

GAINESVILLE CITY SCHOOL DISTRICT

**PERFORMANCE AUDIT OF EXPENDITURES OF SPECIAL
PURPOSE LOCAL OPTION SALES TAX (SPLOST) IV
PROCEEDS**

**Years Ended
June 30, 2014 and 2013**

**GAINESVILLE CITY SCHOOL DISTRICT
PERFORMANCE AUDIT**

TABLE OF CONTENTS

	PAGE
Executive Summary	1-5
Audit Scope, Objectives and Methodology	5-6
Findings Summary, Conclusions and Management Comments	7-8



PH 770.532.9131
FX 770.536.5223
525 CANDLER STREET, NE
P.O. DRAWER 2396
GAINESVILLE, GEORGIA 30503
WWW.BATESCARTER.COM

EXECUTIVE SUMMARY

September 5, 2014

Board of Education
Gainesville City School District
508 Oak Street, 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.

The official beginning date for the authorization of taxes and related projects of The Gainesville City School District ("GCSD") under the SPLOST IV referendum was October 1, 2012. GCSD works under the direction of the School Board and its Superintendent. Projects selected for SPLOST funding are approved by the School Board. SPLOST IV funds will be used for the following purposes as outlined in the referendum:

- Paying a portion of the purchase payments due on an Installment Sale Agreement between the GCSD and the Gainesville Redevelopment Authority, with a maximum payment amount of \$5.2 million.
- Acquiring, constructing, and equipping a new elementary school, additional classrooms, instructional and support facilities and physical education facilities.

- Remodeling, renovating, and equipping existing classrooms and instructional and support facilities at existing schools.
- Acquiring land and conducting site preparation of real estate for school district purposes.
- Acquiring furnishings, equipment and fixtures for new and existing facilities system-wide.
- Acquiring technology equipment, textbooks, teaching software and school buses.
- Payment of any general obligation debt of the Gainesville City School District issued in conjunction with the imposition of this tax.

The maximum amount approved to be raised from the SPLOST IV referendum is \$197 million. The total SPLOST funds collected will be distributed to the GSCD, the Hall County School District and the Buford City School District based on an allocation method that has been approved by all three school systems. GSCD's portion is estimated at a maximum of \$34.717 million.

Bates Carter & Co., LLP

During the year ended June 30, 2014, SPLOST IV expenditures were as follows:

(In Thousands)						
	Original Budget	Revised Budget	Expended in Current Year	Expended in Prior Years	Project Status	Estimated Completion Date
PROJECTS						
Acquiring, constructing, and equipping a new elementary school	\$ 17,900	\$ 16,378	\$ 1,712	\$ 14,588	ONGOING	12/31/2013
Acquiring, constructing, and equipping additional classrooms, instructional and support facilities and physical education facilities	-	-	-	-	ONGOING	9/30/2017
Remodeling, renovating, and equipping existing classrooms and instructional and support facilities at existing schools	1,600	2,185	141	1,600	ONGOING	9/30/2017
Acquiring land and conducting site preparation of real estate for school district purposes	-	202	202	-	ONGOING	9/30/2017
Acquiring furnishings, equipment and fixtures for new and existing facilities system-wide. Acquiring technology equipment, textbooks, teaching software and school buses	-	1,118	-	-	ONGOING	9/30/2017
TOTAL PROJECTS	<u>\$ 19,500</u>	<u>\$ 19,883</u>	<u>\$ 2,055</u>	<u>\$ 16,188</u>		
DEBT						
Paying a portion of the purchase payments due on an Installment Sale Agreement between the GCSD and the Gainesville Redevelopment Authority, with a maximum payment amount of \$5.2 millions	\$ 5,200	\$ 5,200	\$ 1,020	\$ 90	ONGOING	9/30/2017
TOTAL DEBT	<u>\$ 5,200</u>	<u>\$ 5,200</u>	<u>\$ 1,020</u>	<u>\$ 90</u>		
TOTAL	<u>\$ 24,700</u>	<u>\$ 25,083</u>	<u>\$ 3,075</u>	<u>\$ 16,278</u>		

In addition to the expenditures shown above, GCSD has incurred interest to provide advance funding for the above projects as detailed below:

	Expended in Current Year	Expended in Prior Years	Project Status	Estimated Completion Date
Payment of any general obligation debt of the Gainesville City School District issued in conjunction with the imposition of this tax (Interest Portion)	505	836	ONGOING	9/30/2017

During the year ended June 30, 2013, SPLOST IV expenditures were as follows:

(In Thousands)							Estimated
	Original Budget	Revised Budget	Expended in Current Year	Expended in Prior Years	Project Status	Estimated Completion Date	
PROJECTS							
Acquiring, constructing, and equipping a new elementary school	\$ 17,900	\$ 17,900	\$ 12,277	\$ 2,311	ONGOING	12/31/2013	
Acquiring, constructing, and equipping additional classrooms, instructional and support facilities and physical education facilities	-	-	-	-	ONGOING	9/30/2017	
Remodeling, renovating, and equipping existing classrooms and instructional and support facilities at existing schools	1,600	1,600	398	1,202	ONGOING	9/30/2017	
Acquiring land and conducting site preparation of real estate for school district purposes	-	-	-	-	ONGOING	9/30/2017	
Acquiring furnishings, equipment and fixtures for new and existing facilities system-wide. Acquiring technology equipment, textbooks, teaching software and school buses	-	-	-	-	ONGOING	9/30/2017	
TOTAL PROJECTS	<u>\$ 19,500</u>	<u>\$ 19,500</u>	<u>\$ 12,675</u>	<u>\$ 3,513</u>			
DEBT							
Paying a portion of the purchase payments due on an Installment Sale Agreement between the GCSD and the Gainesville Redevelopment Authority, with a maximum payment amount of \$5.2 millions	\$ 5,200	\$ 5,200	\$ 90	\$ -	ONGOING	9/30/2017	
TOTAL DEBT	<u>\$ 5,200</u>	<u>\$ 5,200</u>	<u>\$ 90</u>	<u>\$ -</u>			
TOTAL	<u>\$ 24,700</u>	<u>\$ 24,700</u>	<u>\$ 12,765</u>	<u>\$ 3,513</u>			

In addition to the expenditures shown above, GCSD has incurred interest to provide advance funding for the above projects as detailed below:

	Expended in Current Year	Expended in Prior Years	Project Status	Estimated Completion Date
Payment of any general obligation debt of the Gainesville City School District issued in conjunction with the imposition of this tax (Interest Portion)	534	302	ONGOING	9/30/2017

We reviewed SPLOST IV expenditures incurred in 2014 and 2013 related to the projects listed above. Total expenditures reviewed represented approximately 56 percent of the total SPLOST IV expenditures incurred in 2014 and 75 percent of the total SPLOST IV expenditures incurred in 2013.

We reviewed principal and interest payments totaling \$4,365,000 in 2014 and interest payments totaling \$623,000 in 2013.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

Audit Scope

Bates, Carter & Co., LLP was engaged to conduct a performance audit of the SPLOST IV program for the years ended June 30, 2014 and 2013. These audits were conducted at the request of the Gainesville City School District ("GCSD") and were conducted in accordance with generally accepted *Government Auditing Standards*. Those standards require that we plan and perform the audits 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. The audits focused on the GCSD's compliance with state legislation and the receipt and expenditure of sales tax proceeds for allowable SPLOST IV educational purposes.

Audit Objectives

The overall objective of a performance audit of education sales tax expenditures based on O.C.G.A. 20-2-491 is to determine that sales tax dollars are being disbursed efficiently and economically so the School System receiving the funds is obtaining maximum benefit possible from the tax dollars collected. This is achieved through the design and execution of a series of procedures to meet more specific audit objectives in order to determine that:

- The sales tax proceeds are being disbursed in compliance with the SPLOST IV Resolution approved by the Board on December 13, 2010.
- The sales tax 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 District.
- Investment of the sales tax proceeds received by the District 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 IV funds.
- Prepare an audit program based on audit objectives and the control environment to include the following steps:
 - Conduct interviews with GCSD staff members responsible for the SPLOST IV 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 expenditures.
 - Review expenditures over \$1 million.
- Conclude the audit and prepare a draft report.
- Obtain management input and representations and finalize report.

FINDINGS SUMMARY, CONCLUSIONS AND MANAGEMENT COMMENTS

Objective 1:

Determine that the sales tax proceeds are being disbursed in compliance with the SPLOST IV Resolution approved by the Board on December 13, 2010.

- We reviewed the Resolution approved by the voters which outlined eligible expenditures from SPLOST IV proceeds.
- We reviewed the SPLOST IV project list and verified projects agree to those stated in the the Resolution.
- We tested a sample of expenditures and verified they were for SPLOST IV projects, recorded in the proper period and the payment amount matched the invoice amount.
- We verified bond payments made during the audit period were for the debt outlined in the Resolution.

Conclusion:

Based on our procedures, there were no findings and we conclude that the GCSD SPLOST IV proceeds were disbursed in compliance with the SPLOST IV Resolution.

Objective 2:

Determine that sales tax proceeds are being disbursed in a fiscally responsible manner.

- We conducted interviews to understand how projects are chosen and how priorities are made among projects. We also discussed the flow of transactions through the accounting department.
- We reviewed board minutes to verify that projects were brought before the board and were voted on before the start of the project if applicable.
- We gained an understanding of the bid process for contracts and tested to ensure the process was being followed according to board policy.
- We reviewed the Purchasing Guide and the Accounting Department flowchart to gain an understanding of how transactions are processed.
- We reviewed a sample of disbursements to verify that costs were properly identified as SPLOST IV, were properly reviewed and authorized by appropriate personnel, and were properly coded to a SPLOST IV account.
- We reviewed the Fair Street school project file, the largest project funded by SPLOST IV. We also reviewed a total of \$8.9 million of pay requests related to this project.

Conclusion:

Based on our procedures, there were no findings and we conclude that the GCSD SPLOST IV program is following sound procurement procedures and funds are being disbursed in a fiscally responsible manner.

Objective 3:

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

- We conducted interviews to identify how funds are received and recorded from the State.
- We reviewed the general ledger accounts to verify monthly deposits.
- We reviewed the fiscal year end bank and investment statements and verified that proceeds from the State were deposited in a separate account from other funds of the GCSD.

Conclusion:

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

Objective 4:

To determine that the investment of the sales tax SPLOST IV proceeds received by the District has been conducted in a sound fiscal manner.

- We reviewed the GCSD Fiscal Policy and noted the types of investments allowed are in accordance with O.C.G.A. 36-80-3. Regarding SPLOST funds, GCSD maintains accounts with a local bank and the Georgia Fund 1, both of which are approved investment vehicles.

Conclusion:

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

Objective 5:

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.

Conclusion:

This objective has been met with the issuance of this report to the Gainesville City School District Board of Education. Additionally, the GCSD posts monthly progress reports on the District's website.

Objective 6:

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

Conclusion

This objective has been met with the issuance of this report to the Gainesville City School District Board of Education.