLOST collections report to the Board which showed the collections life-to date for the SPLOST broken down by month. Additionally, as described in Objective #1, we performed a disbursement test over expenditures.

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 project expenditures for the current year, noting all contracts procured in the current fiscal year. We tested the procurement procedures during disbursement testing for all disbursements over \$15,000.

Results: Based on results of testing, the School District is following procurement policies and procedures.

Closing

This report is intended solely for the information and use of the City of Cartersville 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 25, 2019