HALL COUNTY BOARD OF EDUCATION

COMPLIANCE AND PERFORMANCE AUDIT
SPECIAL PURPOSE LOCAL OPTION SALES TAX

Fiscal Year Ended
June 30, 2013

HALL COUNTY BOARD OF EDUCATION
COMPLIANCE AND PERFORMANCE AUDIT

TABLE OF CONTENTS

	PAGE
Executive Summary	1-2
Audit Scope, Objectives and Methodology	3
Findings Summary, Conclusions and Management Comments	4-5

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PH 770.532.9131
FX 770.536.5223
525 Candler Street, NE
P.O. Drawer 2396
Gainesville, Georgia 30503
www.batescarter.com

EXECUTIVE SUMMARY

October 25, 2013

Hall County Board of Education
711 Green St NW
Gainesville, Georgia 30501

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 Hall 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 June 30, 2013, SPLOST expenditures were as follows:

	SPLOST III	SPLOST IV	TOTAL
Bond interest & fees	$ 771,146	$ 340,100	$ 1,111,246
Bond principal	12,040,000	-	12,040,000
Classroom additions	5,513	1,784,808	1,790,321
Land acquisition	-	-	-
Renovations	2,353,282	12,072,281	14,425,563
Technology equipment	2,409,549	2,037,493	4,447,042
	$ 17,579,490	$ 16,234,682	$ 33,814,172

The Hall County Board of Education ("HCBOE") works under the direction of the School Board and its Superintendent. Projects selected for SPLOST funding are approved by the School Board. The HCBOE employs a Construction Manager to oversee all SPLOST and capital outlay projects. In conjunction with this, most of the large projects use the Construction Manager at Risk model to manage the projects. Smaller projects are grouped and bid as a package and also use the Construction Manager at Risk Model. The Construction Manager at Risk model is designed to have a contracted construction manager who will take responsibility for all aspects of the designated project under the oversight of the HCBOE. Construction Manager at Risk model is the preferred method to use on large projects because there is a guaranteed maximum price for the cost of the construction 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 June 30, 2013, 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 Hall County Board of Education 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 program for the year ended June 30, 2013. This audit was conducted at the request of the Hall County Board of Education ("HCBOE"). 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 HCBOE's compliance with state legislation and the receipt and expenditure of sales tax proceeds for allowable SPLOST educational purposes.

Audit Objectives

Based on the requirements of Georgia Code Section 20-2-491, we identified the following objectives:

1. To determine the extent to which legislative and organizational goals and objectives are being achieved.
2. To determine that the HCBOE is following sound procurement practices.
3. To determine the reliability, validity, and relevance of financial information related to the performance of the program.
4. Investment of the sales tax proceeds received by the School System has been conducted in a sound fiscal manner.

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 funds.
- Prepare an audit program based on audit objectives and the control environment to include the following steps:
  - Conduct interviews with HCBOE staff members responsible for the SPLOST 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 60 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: To determine the extent to which legislative and organizational goals and objectives are being achieved

- We conducted interviews with the HCBOE Deputy Superintendent, Executive Director of Facilities, Executive Director of Technology, and the Accounting Manager 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.
- We reviewed five projects.

Conclusion: Based on our procedures, there were no findings and we conclude that the HCBOE SPLOST program is accomplishing all legislative, regulatory, and organizational goals and objectives.

Objective #2: To determine that the HCBOE is following sound procurement practices

- We conducted interviews with the Accounting Manager and the Facilities and Budget Clerk to identify how costs and use of funding of SPLOST 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, were properly reviewed and authorized by appropriate personnel, and were properly coded to a SPLOST account.
- We gained an understanding of the bid process for contracts.
- We gained an understanding of the various project models to ensure that the best method is used and sound procurement policies are followed.

Conclusion: Based on our procedures, there were no material findings and we conclude that the HCBOE SPLOST program is following sound procurement procedures. The various project models include Contraction Manager at Risk, Design-Bid-Build, and Design-Build. Based on conversations with the Executive Director of Facilities, the decision to use the Construction Manager at Risk for the large projects is appropriate and in accordance with program objectives. Because architect contracts are service oriented, these are not required to go through the bid process.

Objective #3: To determine the reliability, validity and relevance of financial information related to the performance of the program

- We conducted interviews with the Accounting Manager and the Facilities and Budget Clerk to identify how costs and use of funding of SPLOST monies are determined, how it is classified, and ultimately recorded in the general ledger.
- We reviewed a sample of disbursements to verify proper coding.
- We reviewed the SPLOST-related general ledger accounts to verify that expenditures were recorded correctly.

Conclusion: Based on our audit procedures, we conclude that the HCBOE SPLOST program has reliable, valid, and relevant financial information.

Objective #4: Investment of the sales tax proceeds received by the School System has been conducted in a sound fiscal manner.

We conducted interviews with the Accounting Manager to identify how funds are invested. We reviewed the investment vehicle to determine its validity. The School System invests monies in an interest bearing account with a bank. We compared investment earnings of HCBOE to average yields of the Georgia Fund 1 and S&P's Rated Government Investment Index.

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