

Camden County School System

Performance Audit on 2009 SPLOST Revenues
For the Fiscal Year ended June 30, 2010

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Table of Contents

Introduction..... 3

Audit Scope, Objectives, and Methodology..... 4

Audit Results and Management Comments..... 6

Auditor’s Reply to Management’s Responses..... 10

Closing 10

Introduction

To the Members of the Board of Education
Camden County School System
Kingsland, 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 Camden County voters in which one percent is added to the local sales tax for the purpose of funding building and renovation projects for the Camden 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 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 System works under the direction of the Camden County Board of Education (the “School Board”) and its superintendent, and the projects selected for SPLOST funding are chosen by the School Board. The 2009 SPLOST funds are to be used specifically, for (i) acquiring, constructing and equipping new schools and facilities useful and desirable, including an elementary school, a middle school, a fine arts academy and physical education/athletic facilities; (ii) adding to, renovating, repairing, improving, and equipping existing school buildings and school system facilities; (iii) acquiring real property for new school buildings and renovating and improving existing real property owned by the School System, including but not limited to paving, landscaping, irrigation and drainage; (iv) acquiring miscellaneous new equipment, fixtures and furnishings for the school system, including HVAC equipment, information technology equipment and software, safety and security equipment; (v) acquiring school buses and transportation and maintenance equipment; and (vi) purchasing textbooks. The approved resolution for 2009 SPLOST was for raising up to \$62,337,000.

Audit Scope, Objectives, and Methodology

Audit Scope

Mauldin & Jenkins was engaged to conduct a performance audit of the 2009 SPLOST program. The audit focused on the School System'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 period from July 1, 2009 to June 30, 2010. From a listing of all disbursements made during the specified time frame, we selected forty-two (42) disbursements to test, totaling \$635,247, or 100% of the total disbursements for the 2009 SPLOST program 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 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 resolution adopted by the Camden County Board of Education,
- To determine that the reporting effectiveness between the School System and the Board of Education 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 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 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 System'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 System's representative(s). 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 representative(s), we provided a public report of the results of the annual performance audit.

Audit Results and Management Comments

Based on the results of our audit, we conclude that the Camden County School System's 2009 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 Camden County Board of Education

Procedures: M&J obtained a copy of the 2009 SPLOST Resolution as approved by the Board of Education and the voters of Camden County. We obtained a detail listing of all disbursements of the SPLOST Program from management and we vouched each expenditure to supporting documentation such as vendor invoices.

Results: Based on the results of our disbursement test, all but three (3) of the expenditures tested were related to projects approved in the SPLOST resolution. We discussed these items with management and management corrected the errors during our fieldwork.

Management Comments: We concur with the auditors' conclusion. The invoices paid included both General Fund and SPLOST Fund expenditures and the payment was inadvertently made from the wrong account. Management has developed internal control procedures to ensure proper coding for SPLOST expenditures.

Objective #2: To determine that the reporting effectiveness between the School System and the Board of Education communicates the status of capital outlay 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 senior management. Based on our inquiries, management prepares a financial report for the Board each month. Additionally, management provides an oral report of the status of the SPLOST construction projects to the Board during monthly meetings. We obtained and reviewed all twelve (12) monthly financial reports submitted to the Board and reviewed Board minutes for July 2009 through the end of our fieldwork noting inclusion of presentation of the financial reports. Based on

our discussions with management, the process for communicating the construction and/or programmatic status of the SPLOST projects with the Board is not documented and is informal.

Results: Based on the results of the inquiries made and review of reports submitted to the Board, it appears that the School System has an effective method in place to communicate with the Board in regard to the financial status of each project. However, there does not appear to be a formal process in place whereby management communicates the construction status of current projects to the Board of Education to ensure that legislative, regulatory, and organizational goals and objectives are achieved. We recommend that a SPLOST project update be presented at each regularly scheduled Board meeting. We also recommend that discussions regarding the status of SPLOST updates be documented in the minutes of the Board meetings.

Management Comments: Management will re-evaluate the reporting methodology currently in place to ensure that the Board of Education receives reports of progress for SPLOST projects to the extent and detail consistent with the Board of Education's desires.

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 senior management. Based on our inquiries, we ascertained that the Finance Director reviews and approves all project expenditures, as do other members of management as appropriate (i.e. Deputy Superintendent, Technology Director, Administrative Services Director). Additionally, one of the bookkeepers reconciles all expenditures related to contracts, to the contracts and with amounts previously invoiced. M&J reviewed disbursements as described in Objective #1 for the Finance Director's (and/or other appropriate members of management) approval.

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: M&J discussed the monitoring of projects with senior management. Based on our inquiries, we ascertained that management visits the sites at least monthly and attends meetings with the architect and contractor at least monthly. Additionally, the architect or his designee visits the sites at least weekly and then provides a field report to management with any status updates/concerns he has. M&J reviewed all available field reports for the projects in progress during the audit period. Note that management does not have a process in place to formally document its visits and observations after conducting site visits. M&J also 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 verify that invoices submitted are valid in regard to work completed.

Results: Based on the results of inquiries made, review of financial reports prepared for submission to the Board and review of architect field reports, 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. However, M&J recommends that the process for documenting site visits by management be formalized for all projects to provide appropriate documentation for audit purposes and for reference, should future disputes and/or questions arise.

Management Comments: Management agrees with the recommendation and will implement a process ensuring formal documentation is submitted to the finance director in a timely manner relative to construction committee discussions and site visits.

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: Per discussions with senior management, management prepares a financial report which includes SPLOST receipts and disbursements for the Superintendent and the Board of Education each month. M&J obtained and reviewed the twelve (12) financial reports submitted to the Board during the audit period.

Results: Based on the results of inquiries made, review of reports submitted to the Board and cash flow analyses, the School System has 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: M&J discussed procedures in place to monitor the design and construction of capital projects with senior management. M&J obtained and reviewed the bid document and architect field reports for the projects in progress during the audit period, as fully described in the procedures for Objective #4. Additionally, M&J 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, construction meeting minutes and architect field reports, 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: M&J discussed financial controls in place with senior management. M&J obtained and reviewed the twelve (12) monthly financial reports submitted to the Board during the audit period. M&J also confirmed the receipts recorded in the general ledger with the amounts distributed as per the State of Georgia Department of Revenue. Additionally, as described in Objective #1, M&J performed a disbursement test over expenditures.

Results: Based on the results of inquiries made, review of financial reports submitted to the 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 System is following Board approved procurement policies and procedures

Procedures: In order to test the procurement practices of the Program, M&J 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 during the audit period. However, documentation for the bid process, use of single source providers, and documentation of selection of vendors is not always formalized and is not handled by a single individual.

Results: Based on inquiries made and our review of procurement documents, the School System is following Board approved policies and procedures. However, M&J does recommend that the process for obtaining bids and quotes be more streamlined and formalized to provide a proper audit trail and that use of all single source providers be formally documented.

Management Comments: Management agrees with the recommendation and will implement a process to streamline the documentation process for bids and quotes.

Auditor's Reply to Management's Responses

Comments made by management refer to improvements made to policies and procedures subsequent to the period covered by our audit. We have not applied any audit procedures to transactions after June 30, 2010, and can provide no assurance on transactions subsequent to that date.

Closing

This report is intended solely for the information and use of the Board of Education of Camden 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
January 25, 2011

