

Atlanta Independent School System

Performance Audit on SPLOST Program
For the Fiscal Year Ended June 30, 2019



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Introduction

To the Members of the Board of Education
Atlanta Independent School System
Atlanta, 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:

- A. 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.
- B. 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 A above.
- C. Provide for issuance of periodic public recommendations, not less than annually for improvements in meeting the goal specified in item A above.

SPLOST, or “Special Purpose Local Option Sales Tax,” is a referendum voted and approved by Fulton County and DeKalb County voters in which one percent is added to the local sales tax for the purpose of funding the Atlanta Independent School System’s (the “School System”) building and renovation projects 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. The School System is also allowed to issue new general obligation bonds for specific capital outlay projects to be repaid with SPLOST funds.

The School System is in the second (2nd) year of authorizing the SPLOST V taxes and related projects. The School System works under the direction of the School Board (the “Board”) and its superintendent, and the projects selected for SPLOST funding are chosen by the Board.

The Atlanta Independent School System had two (2) SPLOST programs (Fulton and DeKalb) during the period covered by this audit report from July 1, 2018 to June 30, 2019. The SPLOST programs were as follows:

Fulton SPLOST Program

The Atlanta Independent School System has approved the following capital outlay projects at a total maximum cost of \$525,695,691.

- 1) Adding to, modifying, reconfiguring schools, demolition of all or portions of existing schools, buildings and/or facilities, some APS Schools and Facilities or creating new schools to accommodate current and increased student enrollment, class-size reductions, and

- programmatic needs, and acquiring land and preparing sites for constructing and equipping new or replacement schools and facilities, or equivalent classroom capacity, including site preparation and the demolition of all or portions of existing structures;
- 2) Adding to, renovating, modifying and equipping several existing schools or District-owned property and facilities;
 - 3) Adding to, renovating, modifying, reconfiguring, equipping, upgrading, supplementing, acquiring, replacing, and installing capital improvements for various existing and new schools, including fifty (50) elementary schools, fifteen (15) middle schools, fifteen (15) high schools, and various other buildings and facilities;
 - 4) Making technology improvements, by acquiring, replacing, purchasing, installing, upgrading or supplementing technology including, but not limited to: instructional technology, digital communication technology, wireless technology, wireless infrastructure, enterprise content management solutions, data storage systems, telecommunication systems, mass communications systems, technology hardware, software, and related infrastructure at schools and facilities, at some or all of APS Schools and Facilities;
 - 5) Making athletic field and physical education facility upgrades and improvements at various middle and high schools;
 - 6) Acquiring, replacing, purchasing, refurbishing, equipping and supplementing school buses and support vehicles;
 - 7) Replacing, purchasing, upgrading, refurbishing or supplementing capital equipment including, but not limited to: desks, chairs, tables, instructional materials, instructional equipment, physical education equipment, equipment that supports learning, band equipment, kitchen equipment, waste compactors, portable classrooms/modular buildings, custodial equipment, grounds equipment, and similar capital equipment at some or all of APS Schools and Facilities;
 - 8) Making of site, facility and technology improvements deemed necessary to improve safety and security, and enhance surveillance systems at some or all of APS Schools and Facilities;
 - 9) Making technology improvements, and replacing, purchasing, installing, upgrading or supplementing technology including, but not limited to: instructional technology and information systems hardware, software, and infrastructure at some or all Atlanta Independent School System schools and selected other facilities (including without limitation selected charter schools), upgrades to wireless communication infrastructure and technology, emergency response technology, access control technology and equipment, security cameras and surveillance upgrades at some or all APS Schools and Facilities;
 - 10) Replacing, purchasing, upgrading or supplementing capital equipment including, but not limited to: school bus equipment, school bus lifts, school police vehicles, school police

equipment, support vehicles, fuel management systems, medical, emergency and evacuation equipment, etc.;

- 11) Making existing or new lease/purchase payments or payment with respect to the acquisition of schools, facilities, school buses, school police vehicles, transportation vehicles, or other capital acquisitions; and
- 12) Acquisition of North Atlanta High School and related facilities by making lease purchase payments related to certificates of participation.

DeKalb SPLOST Program

The Atlanta Independent School System has approved the following capital outlay projects at a total maximum cost of \$20,057,000.

- 1) Adding to, modifying, reconfiguring schools, demolition of all or portions of existing schools, buildings and/or facilities, some APS Schools and Facilities or creating new schools to accommodate current and increased student enrollment, class-size reductions, and programmatic needs, and acquiring land and preparing sites for constructing and equipping new or replacement schools and facilities, or equivalent classroom capacity, including site preparation and the demolition of all or portions of existing structures;
- 2) Adding to, renovating, modifying and equipping Fred Armon Toomer Elementary School;
- 3) Adding to, renovating, modifying, reconfiguring, equipping, upgrading, supplementing, acquiring, replacing, and installing capital improvements for various existing and new schools, including eight (8) elementary schools, three (3) middle schools, three (3) high schools, and various other buildings and facilities;
- 4) Making technology improvements, by acquiring, replacing, purchasing, installing, upgrading or supplementing technology including, but not limited to: instructional technology, digital communication technology, wireless technology, wireless infrastructure, enterprise content management solutions, data storage systems, telecommunication systems, mass communications systems, technology hardware, software, and related infrastructure at schools and facilities, at some or all of APS Schools and Facilities;
- 5) Making athletic field and physical education facility upgrades and improvements at various middle and high schools;
- 6) Acquiring, replacing, purchasing, refurbishing, equipping and supplementing school buses and support vehicles;
- 7) Replacing, purchasing, upgrading, refurbishing or supplementing capital equipment including, but not limited to: desks, chairs, tables, instructional materials, instructional equipment, physical education equipment, equipment that supports learning, band equipment,

kitchen equipment, waste compactors, portable classrooms/modular buildings, custodial equipment, grounds equipment, and similar equipment at some or all of APS Schools and Facilities;

- 8) Making of site, facility and technology improvements deemed necessary to improve safety and security, and enhance surveillance systems at some or all of APS Schools and Facilities;
- 9) Making technology improvements, and replacing, purchasing, installing, upgrading or supplementing technology including, but not limited to: instructional technology and information systems hardware, software, and infrastructure at some or all Atlanta Independent School System schools and selected other facilities (including without limitation selected charter schools), upgrades to wireless communication infrastructure and technology, emergency response technology, access control technology and equipment, security cameras and surveillance upgrades at some or all of APS Schools and Facilities;
- 10) Replacing, purchasing, upgrading or supplementing capital equipment including, but not limited to: school bus equipment, school bus lifts, school police vehicles, school police equipment, support vehicles, fuel management systems, medical, emergency and evacuation equipment, etc.; and
- 11) Making existing or new lease/purchase payments or payment with respect to the acquisition of schools, facilities, school buses, school police vehicles, transportation vehicles, or other capital acquisitions.

Audit Scope, Objectives, and Methodology

Audit Scope

Mauldin & Jenkins, LLC was engaged to conduct a performance audit of the 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 SPLOST program from July 1, 2018 to June 30, 2019. From a listing of all disbursements made during the specified time frame, we selected 85 disbursements to test (60 from Fulton SPLOST and 25 from DeKalb SPLOST), totaling \$2,576,238 of the total disbursements of \$120,062,391 for the audit period.

Audit Objectives

The overall objective of the performance audit was to evaluate whether the tax funds were expended efficiently and economically so that the School System is receiving maximum benefit from the dollars collected. The specific audit objectives were:

- 1) To determine whether the schedule of projects adheres to the approved resolutions adopted by the Atlanta Independent School System Board of Education;

- 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 were achieved;
- 3) To determine the reliability of the monitoring function to verify that actual project expenditures are not exceeding budgeted amounts;
- 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;
- 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;
- 6) To determine whether effective procedures exist to verify that design and construction of capital projects adhered to applicable quality control standards;
- 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; and
- 8) 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 perform 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). 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

Based on the results of our audit, we conclude that the Atlanta Independent School System's SPLOST Program is operating in compliance with all applicable laws and regulations, the referendum approved by the School System'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 resolutions adopted by the Atlanta Independent School System.

Procedures: We obtained a copy of the SPLOST Resolutions as approved by the Board of Education of the School System and the voters of Fulton County and DeKalb County. Haphazardly, we selected a sample of eighty-five (85) checks written during the fiscal year ended June 30, 2019. Sixty (60) of these were from Fulton SPLOST specific expenditures with the remaining twenty-five (25) being from DeKalb SPLOST specific expenditures. Sample sizes of sixty (60) and twenty-five (25) for Fulton and DeKalb, respectively, was determined to be sufficient in order to test the transaction's processing and compliance with the approved SPLOST resolutions. We then conducted a disbursement test for disbursements made during the audit period to ensure that the projects for which expenditures were incurred were included in the approved resolution and supported by documentation such as a vendor invoice.

Results: Based on the results of our disbursement test, the expenditures tested were related to projects approved in the SPLOST resolutions.

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 were achieved.

Procedures: We discussed the policies and procedures for communication with the Board and with management of the Facilities Department. Based on inquiries, the Director of Capital Improvements submits a status report for all projects to the Board on a monthly basis. Board members receive the information in advance of their meeting, allowing them an opportunity to review and formulate any questions that they may have. We reviewed all of the "Board Packages" submitted to the Board for the months of July 2018 through June 2019 to determine if the packages included the status of the capital outlay projects to date for each month reviewed.

Results: Based on the results of the inquiries made and review of reports submitted to the Board, the Board Packages submitted to the Board include the status of the capital outlay projects to date for each period.

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 management. Per discussion with the Director of Capital Improvements, the budget to actual is monitored on a contract basis prior to the application for payment being paid. Each invoice has a pay application which includes the original contract amount, the current charge, the current deduction for retainage, and the previous amount paid. This application for payment is reviewed by the architect (where applicable) and then approved by the project manager, construction finance director, and the director of facilities services. Each application also includes a reconciliation of each period of the projects earnings, the retainage, and the amount paid to the contractor. In addition, a financial analyst prepares a monthly ad hoc report that monitors the expenditures of each project. We reviewed disbursements as described in Objective #1 for the director's approval.

Results: Based on the results of inquiries made, review of reports prepared, and review of disbursements, 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: We discussed the monitoring of projects with the Director of Capital Improvements. Per discussions held, the project manager is often on-site daily and is at least on the site twice a week. There are also weekly job meetings with the construction manager, project manager, and the architect. In addition, the project manager does a specific walkthrough with the architect and the construction manager when there is a pay request submitted. 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. Each project is now set up using a construction manager at risk format. Under this format, the construction manager has the potential to lose profits if the project comes in over budget or is completed past the Guaranteed Delivery Date (GDD).

Results: In our disbursement test of eighty-five (85) expenditures from DeKalb County and Fulton County SPLOST funds, we noted each invoice had the proper approvals documented.

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 2019 Capital Improvement Program, we inquired as to the procedures performed in regard to the financial analyses. Per discussion with a financial analyst, she prepares a working capital balance report each month to ensure that there is capital in the bank to make the payments on the contracts each month. The Director of Capital Improvements also prepares a Cash Flow Projection Report which is used at the beginning of the projects and shows the projected cash flows for each month of the project. This report is used in the preparation of the Working Capital Balance report. She also compares the funds reported by the GADOR to the funds received each month in order to ensure that the appropriate funds have been received.

Results: Based on the results of inquiries made and review of reports prepared (Capital Balance Report, Cash Flow Project report, and SPLOST Revenue Receipts report), it appears that an adequate process is 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 adhere to applicable quality control standards.

Procedures: We discussed procedures in place to monitor the design and construction of capital projects with the Director of Capital Improvements. Per review of proposals submitted, the School System did pre-qualify architects for the project to ensure the architects used were familiar with standards and specifications necessary for schools. Additionally, they 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. We reviewed field reports prepared by the architect after the Director of Construction's site visits noting that someone does monitor and document its assessment of the work performed (to ensure quality and that work meets the project specifications) and status of the project in respect to the projected timeline to ensure that the project meets the deadline for completion. In addition, when a pay application is submitted, the architect reviews the pay application to ensure that the work indicated as performed had been performed. Additionally, we conducted a disbursement test, as described in Objective #1, to ensure that the School System 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 System's 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 expenditure of tax revenue funds are in compliance with applicable laws and regulations.

Procedures: We discussed financial controls in place with the Director of Capital Improvements. The Construction Department 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. The invoices are reviewed by the architect (where applicable) and then approved by the project manager, construction finance director, and the director of facilities services. Additionally, as described in Objective #1, we reviewed disbursements for proper approval and to verify that the expenditures were related to projects approved as per the SPLOST resolutions.

Results: Based on the results of inquiries made, review of 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 the Board approved procurement policies and procedures.

Procedures: In order to test the procurement practices of the SPLOST program, we obtained a copy of Board policy in regard to bids and procurements and held discussions with the business manager and documented our understanding of the process. We then reviewed the procurement process and related documents (including the contract) noting evidence that the Board approved the contract, that Procurement Services approved the contract, and that there were multiple bids as mandated by the procurement policies and procedures, for all five (5) projects procured in the audit period with a value of \$200,000 or greater or that included purchases of individual items of \$20,000 or greater.

Results: Based on inquiries made and our review of bid documents, the School System is following Board approved procurement policies and procedures.

Closing

This report is intended solely for the information and use of the Board of Education of the Atlanta Independent 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

Atlanta, Georgia
December 18, 2019
