

*DeKalb County
Board of Education*

**Performance Audit on
Education - Special Purpose Local Option Sales Tax**

For The Fiscal Year Ended June 30, 2016



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Introduction

To the Members of the Board of Education
DeKalb County School District
Stone Mountain, 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.

E-SPLOST, or “Education - Special Purpose Local Option Sales Tax,” is a referendum voted and approved by DeKalb 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. E-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 E-SPLOST funds.

The DeKalb County School District (“School District” or “DCSD”) works under the direction of the School Board and its superintendent, and the projects selected for E-SPLOST funding are determined as a result of a data-driven process which includes a considerable amount of stakeholder engagement and culminated by formal School Board approval.

The School District has two E-SPLOST programs (E-SPLOST III and E-SPLOST IV) during the period covered by this audit report from July 1, 2015 to June 30, 2016.

The official beginning date for the authorization of taxes and related projects of DeKalb County School District (“DCSD”) under the E-SPLOST III referendum was July 1, 2007. The projects selected for E-SPLOST funding are chosen by the DeKalb County Board of Education. DeKalb County E-SPLOST III funds were used for capital outlay projects and retirement of general obligation debt previously incurred by DCSD in connection with capital outlay projects. Funds were also used to provide funding for acquisition of certain properties held under lease by the School District; renovations; site improvements; system replacements; upgrades and expansions on over 100 various schools, existing buildings, and facilities; acquiring land and preparing sites for possible future schools and facilities; making system-wide technology improvements; and replacing, purchasing, upgrading, or supplementing capital equipment. The maximum amount approved to be raised from the E-SPLOST III referendum was a) \$609,460,500 for capital outlay projects for the DeKalb County School District, b) \$15,028,500 for capital outlay projects for the City Schools of Decatur, and c) \$20,511,000 for

capital outlay projects of the Atlanta Independent School System for a total maximum amount of \$645,000,000.

The official beginning date for the authorization of taxes and related projects of DeKalb County School District (“DCSD”) under the E-SPLOST IV referendum was July 1, 2012. DeKalb County E-SPLOST IV funds were used for capital outlay projects and retirement of general obligation and qualified school construction bond debt previously incurred by DCSD in connection with capital outlay projects. Funds were also used to provide funding for Americans with Disabilities Act improvements, stadiums, capital renewal program, code requirements, additions and renovations to schools and learning centers, new construction of elementary, middle, and high schools, local school priority requests, demolition, safety and security system upgrade, system-wide technology improvements, transportation upgrades, and other capital improvements and supporting services. The maximum amount approved to be raised from the E-SPLOST IV referendum was a) \$607,384,421 for capital outlay projects for DCSD, b) \$18,115,116 for capital outlay projects for the City Schools of Decatur, and c) \$19,500,463 for capital outlay projects of the Atlanta Independent School System for a total maximum amount of \$645,000,000.

Audit Scope, Objectives, and Methodology

Audit Scope

Mauldin & Jenkins, LLC was engaged to conduct a performance audit of the E-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 E-SPLOST educational purposes.

The audit covers the fiscal year of the E-SPLOST program from July 1, 2015 to June 30, 2016. From a listing of all disbursements made during the specified time frame, totaling \$88,031,076, we selected sixty (60) disbursements to test 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 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 DeKalb County School District,
- 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 disbursement of tax revenue funds are in compliance with applicable laws and regulations,
- To determine whether management of the School District is following Board approved procurement policies and procedures, and
- To determine if the E-SPLOST proceeds received by the School District were invested in accordance with the Board approved policies.

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 E-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 E-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 E-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 E-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 DeKalb County School District's E-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 DeKalb County School District.

Procedures: We obtained a copy of both the E-SPLOST III and E-SPLOST IV Resolutions as approved by the Board of Education and the voters of DeKalb County. We also noted the resolutions and project lists were posted on the School District's website noting it was accessible to the public. Using a listing of disbursements for the period July 1, 2015 to June 30, 2016, we tested a sample of sixty (60) disbursements in order to ensure that spending of E-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 E-SPLOST resolutions.

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 Operations Division. Per discussion with the Operations Division, a monthly board status report is prepared that shows construction jobs that are in the planning stage and under construction. For those under construction, they include the status of the construction, change orders, any issues encountered, the adjusted price and compares the total draws to the contract total. We obtained and reviewed all twelve (12) monthly financial reports submitted to the Board. Based on our testing, the process for communicating the construction and/or programmatic status of the E-SPLOST projects with the Board is documented and is presented formally at the School District's monthly Board meetings. For those projects under construction, the report includes the status of the construction, change orders, issues encountered, the adjusted price and compares the total draws to the contract total.

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 Operations Division. The Operations Division maintains and reviews the Monthly Status Report showing the monthly revenue and expenditure activity prior to submitting the reports to the Board. The Finance Division maintains a ledger which records the payments to the various expenditure accounts which is posted and balanced by the Finance Division and a spreadsheet that totals budget to actual from year to year. This includes a review of individual transactions to the budget. We noted the monthly status reports include a summary of budget versus actual expenditures by project to allow management and the Board to monitor the status of the projects. We reviewed disbursements as described in Objective #1 for the Finance Division'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: We discussed the monitoring of projects with the Operations Division. Per discussion, the project architects visit each site frequently to monitor progress of the project. We obtained a timeline spreadsheet from the School District and compared the estimated percentage of completion based on the timeline to actual expenditures as a percentage of budget for reasonableness. Additionally, the architect meets with the general contractor for each project where the architect discusses the status of each project and any project concerns. Also, the architect performs a walk through when invoices are received from the contractors to ensure the work was actually performed by the contractors with the contract administrator by verifying work done and materials to be completed. The architect signs off on the invoice once the architect agrees with the invoice and it is taken to the Operations Division. Once the invoice is reviewed and approved by the Operations Division, it is sent to the Finance Division, where the invoice is approved for payment. 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 E-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 E-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 E-SPLOST projects, we inquired as to the procedures performed in regard to the financial analyses. Per discussions with the Operations Division, a review of 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 is performed. Also, per review and discussion with the Operations Division, the Finance Division maintains a copy of contractor invoices and a spreadsheet which detail 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 Operations Division they maintain a log of the E-SPLOST receipts. We obtained and reviewed the E-SPLOST Projections report as of June 30, 2016. This report compares the actual E-SPLOST collections to the projected E-SPLOST collections from the beginning of the E-SPLOST program through June 30, 2016. It also shows the expenditures to date for comparison to the actual and projected E-SPLOST collections to ensure that each program does not exceed the actual or projected collections to date.

Results: Based on the results of inquiries made, review of contractor payment log, review of E-SPLOST receipts log, review of the Year-to-Date Project Report, 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 Operations Division. Per discussion with the Operations Division, there is a policies and procedures manual, which outlines the standards and quality of materials that should be used on the projects. We obtained and reviewed the bid documents and request for proposal documents for the Rockbridge ES Replacement project that was awarded during the audit period. We reviewed the project manual identifying the quality control specifications noting the contractor met those requirements in the bid documents. 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 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 Operations Division. The School District 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 payment. We obtained the monthly bank statements during the audit period noting the receipts from the Department of Revenue for SPLOST collections are deposited into a separate E-SPLOST bank account. We also obtained and reviewed the twelve (12) monthly status reports submitted to the Board during the audit period. Included within the reporting package was a period-to-date and year-to-date summary of information, including receipts and disbursements by project. Furthermore, the School District provided a 2012-2016 E-SPLOST Collections report to the Board which showed the collections life-to-date for the E-SPLOST programs, broken down by month for each fiscal year. 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 management of 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 fiscal year ended June 30, 2016, and chose a sample of five (5) new procurement contracts placed out for bid during the year noting the appropriate procedures were taken during the procurement process. We also tested the procurement process during disbursement testing as discussed in Objective #1 for disbursements over \$100,000.

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

Objective #9: To determine if the E-SPLOST proceeds received by the District were invested in accordance with the Board approved policies.

Procedures: We obtained a copy of District's guidelines governing the investment of surplus cash and held discussions with senior management. Then we obtained three monthly E-SPLOST funds investment statements to ensure the investments in these accounts were in compliance with the District's guidelines.

Results: Based on the results of testing, the School District is following the policies and guidelines established for investments for E-SPLOST funds.

Closing

This report is intended solely for the information and use of the Dekalb County 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 12, 2018