

HALL COUNTY BOARD OF EDUCATION

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

**Year Ended
June 30, 2015**

**HALL COUNTY BOARD OF EDUCATION
COMPLIANCE AND PERFORMANCE AUDIT**

TABLE OF CONTENTS

	PAGE
Executive Summary	1-4
Audit Scope, Objectives and Methodology	5-6
Findings Summary and Conclusions	7-9



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EXECUTIVE SUMMARY

November 3, 2015

Hall County Board of Education
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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.

The SPLOST funds under audit are part of the SPLOST referendums that were passed in 2006 (SPLOST III) and in 2011 (SPLOST IV). SPLOST III funds were fully expended during the year ended June 30, 2014. SPLOST IV began collections in November 2012. The maximum amount approved to be raised from the SPLOST IV tax is \$152.983 million. 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.

SPLOST funds will be used for the following purposes as outlined in the resolutions:

- Debt payments, including principal and interest, due on Hall County School District's Series 2007B Bonds with a maximum payment amount of \$9.604 million.
- Acquiring, constructing and equipping of new schools and facilities.
- Acquiring, construction and equipping of fine arts facilities, physical education facilities and student activity facilities.
- Acquiring and conducting site preparation of real estate for school district purposes.
- Constructing and equipping additional classrooms and instructional and support space.
- Remodeling, renovating and equipping existing classrooms and instructional and support space.
- Remodeling, renovating and equipping other school district facilities at existing school system facilities.
- Acquiring furnishings, equipment and fixtures for new and existing facilities system-wide, including equipment, textbooks, library books and school buses.
- Payment of any general obligation debt of the Hall County School District issued in conjunction with the imposition of this tax.

During the year ended June 30, 2015, SPLOST expenditures were as follows:

	Original Budget	Revised Budget	Expended in Current Year	Expended in Prior Years	Project Status	Estimated Completion Date
SPLOST III						
Debt payments, including principal and interest, due on Hall County School District's Series 1992B and 1997 Bonds with a maximum payment amount of \$28.8 million.	\$ 28,800,000	\$ 21,600,863	\$ -	\$ 21,600,863	COMPLETE	
Acquiring, constructing and equipping of new schools and facilities, acquiring and conducting site preparation of real estate for school district purposes, constructing and equipping additional classrooms and instructional and support space, and acquiring furnishings, equipment and fixtures for new and existing facilities system-wide, including technology equipment, textbooks, library books and school buses;	124,200,000	110,413,166	-	110,413,166	COMPLETE	
Payment of any general obligation debt of the Hall County School District issued in conjunction with the imposition of this Sales Tax.	7,000,000	6,559,089	-	6,559,089	COMPLETE	
SPLOST IV						
Debt payments, including principal and interest, due on Hall County School District's Series 2007B Bonds with a maximum payment amount of \$9.604 million.	9,604,500	6,442,777	3,220,950	3,221,826	COMPLETE	11/1/2014
Acquiring, constructing and equipping of new schools, fine arts facilities, physical education facilities and other school system facilities, acquiring and conducting site preparation of real estate for school district purposes, constructing and equipping additional classrooms and instructional and support space, remodeling, renovating and equipping classrooms, instructional support space and other school district facilities at existing school system facilities, and acquiring furnishings, equipment and fixtures for new and existing facilities system-wide, including technology equipment, textbooks, library books and school buses;	151,983,000	151,983,000	11,614,922	44,991,796	ONGOING	6/30/2019
Payment of any general obligation debt of the Hall County School District issued in conjunction with the imposition of this Sales Tax.	1,000,000	1,000,000	262,669	816,064	ONGOING	6/30/2019
	<u>\$ 322,587,500</u>	<u>\$ 297,998,895</u>	<u>\$ 15,098,541</u>	<u>\$ 187,602,804</u>		

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, 2015, 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, 2015. 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.

Additionally, O.C.G.A 20-2-491 provides that the following other objectives are met:

- 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.

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 AND CONCLUSIONS

Objective 1:

To determine the extent to which legislative and organizational goals and objectives are being achieved

- We reviewed the Resolutions approved by the voters which outlined eligible expenditures from SPLOST proceeds.
- 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 verified bond payments made during the audit period were for the debt outlined in the Resolution.
- We reviewed the Local Facilities Plan that includes County growth projections, projected student populations, projected priorities, and a facilities outline by school.
- We reviewed five projects.

Objective 1 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. Total expenditures reviewed represented approximately 24 percent of the total SPLOST expenditures incurred in fiscal year 2015.
- 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.

Objective 2 Conclusion:

Based on our procedures, there were no findings and we conclude that the HCBOE SPLOST program is following sound procurement procedures.

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.

Objective 3 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 used by HCBOE and noted the type of investment is in accordance with O.C.G.A. 36-80-3. 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.

Objective 4 Conclusion:

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

Objective 5:

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.

Objective 5 Conclusion:

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

Objective 6:

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

Objective 6 Conclusion:

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