

FORSYTH COUNTY SCHOOL SYSTEM

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

Fiscal Years Ended
June 30, 2005 and 2004

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COMPLIANCE AND PERFORMANCE AUDIT**

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EXECUTIVE SUMMARY

April 24, 2006

Forsyth County Board of Education
1120 Dahlonega Highway
Cumming, Georgia 30040

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 \$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 Forsyth 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 other sources. 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 II referendum that was passed in 2001 and began in July 2002. During the years ended June 30, 2005 and 2004, SPLOST expenditures were as follows:

	<u>2005</u>	<u>2004</u>
New Construction	17,314,589	12,997,354
Debt Payments	8,644,410	13,012,907
Technology	719,933	371,175
	<u>\$ 26,678,932</u>	<u>\$ 26,381,436</u>

The Forsyth County School System (“FCS”) works under the direction of the School Board (“the Board”) and its Superintendent. Projects selected for SPLOST funding are approved by the Board. The FCS employs a Facilities Director and a complete facilities staff to oversee all SPLOST and capital outlay projects. Due to the internal expertise on staff, most of the large projects use the design-bid-build model. The facilities department oversees construction progress.

Our audits were 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 years ended June 30, 2005 and 2004, 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 Forsyth County School System is operating the SPLOST program in an economical and efficient manner and safeguarding and maximizing SPLOST funds in accordance with Georgia State Code.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

Audit Scope

Bates, Carter & Co., P.C. was engaged to conduct a performance audit of the SPLOST II program for the years ended June 30, 2005 and 2004. These audits were conducted at the request of the Forsyth County Board of Education. The audits were 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 audits focused on the School System'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 the maximum extent possible, the tax funds are being expended efficiently and economically, so as to secure the maximum possible benefit from the tax dollars collected.
2. The sales tax proceeds are being disbursed in a fiscally responsible manner.
3. Adequate administrative controls have been established to ensure the proper management of the sales tax proceeds received by the School System.
4. The Schools' technology and transportation expenditures are reasonable.
5. 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 audits.
- 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 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 the maximum extent possible, the tax funds are being expended efficiently and economically, so as to secure the maximum possible benefit from the tax dollars collected.

- We conducted interviews with the Chief Financial Officer, Finance Director, and the Chief Facilities and Operations Director 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 the Local Facilities Plan that includes County growth projections, projected student populations, projected priorities, and a facilities outline by school.
- We reviewed 3 projects.

Conclusion: Based on our procedures, there were no findings and we conclude that the FCS SPLOST funds are being expended efficiently and economically, so as to secure the maximum possible benefit from tax dollars collected.

Objective #2: The sales tax proceeds are being disbursed in a fiscally responsible manner.

- We conducted interviews with the Chief Financial Officer, Finance Director, and the Chief Facilities and Operations Director 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 FCS SPLOST program is following sound procurement procedures. The various project models include Contract Manager at Risk, Design-Bid-Build, and Design-Build. Based on conversations with the Chief Facilities and Operations Director, the decision to use the Design-Bid-Build model 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. FCS has developed standardized plans for new schools and they have determined that it is more cost effective to use the same proto-type plan on each new school construction job.

Objective #3: Adequate administrative controls have been established to ensure the proper management of the sales tax proceeds received by the School System.

- We conducted interviews with the Chief Financial Officer and the Finance Director to identify how funds are received and recorded from the State.
- We reviewed the general ledger accounts to verify monthly deposits.

Conclusion: Based on our audit procedures we conclude that the FCS SPLOST program has adequate administrative controls over the receipt of sales tax proceeds.

Objective #4: The Schools' technology and transportation expenditures are reasonable.

- We reviewed a sample of disbursements.

Conclusion: Based on our audit procedures, we conclude that the technology expenditures were reasonable. There were no monies spent on transportation during the years under audit.

Objective #5: Investment of the sales tax proceeds received by the School System has been conducted in a sound fiscal manner.

- We conducted interviews with the Chief Financial Officer and the Finance Director to identify how funds are invested.
- We reviewed the investment vehicle to determine its validity. The School System invests monies in the Georgia Fund 1. This Fund is the combined state general fund and local government investment pool managed by the Office of Treasury and Fiscal Services. The Fund was formerly known as the "Local Government Investment Pool".
- We recalculated investment earnings and compared 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.