

COBB COUNTY SCHOOL DISTRICT

**COMPLIANCE AND PERFORMANCE AUDIT
SPECIAL PURPOSE LOCAL OPTION SALES TAX # III**

Year Ended
December 31, 2009

**COBB COUNTY SCHOOL DISTRICT
COMPLIANCE AND PERFORMANCE AUDIT**

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EXECUTIVE SUMMARY

June 29, 2010

Board of Education
Cobb County School District
514 Glover Street
Marietta, Georgia 30060

Georgia Code Section 20-2-491 requires public school systems to obtain continuing performance audits for expenditures of sales tax for capital outlay if the tax generates or is reasonably anticipated to generate \$5 million or more annually. The independent performance audit shall:

- 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 the maximum benefit for the dollars collected.
- Provide for issuance of periodic reports, not less than once annually, with respect to the extent to which the expenditures are expended efficiently and economically as outlined above.
- Provide for issuance of periodic public recommendations, not less than annually, for improvements in meeting the goal specified above.

The Special Purpose Local Option Sales Tax (SPLOST) is a referendum voted and approved by Cobb County voters in which one percent is added to the local sales tax for the purpose of funding building and renovation projects that would otherwise require financing through increased 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.

During the year ended December 31, 2009, SPLOST III expenditures were as follows:

(In Thousands)						
Category	Original Budget	Revised Budget	Expended	Encumbered	Uncommitted	% Committed
New / Replacement Facilities	\$ 101,654,872	\$ 99,928,835	\$ 878,613	\$ 721,019	\$ 98,329,203	2 %
Additions / Modifications	213,164,186	242,100,620	584,722	1,518,719	239,997,179	1 %
Maintenance / Renovation	225,758,136	182,230,769	5,936,323	33,110	176,261,336	3 %
Land	15,000,000	15,000,000	-	-	15,000,000	- %
Curriculum / Technology	109,770,000	109,938,512	15,804,195	1,584,952	92,549,365	16 %
Safety & Support	132,309,481	131,640,442	13,950,426	954,522	116,735,494	11 %
Program Management	-	13,159,008	6,356	35,396	13,117,256	- %
Contingency	-	3,760,162	-	-	3,760,162	- %
TOTAL PROJECTS	\$ 797,656,675	\$ 797,758,348	\$ 37,160,635	\$ 4,847,718	\$ 755,749,995	5 %

We reviewed SPLOST III expenditures incurred in 2009 related to the projects listed above. Total expenditures reviewed represented approximately twenty-four percent of the total SPLOST III expenditures incurred in 2009.

It is important to note that our audit procedures did not extend to the District's SPLOST I and II Programs.

The Cobb County School District ("CCSD") works under the direction of the School Board and its Superintendent. Projects selected for SPLOST funding are approved by the School Board. The CCSD employs a SPLOST Accountability Manager to monitor bidding for projects to ensure that construction and design stay within costs and are completed on time. The Board of Education has also appointed the Facilities and Technology Review Committee. The committee meets monthly to review all bids and verify the SPLOST program is operating efficiently. In conjunction with this, most of the large projects use the Design, Build, Bid method (DBB). CCSD believes this model is the best way to get the lowest price for construction projects. Under the DBB method all aspects of the construction projects are handled in house and competitive bids are received for each phase of the project.

Our audit was performed in accordance with standards applicable to performance audits contained in the *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America. Based on our procedures for the year ended December 31, 2009, we have identified no instances of non-compliance with applicable laws and regulations that apply to capital outlay expenditures funded by SPLOST, and have concluded that the Cobb County School District is operating the SPLOST program in an economical and efficient manner and safeguarding and maximizing SPLOST funds in accordance with Georgia State Code.

Bates, Carter & Co, LLP

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

Audit Scope

Bates, Carter & Co., LLP was engaged to conduct a performance audit of the SPLOST III program for the year ended December 31, 2009. This audit was conducted at the request of the Cobb County School District ("CCSD"). The audit was planned and performed in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The audit focused on the CCSD's compliance with state legislation and the receipt and expenditure of sales tax proceeds for allowable SPLOST III educational purposes.

Audit Objectives

The purpose and objectives of the Performance Audit as outlined in the School District's Request for Proposal are as follows:

- Ensure to the maximum extent possible tax funds are expended efficiently and economically, so as to secure to the District the maximum possible benefit from the tax dollars collected.
 - The sales tax proceeds are being disbursed in compliance with the SPLOST III Resolution approved by the Board on June 11, 2008.
 - The sales tax proceeds are being disbursed in a fiscally responsible manner.
 - Adequate administrative controls have been established to ensure the proper management of the sales tax proceeds received by the District.
 - The District's construction project expenditures are comparable to other school systems' building construction program expenditures in the metro Atlanta area.
 - The District's technological expenditures are reasonable considering the volatile market environment for these products.
 - Investment of the sales tax proceeds received by the District has been conducted in a sound fiscal manner.
- Provide for the issuance of periodic public reports at least annually with respect to the extent to which expenditures are meeting the goal described above.
- Provide for the issuance of periodic public recommendations at least annually for improvements meeting the goal described above.

These objectives are consistent with the requirements of Georgia Code Section 20-2-491.

Audit Methodology

An audit performed under *Governmental Auditing Standards* must be adequately planned, performed, and supervised. The following details some of the significant phases of the engagement:

- Plan the engagement and obtain a written understanding of the scope and objectives of the audit.
- Document our understanding of the internal control environment related to the expenditures of the SPLOST III funds.
- Prepare an audit program based on audit objectives and the control environment to include the following steps:
 - Conduct interviews with CCSD staff members responsible for the SPLOST III program.
 - Review bidding procedures to ensure that there is a variety of vendors used, vendors are qualified, and that the lowest qualified vendor bid was selected on projects.
 - Review a sample of 50 expenditures.
- Conclude the audit and prepare a draft report.
- Obtain management input and representations and finalize report.

FINDINGS SUMMARY, CONCLUSIONS AND MANAGEMENT COMMENTS

Objective 1:

Determine that the sales tax proceeds are being disbursed in compliance with the SPLOST III Resolution approved by the Board on June 11, 2008.

- We interviewed the Capital Projects Finance Manager, SPLOST Accountability Manager, and Director of Construction.
- We reviewed the resolution approved by the voters.
- We reviewed the SPLOST III notebook and compared a list of projects to the resolution and to the Consolidated Management Report.

Conclusion

Based on our procedures, there were no findings and we conclude that the CCSD SPLOST III proceeds were disbursed in compliance with the SPLOST III Resolution.

The SPLOST III notebook includes routine painting costs of \$33,089,368 (4.15% of the total budget) and were incurred in connection with renovation projects at many of the School District's school facilities. Such painting expenditures were capitalized as a part of the capital assets of the School District in the audited basic financial statements for the fiscal year ended June 30, 2009. An unqualified opinion with respect to the fiscal year ended June 30, 2009 audit was provided by Ross Lane & Co. The management of the School District has determined that painting expenditures incurred in connection with renovation projects will be capitalized as capital assets of the School District. The painting expenditures are significant expenditures of the SPLOST Fund. We have not made a separate determination of whether the painting expenditures constitute capital outlay expenditures under SPLOST law.

Objective 2:

Determine that sales tax proceeds are being disbursed in a fiscally responsible manner.

- We conducted interviews to understand how projects are chosen and how priorities are made among projects.
- We reviewed board minutes to verify that projects were brought before the board and were voted on before the start of the project if applicable.
- We conducted interviews with the Capital Projects Finance Manager, Director of Budgeting Services, and the Chief Administrative Officer of SPLOST programs to identify how costs and use of funding of SPLOST III monies are determined, how it is classified, and ultimately recorded in the general ledger.
- We reviewed a sample of disbursements to verify that costs were properly identified as SPLOST III, were properly reviewed and authorized by appropriate personnel, and were properly coded to a SPLOST III account.
- We gained an understanding of the bid process for contracts and tested to ensure the process was being followed according to board policy.
- We gained an understanding of the various project models to ensure that the best method is used and sound procurement policies are followed.

- We reviewed four projects files and conducted three site visits.

Conclusion:

Based on our procedures, there were no material findings and we conclude that the CCSD SPLOST III program is following sound procurement procedures and are being disbursed in a fiscally responsible manner.

Objective 3:

To determine if adequate administrative controls have been established to ensure the proper management of the sales tax proceeds received by the District.

- We conducted interviews with the Capital Projects Finance Manager, Director of Budgeting Services, and the Chief Administrative Officer of SPLOST programs to identify how costs and use of funding of SPLOST III monies are determined, how it is classified, and ultimately recorded in the general ledger.
- We reviewed a sample of disbursements to verify proper coding as well as the SPLOST III related general ledger accounts to verify that expenditures were recorded correctly.
- Reviewed approved policies and procedures related to purchasing policy, board policy for contractors and architects, and change orders.

Conclusion:

Based on our audit procedures, we conclude that the CCSD SPLOST III administrative controls have been established to ensure the proper management of the sales tax proceeds received by the District

Objective 4:

The District's construction project expenditures are comparable to other school systems' building construction program expenditures in the metro Atlanta area.

Conclusion:

This objective is not applicable for the year ending December 31, 2009 due to the fact that no major projects for SPLOST III were completed in 2009 related to the construction projects.

Objective 5:

Determine the District's technological expenditures are reasonable considering the volatile market environment for these products.

- We conducted interviews with the Director of Procurement to determine procedures utilized for the acquisition of technology equipment.
- We reviewed the process for acquisition of technology equipment to ensure that the process for soliciting and evaluating proposals and bids is adequate, promotes active competition among vendors, and is in compliance with the approved policies and procedures.
- We reviewed one project file to ensure the bid process was followed appropriately and

that the lowest bid was accepted for the project.

- We reviewed board minutes to verify that projects were brought before the board and were voted on before the start of the project.

Conclusion:

Based on our procedures, we conclude that the SPLOST III technological expenditures made in 2009 are reasonable considering the potentially volatile market environment for these products.

Objective 6:

To determine that the investment of the sales tax SPLOST III proceeds received by the District has been conducted in a sound fiscal manner.

- We conducted interviews with the personnel responsible for the cash management to identify how funds are invested. The School System invests monies in an interest bearing account with BB&T and Georgia Fund 1.
- We reviewed the investment vehicle to determine its validity and compared that to the other investment options.
- We compared investment earnings to the average yields of Georgia Fund 1 and S&P's Rated Government Investment Index.

Conclusion: Based on our audit procedures, we conclude that the SPLOST III sales tax proceeds are being invested in a sound fiscal manner.

Objective 7:

To provide for the issuance of periodic public reports at least annually with respect to the extent to which expenditures are meeting the goal described above.

Conclusion:

This objective has been met with the issuance of this report to the Cobb County Board of Education.

Objective 8:

To provide for the issuance of periodic public recommendations at least annually for improvements meeting the goal described above.

Conclusion

This objective has been met with the issuance of this report to the Cobb County Board of Education.