



COBB COUNTY SCHOOL DISTRICT

SPLOST II Performance Audit December 31, 2006



Moore & Cubbedge, LLP
CPAs & Advisors
366 Powder Springs Street
Marietta, GA. 30064-3453
www.moore-cubb.com

**COBB COUNTY
SCHOOL DISTRICT**

**PERFORMANCE AUDIT OF
SPLOST II PROGRAM**

DECEMBER 31, 2006

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SPLOST II PERFORMANCE AUDIT
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EXECUTIVE SUMMARY

PURPOSE

In 2003, the State of Georgia Legislature passed legislation which requires local Boards of Education receiving sales tax proceeds of \$5 million or more annually to have an annual performance audit or review. In May of 2005, the Cobb County School District engaged Moore & Cubbedge, LLP to perform the annual performance audits of the SPLOST II program.

The primary objectives of the performance audit, which are more fully described on Page 4 of this report, are as follows:

- To determine if the SPLOST II funds were expended efficiently and economically so as to secure the School District the maximum possible benefit from the tax dollars collected
- To provide for the issuance of periodic reports at least annually with respect to the extent to which expenditures are meeting the goals described above
- To provide for the issuance of public recommendations at least annually for improvements in meeting the goals described above

BACKGROUND

The voters of Cobb County approved the first special local option sales tax (SPLOST) for educational purposes in 1998. In September, 2003, prior to the expiration of the first sales tax program, the voters of Cobb County approved a second SPLOST program for education purposes. Funds received from the SPLOST II program were budgeted to be expended on new schools, additions and renovations, maintenance, curriculum and technology, safety and support and a property tax rollback. \$696.2 million was originally budgeted for the various projects in the SPLOST II program, which also included approximately \$60 million of state funding. As of December 31, 2006, the School District had expended \$396.5 million and committed another \$98.8 million toward the completion of the total program. These expended and committed funds represent approximately 71% of the total originally budgeted expenditures of the five year program. Approximately 78% of the expended and committed funds as of December 31, 2006 related to new school construction, additions and renovations, and program management expenses while 9% related to the property tax rollback and 13% related to maintenance, curriculum/technology, and safety/support expenditures.

RESULTS IN BRIEF

Based on the results of our audit, we conclude that the Cobb County School District expended SPLOST II funds efficiently and economically for the twelve month period ended December 31, 2006.

EXECUTIVE SUMMARY (continued)

More Specifically:

1. Based on our procedures we conclude that administrative controls are in place to insure the proper management of the sales tax proceeds received by the School District.

2. After comparing construction expenditures of the Cobb County School District with other regional school districts, we conclude that the construction projects' expenditures are comparable, if not lower than other regional school systems.

3. Relating to the School District's technology related expenditures, we conclude that the process for soliciting and evaluating proposals and bids for technology products is adequate and promotes active competition among vendors. The process insures that technology expenditures are reasonable in the volatile market environment for these products.

4. Relating to the cash management of the SPLOST II proceeds received by the School District, we conclude that the cash management of these funds has been conducted in a sound fiscal manner. The effective rate of return on idle SPLOST II funds in December 2006 was 5.42%. All deposits were fully insured and/or collateralized at December 31, 2006.

BACKGROUND INFORMATION

The Constitution of Georgia, Article VIII, Section VI, Paragraph IV, authorizes boards of education of each county school district by resolution to impose, levy, and collect a sales and use tax for educational purposes upon approval by a majority of qualified voters who vote in a referendum thereon. The proceeds from the tax can be used for the following purposes:

- Capital outlay projects for educational purposes
- Retirement of previously incurred general obligation debt issued for capital projects of the school system
- A combination of the foregoing

In 1998, the voters of Cobb County approved the first Special Purpose Local Optional Sales Tax for educational purposes (SPLOST I). Sales tax levies under SPLOST I commenced January 1, 1999 and ended five years later on December 31, 2003, with the final collections of the taxes in year 2004. The Cobb County School District engaged the firm of Anderson, Hunt & Company, LLC to perform agreed upon procedures on the SPLOST I program for the years ended December 31, 1999 through December 31, 2004.

In May 2003, the Cobb County Board of Education adopted a resolution calling for an election to determine if the sales tax should be reemployed upon the expiration of SPLOST I on December 31, 2003. (See **Appendix A**)

On September 16, 2003, the majority of the voters approved the reimposition of the sales tax (SPLOST II) to be effective on January 1, 2004.

During 2003, the Georgia General Assembly passed legislation requiring local boards of education receiving annual sales tax proceeds of five million dollars or more to have continuing performance audits or performance reviews of the expenditure of sales tax funds (O.C.G.A. § 20-2-491).

The Cobb County School District issued Request for Proposal No. 63-04 “SPLOST II Performance Audit or Performance Review” on November 30, 2004 and received proposals in January 2005. The contract for Performance Audit Services on the SPLOST II program was awarded to Moore & Cubbedge, LLP in May 2005. The Performance Audits for the periods ended December 31, 2005 and 2004 were completed by Moore & Cubbedge, LLP and presented to the Cobb County Board of Education.

AUDIT OBJECTIVES

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

- To ensure to the maximum extent possible that SPLOST II funds are expended efficiently and economically so as to secure to the School District the maximum possible benefit from the tax dollars collected. The objectives of the Audit include ensuring that:
 - SPLOST II proceeds are being disbursed in compliance with the SPLOST II Resolution approved by the Cobb County Board of Education on May 7, 2003.
 - SPLOST II 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 School District.
 - The School District's construction project expenditures are comparable to other school system building construction program expenditures in the metro Atlanta area.
 - The School District's technological expenditures are reasonable considering the volatile market environment for these products.
 - Investment of the SPLOST II proceeds received by the School District has been conducted in a sound fiscal manner.
- 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.
- To provide for the issuance of periodic public recommendations at least annually for improvements in meeting the goal described above.

These objectives are consistent with the requirements of the provisions of the legislation passed in 2003 (O.C.G.A. § 20-2-491).

AUDIT SCOPE

The Cobb County School District engaged Moore & Cubbedge, LLP to conduct annual Performance Audits of the District's Special Purpose Local Option Sales Tax II (SPLOST II) Program. The audits will be conducted annually over a six year period and will cover the calendar year periods from January 1, 2004 through December 31, 2009.

The audit presented herein covers the period from January 1, 2006 through December 31, 2006.

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

A summary of the budgeted versus actual expenditures through December 31, 2006 is presented below:

(In Thousands)						
Category	Original Budget	Revised Budget	Expended	Encumbered	Uncommitted	% Committed
New Schools	\$ 222,766	\$ 238,977	\$ 149,478	\$ 53,749	\$ 35,749	85%
Additions/ Renovations	172,825	200,311	133,411	37,627	29,274	85%
Maintenance	80,598	36,048	20,269	346	15,434	57%
Curriculum/ Technology	75,759	75,261	17,548	2,024	55,688	26%
Program Management	-	12,900	8,838	4,016	47	100%
Safety & Support	75,300	62,206	20,998	1,105	40,102	36%
Election Expense	-	-	-	-	-	0%
Property Tax Rollback	69,000	69,000	46,000	-	23,000	67%
Contingency	-	46,643	-	-	46,643	0%
TOTAL	\$ 696,248	\$ 741,346	\$ 396,542	\$ 98,867	\$ 245,937	67%

The above schedule also includes expenditures funded by State capital outlay funds.

We reviewed SPLOST II expenditures incurred in 2006 related to new schools, additions/renovations, maintenance, curriculum/technology and safety and support for schools and administration. Expenditures reviewed represented approximately thirty-eight percent of the total SPLOST II expenditures incurred in 2006.

Our audit fieldwork was conducted between April 1, 2007 and June 15, 2007.

AUDIT METHODOLOGY

We conducted the Performance Audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

These standards require the following:

- Adequate planning of the audit
- Proper supervision of staff assigned to the audit
- Adequate design of audit procedures to provide reasonable assurance about compliance with laws, regulations and other compliance requirements
- An understanding of management controls relevant to the audit
- Obtaining sufficient, competent, and relevant evidence to afford a reasonable basis for the auditor's findings and conclusions
- A written audit report which contains the audit objectives, scope and methodology, findings and conclusions, recommendations, significant instances of noncompliance and illegal acts, significant weaknesses in management controls, views of responsible officials, noteworthy accomplishments, and issues needing further study, if any.
- Guidelines for the report presentation and distribution.

We used the following methodology to gather and analyze the information and evidence for the performance audit:

- Obtained and reviewed State of Georgia statutes relating to the Special Local Option Sales Tax and audit thereof.
- Obtained and reviewed resolution of the Cobb County Board of Education which provided for the SPLOST II referendum.
- Interviewed management and staff of the School District who are involved with the SPLOST II Program.
- Obtained and reviewed documented policies, procedures and administrative rules relating to contracts for services, change orders, purchasing, and general financial procedures.
- Obtained and reviewed the School District's "SPLOST II Notebook" which was used to promote the passage of the SPLOST II referendum.
- Obtained and reviewed the Consolidated Management Report for the month ending December 31, 2006 for the SPLOST II program. (See **Appendix B**)

AUDIT METHODOLOGY (Continued)

- Obtained and reviewed detail general ledger reports for accounts relating to the SPLOST II program.
- Obtained and reviewed selected source documentation, including bid proposals, bid tabulations, purchase orders, contractual agreements, change orders, invoices, and pay applications.
- Conducted site visits to two schools and inspected SPLOST II program facilities projects.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS

OBJECTIVE: To determine that SPLOST II proceeds are being disbursed in compliance with the SPLOST II Resolution approved by the Cobb County Board of Education on May 7, 2003.

Procedures:

Compared projects disclosed in the Resolution to those presented in the “SPLOST II Notebook” used to promote the Program and also to the projects included in the Consolidated Management Report which tracks budgeted and actual expenditures on projects.

Results:

Expenditures incurred during the year were for projects included in the Resolution approved by the Cobb County Board of Education.

Conclusion:

Based on our procedures, we conclude that the SPLOST II proceeds were disbursed in compliance with the SPLOST II Resolution approved by the Cobb County Board of Education.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

OBJECTIVE: To determine that SPLOST II proceeds are being disbursed in a fiscally responsible manner.

Procedures – Construction, Maintenance and Renovation Projects:

In our opinion, the policies and procedures of the School District do provide for fiscally responsible disbursement of SPLOST II proceeds for construction related expenditures. Therefore, our procedures in this area were designed to test the compliance with the approved policies and procedures. From a selected sample of expenditures, we performed the following procedures in this area:

- Reviewed Request for Proposal/Bid procedures for construction expenditures incurred in 2006.
- Reviewed School Board Agenda item and approval by Board, if required.
- Reviewed executed contract and agreed to the submitted proposal or bid.
- Reviewed architect fees for reasonableness and reviewed pay applications for proper approval.
- Interviewed staff of School System to discuss status of construction projects.
- Reviewed change order approvals and communication to the Board, if required.
- Visited two new schools under construction.

Results – Construction, Maintenance and Renovation Projects:

- Request for Proposal/Bid procedures were in compliance with approved policies and procedures. Of the ten facilities projects reviewed, the winning contractor had submitted the lowest bid as reflected on the “Tabulation of Bids” form prepared by the program manager. Our review of the submitted bids on these contracts confirmed the amounts reflected on the “Tabulation of Bids” form.
- Contracts and purchase orders were evidenced by Board approval when required by policy.
- Amounts reflected on executed contracts for construction agreed to the proposal submitted by the winning contractor.
- Program Manager and architect fees were paid in accordance with approved contracts and fee schedules.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

- Change orders on projects were executed in accordance with policies and procedures with School Board approval when required.

Procedures – Curriculum, Instruction and Technology:

In our opinion, the policies and procedures of the School District do provide for the fiscally responsible disbursement of SPLOST II proceeds for technology related expenditures. Therefore, our procedures in this area were designed to test compliance with the approved policies and procedures. Approximately \$10,900,000 was expended under the categories of “Computing Device/Teacher” and “Refresh Obsolete Workstations.” This represents 74% of the total Curriculum, Instruction and Technology expenditures made in 2006. Because of the significance of the expenditures in these two categories, our procedures were concentrated on these expenditures. From a selected sample of expenditures, we performed the following procedures in this area:

- Traced project/program category to Board approved Resolution to verify eligibility.
- Traced expenditure to vendor invoice/contract.
- Traced unit price and/or total price on invoice to purchase order
- Traced purchase order prices and descriptions to vendor proposal, bid or quote.
- Reviewed submitted bids and quotes and determined that low bid or quote was awarded the contract.
- Reviewed submitted proposals and determined that proposal with the highest evaluation was awarded contract.
- Reviewed Board approval of contract if required by policies and procedures.

Additional Procedures

- Interviewed staff of School System to discuss physical controls and security over laptop computers.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

Results – Curriculum, Instruction and Technology:

Computing Device/Teacher

- Request for Proposal/Bid procedures were in compliance with approved policies and procedures.
- Purchase orders were evidenced by Board approval when required by policy.
- Amounts reflected on purchase orders and invoices agreed to the proposal submitted by the winning bidder.

Refresh Obsolete Workstations

- Request for Proposal/Bid procedures were in compliance with approved policies and procedures.
- Purchase orders were evidenced by Board approval when required by policy.
- Amounts reflected on purchase orders and invoices agreed to the proposal submitted by the winning bidder.
- Computers were methodically ordered only to refresh workstations, not add new workstations to schools.
- Obsolete workstations were scrapped by salvage vendor to destroy hard drives and properly account for all units disposed.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

Physical Controls and Security of Laptop Computers

The Property Control Division maintains a detail listing of laptop computers issued to school administrators, staff and teachers. The listing provides the name of the person, the person type (admin, staff or teacher), the school, the serial number of the computer and the asset tag number. Additional space is provided on the listing for comments.

Prior to receiving a laptop computer, a “Teacher Laptop Agreement” must be completed and signed by the person receiving the laptop computer. This agreement outlines the responsibilities of the individual to maintain the equipment in such a manner as to prevent loss or damage. As of December 31, 2006, thirty-nine School District laptops had been stolen from classrooms, vehicles or homes.

The theft of the thirty-nine laptop computers represents less than 0.5% of the total number of laptops issued in 2005 and 2006. It appears that adequate controls are in place to provide physical control and security of the laptop computers.

Procedures – Support & Safety Improvements:

Approximately \$10 million of SPLOST II funds were expended in 2006 for Support & Safety Improvements. Since approximately \$5.4 million was expended for school buses in 2006, we reviewed expenditures primarily in the category of Buses, Vehicles & Equipment. From a selected sample of expenditures, we performed the following procedures in this area:

- Traced project/program category to Board approved Resolution to verify eligibility.
- Reviewed Request for Proposal/Bid procedures to determine compliance with approved policies and procedures.
- Reviewed submitted bids and determined that low bid was awarded the contract.
- Reviewed Board approval of contract as required by policies and procedures.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

- Traced purchase order prices and descriptions to winning vendor bid.
- Traced unit price and/or total price on invoice to purchase order.
- Traced expenditure to vendor invoice.

Results – Support & Safety Improvements:

We noted no exceptions in our review of expenditures within the Support & Safety Improvements Category.

Conclusions:

Based on our procedures, we conclude that SPLOST II proceeds are being disbursed in a fiscally responsible manner.

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

Procedures - Administrative Controls:

- Obtained approved policies and procedures relating to Contracts for Services, Contracts for Construction, Purchasing, Change Orders, Budget Adjustments and other General Financial Procedures and reviewed for adequacy.
- Interviewed key management and staff personnel to determine their familiarity with policies and procedures.
- Interviewed key management and staff to review the administrative controls in place to manage sales tax proceeds.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

Results – Administrative Controls:

The documented policies and procedures provide clear and concise instructions for activities related to the SPLOST II program. These policies and procedures incorporate administrative controls over School District financial transactions and require management oversight at various levels.

Conclusion – Administrative Controls:

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

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

OBJECTIVE: To determine that the School District’s SPLOST II new school project expenditures are comparable to those of other school systems in the region.

Procedures - Local New School Construction Contracts Awarded in 2006:

We reviewed data compiled by School District employees from the Reed Reports, a third-party industry publication that periodically announces upcoming bids and provides data on recently awarded bids on local construction projects. We selected several of the metro Atlanta school districts that awarded new school contracts during 2006 and calculated the average cost-per-square-foot of each district’s new school projects based on the contract awards. This data was compared to Cobb County School District’s awards for two new schools in 2006: Allatoona High School and Pickett’s Mill Elementary School.

It should be emphasized that this source only provides information on bids awarded during the year. None of the numbers are based upon actual expenditures, and the information is limited to that which was announced in the Reed Reports. No representation has been made that the information provided is comprehensive or complete.

Results - Local New School Construction Contracts Awarded in 2006:

	<u>No. of New School Contracts Awarded - 2006</u>	<u>New Schools – Avg. Award per Sq. Foot</u>
Clayton	1	\$ 161.29
Cobb	2	130.50
Dekalb	1	123.85
Fulton	1	149.90
Gwinnett	4	136.93
Henry	5	136.71

Procedures - Statewide and Regional 2006 New School Construction Expenditures:

We compiled new school construction costs from internal SPLOST II management reports and compared the cost-per-square-foot calculation to new school construction in the state of Georgia and in the four-state southeastern region of the U.S (Alabama, Florida, Georgia, and Mississippi).

We calculated the average cost-per-square-foot of new schools funded by SPLOST II proceeds by school type (elementary, middle, high) based on the aggregate funds that had been expended or committed as of December 31, 2006. Cobb data includes construction costs, architect and engineer fees, and miscellaneous construction and site-preparation related expenditures. Land acquisition, furnishings, and technology are excluded from Cobb’s cost calculations.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

Statewide cost data is from the 2007 F.W. Dodge school construction data report, published by McGraw-Hill. This data is for new schools, and excludes planning, architect, engineering, and management fees.

Data for the four-state region including Georgia, Florida, Alabama, and Mississippi, comes from *School Planning and Management* magazine's 2007 School Construction Report. The information relates to new school construction, but does not specify which, if any, costs are excluded from the unit cost data.

Results - Statewide and Regional 2006 New School Construction Expenditures:

	Average Cost per Square Foot		
	<u>4-State Region</u>	<u>Statewide</u>	<u>Cobb County</u>
Elementary	\$ 126.44	\$ 105.81	\$ 105.65
Middle/JHS	117.00	112.40	91.96
High School	130.80	130.97	124.99

Conclusion – New School Construction Awards/Expenditures:

Based on the data presented above, it appears that the Cobb County School District's SPLOST II new school construction cost per square foot is comparable to or lower than the average cost per square foot for local, statewide, and regional school districts.

OBJECTIVE: To determine that the School District's technological expenditures are reasonable considering the volatile market environment for these products.

Procedures – Technological Expenditures:

During 2006, the School District expended technology funds from the SPLOST II program primarily for laptop computers for teachers and desktop computers to refresh obsolete workstations at schools. As discussed on pages 10 and 11 of this report, we reviewed the procedures utilized by the School District in acquiring these computers.

Results – Technological Expenditures:

We noted no exceptions in our review of expenditures within the School District's technological expenditures.

Conclusion – Technological Expenditures:

We conclude that the technological expenditures made in 2006 are reasonable considering the volatile market environment for these products.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

OBJECTIVE: To determine that the investment of SPLOST II proceeds received by the School District has been conducted in a sound fiscal manner.

Procedures - Investment:

We interviewed personnel responsible for the cash management/investment of the SPLOST II proceeds. We also reviewed the rate of return on the invested SPLOST II proceeds for reasonableness compared to the other investment options. Additionally we requested confirmation of the collateral pledged against the School District's deposits at December 31, 2006.

Results - Investment:

Bids were taken from various financial institutions for the investment of the SPLOST II proceeds for the period ended December 31, 2006. The bids were reviewed by a School System personnel and an independent financial advisor engaged by the School District. After analysis of the bids, SunTrust Bank was recommended to and approved by the School District Board. SunTrust pays a variable rate of return which is based on the daily Fed Funds Rate. The effective interest rate paid in December 2006 on the School District's available funds was 5.42%.

Deposits were adequately collateralized at December 31, 2006 with pledged securities totaling 141% of the School District's deposits.

Conclusion - Investments:

Based on our procedures, we conclude that the investment of SPLOST II proceeds received by the School District was conducted in a sound fiscal manner.

AUDIT PROCEDURES, RESULTS AND CONCLUSIONS (Continued)

OBJECTIVE: To provide for the issuance of periodic reports at least annually with respect to the extent to which expenditures are meeting the goals described in this report.

Result:

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

OBJECTIVE: To provide for the issuance of periodic public recommendations at least annually for improvements in meeting the goals described in this report.

Result:

This objective has been met with the issuance of this report.

NOTEWORTHY ACCOMPLISHMENTS

- As of December 31, 2006, almost three years into the five year SPLOST II Program, 85% of the funds budgeted for new schools and additions/renovations had been committed.
- The return on investment of the idle SPLOST II funds increased over the two previous years of the SPLOST II program. The increase resulted not only from rising interest rates but also from a second year program change in the strategy for investing idle funds.
- The School District's policies and procedures relating to the physical security and control of teachers' laptop computers were effective in limiting the loss/theft of these computers to a very small number during 2006.