



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

To: Members of the County Council
County Executive Steven R. Schuh
John Hammond, Budget Officer
Karin McQuade, Controller

From: Jodee Dickinson, County Auditor *Jodee Dickinson*

Date: October 23, 2017

Subject: Review of Board of Education Overhead Capital Project

We recently reviewed the capital project overhead costs of the Anne Arundel County Board of Education (BOE). We conducted this review to determine whether the costs charged to the *Bd of Education Overhead*, capital project (C549500), are proper and reflect the capital overhead costs incurred by the BOE. Our review included fiscal years 2013 through 2017.

We did not conduct our review in accordance with Government Auditing Standards issued by the Comptroller General of the United States or standards issued by the American Institute of Certified Public Accountants, and our review was more limited than would be necessary to express an opinion on the BOE capital overhead costs. Accordingly, we do not express an opinion or any other form of assurance on the internal controls over these purchases.

This report is intended solely for the use of the County Council and the management of Anne Arundel County. However, this report is a public document that may be obtained from the Office of the County Auditor.

Background

In the Fiscal Year 2013 Annual Capital Budget and Improvement Program, the County added a General County class capital project titled Board of Education Overhead. The project included \$4 million of appropriation authority funded by general obligation bonds. The Administration added this project because the County funds BOE capital overhead costs using the County's General Fund, and the Administration believed it should be able to pay for those overhead costs with bond proceeds.

The BOE does not accumulate administrative overhead costs in its capital projects and instead, retains these costs in its General Fund. Since the County's General Fund pays a substantial portion of the BOE's General Fund costs, the County Administration reasoned that the County could use general obligation bonds to fund some of these costs. Thus bond proceeds from the BOE Overhead capital project have been transferred to the County's General Fund as reimbursement revenue in each fiscal year beginning in 2013.

BOE Management does not track or estimate its capital project administrative overhead. To estimate the amount of BOE capital project overhead the County could charge to C549500, the Office of the Budget (Budget) used fiscal year 2013 BOE budget data, and Budget's assumptions as to which BOE departments work on capital projects and what level of effort each department provides. Budget performed two different analyses, each using 2013 budget data with different assumptions.

The Office of Finance (Finance) also used fiscal year 2013 budget data and performed an analysis using its assumptions as to which BOE departments the County could include as capital project overhead and the level of effort each department provided. Based on these analyses, the Administration believed the amount of \$4 million was reasonable. Both Budget and Finance used data from the BOE's 2013 Approved Annual Operating Budget and did not use any actual costs.

Auditor Analysis

We asked BOE Management for support for its capital project overhead costs. They provided us with a list of employees that worked part-time or full-time on capital projects as of July 1, 2016. The list included 48 employees from BOE Administration; Purchasing; Accounting; Facilities; and Planning, Design, and Construction. The list included the salary for each position, the approximate percentage of time each position dedicates to capital projects, and the employer health costs. The BOE also provided pension contribution rates for fiscal years 2013 through 2017, and rates for workers compensation and unemployment insurance.

Using the most recent salary information for each employee as of July 1, 2016, we calculated actual capital project overhead. To estimate the total overhead costs in the other fiscal years, we inflated or deflated salary costs using the average raises for each BOE employee unit. We summarized the results of our analysis in the table below:

Fiscal Year Ended June 30	Auditor's Estimate of BOE Capital Overhead	BOE Overhead Charged to Capital Project	Amount Over/(Under) Charged
2013	\$3,747,046	\$4,000,000	\$252,954
2014	3,872,791	4,000,000	127,209
2015	3,927,227	4,000,000	72,773
2016	3,999,310	4,000,000	690
2017	4,088,759	4,000,000	(88,759)
Total	\$19,635,133	\$20,000,000	\$364,867

In using fiscal year 2017 costs to estimate prior years' costs, we made several assumptions. We assumed employees working in fiscal year 2017 also worked in fiscal years 2013 - 2016, those employees worked on capital projects, and the percentage of time each employee worked on capital projects was consistent over time. BOE management reviewed our assumptions and agreed that the assumptions were reasonable. As the table shows, the \$4,000,000 that the Administration transferred to the General Fund during fiscal years 2013 through 2016 exceeded our estimate of chargeable costs; however, the amount

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overcharged has decreased over time. In fiscal year 2017, chargeable overhead costs exceeded \$4,000,000.

Our review included limited testing. We agreed the pension contribution percentages to the State of Maryland website. We used salary increases for BOE employees that we used during prior budgetary analyses. We asked BOE Management for clarification of the methodology and rates charged for salaries, pension rates, and health care costs. The attached schedule shows the results of Budget's two analyses, the Finance analysis, and the Auditor's analysis for fiscal 2013.

Conclusion

All of the fiscal year 2013 analyses resulted in total estimated overhead costs ranging from the \$3.7 million (Auditor Analysis) to \$4.3 million (Finance Analysis). However, the assumptions used in each analysis varied widely. Based on our review, we concluded that the County overcharged the capital project in fiscal years 2013 through 2016 and undercharged the project in fiscal year 2017. Also, since the BOE provided raises to employees in fiscal year 2018, it is likely that 2018 will also exceed \$4,000,000 and result in an undercharge.

We recommend the County work with the BOE to estimate capital project overhead each year based on actual current salaries, staff time allocations, and any other supportable allocable costs. Additional discussion with BOE Management may result in the identification of other allocable costs that have not been considered. An analysis based on actual costs will more accurately reflect BOE capital project overhead and ensure the County can substantiate the amount of bond proceeds used to reimburse the County for BOE capital project overhead.

We want to thank the staff at the Board of Education, the Office of the Budget, and the Office of Finance for assisting us with this analysis.

Attachment - Review of Board of Education Overhead Capital Project

Comparison of Budget, Finance, and Auditor BOE Capital Overhead Analyses for Fiscal Year 2013

Department	Budget Analysis #1			Budget Analysis #2			Finance Analysis			Auditor Analysis		
	Positions	Effort	Amount	Positions	Effort	Amount	Positions	Effort	Amount	Positions	Effort	Amount
Chief Operating Officer				2	20%	\$ 54,843	2	25%	\$ 72,438	1	40%	\$ 79,291
Facilities, Planning, & Construction Fiscal Operations	12	100%	\$ 1,366,592	12	35%	401,754				7	Various	528,859
Planning, Design, & Construction	26	100%	2,865,553	25	100%	2,532,144	25	100%	2,671,844	26	Various	2,493,282
Maintenance										4	Various	179,921
Logistics Support				55	15%	390,708	55	15%	432,524			
Purchasing				14	15%	169,540	14	25%	297,744	4	Various	274,931
MBE				2	15%	27,508	2	25%	48,348			
Budget & Finance				1	15%	33,117	1	25%	58,411			
Budget				4	15%	71,787	4	50%	252,701			
Finance				23	15%	271,676	23	25%	477,034	6	Various	190,762
Total Estimated Overhead	38		\$ 4,232,145	138		\$ 3,953,077	126		\$ 4,311,044	48		\$ 3,747,046