

HALL COUNTY BOARD OF EDUCATION

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

**Year Ended
June 30, 2024**

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

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EXECUTIVE SUMMARY

February 6, 2025

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

Georgia Code Section 20-2-491 requires public school districts 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 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.

The official beginning date for the authorization of taxes and related projects of HCBOE under the SPLOST V referendum was December 1, 2017. The collection period expired in November 2022. The maximum amount approved to be raised from the SPLOST V referendum was \$195 million. The total SPLOST V funds collected were to be distributed to the HCBOE, Gainesville City School District and the Buford City School District based on an allocation method that has been approved by all three school districts. HCBOE's portion was estimated at a maximum of \$147.030 million. Approval of SPLOST V also constituted approval of the issuance of general obligation debt in the maximum aggregate amount of \$45 million.

SPLOST V funds were used for the following purposes as outlined in the referendum:

- 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 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 district facilities.
- Acquiring furnishings, equipment and fixtures for new and existing facilities district-wide, including equipment, textbooks, library books and school buses.
- Purchase price payments due on that certain Contract between the School District and the Gainesville and Hall County Development Authority.
- Purchase price payments due on that certain Installment Sale Agreement between the Hall County School District and the Gainesville and Hall County Development Authority.
- Payment of any general obligation debt of the Hall County School District issued in conjunction with the imposition of this tax.

The official beginning date for the authorization of taxes and related projects of HCBOE under the SPLOST VI referendum was November 2022. The collection period will expire in October 2027. The maximum amount approved to be raised from the SPLOST VI referendum is \$250 million. The total SPLOST VI funds collected are to be distributed to the HCBOE, Gainesville City School District and the Buford City School District based on an allocation method that has been approved by all three school districts. HCBOE's portion is estimated at a maximum of \$189.533 million.

SPLOST VI funds are used for the following purposes as outlined in the referendum:

- Acquiring, constructing and equipping new schools, fine arts facilities, physical education facilities, sports facilities, other student activity facilities and other school district facilities, acquiring and conducting site preparation of real estate for current and future school district purposes, constructing and equipping additional classrooms and instructional and support space, remodeling, renovating and equipping classrooms, instructional and support space, and other school district facilities at existing school district facilities, including but not limited to roofing, HVAC, security and emergency alarm systems, flooring, plumbing and electrical capacity, acquiring furnishings, equipment and fixtures for new and existing facilities district-wide, including technology equipment and infrastructure, band instruments, textbooks, library books, and school buses.
- Payment of a portion of the purchase price payments due on that certain Contract between the Hall County School District and the Gainesville and Hall County Development Authority, dated as of November 1, 2007, with a maximum payment amount of \$145,996.
- Payment of a portion of the purchase price payments due on that certain Installment Sale Agreement between the Hall County School District and the Gainesville and Hall County Development Authority, dated as of September 1, 2010, with a maximum payment amount of \$870,828.
- Payment of a portion of the debt service on the general obligation bonds of the Hall County School District to be issued in 2020, 2021, or 2022, with a maximum payment amount of \$50,000,000.

On November 18, 2022, the Buford City School District notified the Hall County Board of Education that it was pursuing legal action against the School District for failure to remit \$1.64 million of SPLOST proceeds to Buford City Schools due to an interpretation of how to account for tuition paying students that live in Hall County that attend Buford City Schools. SPLOST proceeds are divided between the three school districts with bounds inside of Hall County (Gainesville City Schools, Hall County Schools, and Buford City Schools) according to a revenue sharing agreement between the three districts, which divides the funds according to student enrollment, known as FTE, or full time equivalent, in Georgia. In January 2024, the Hall County Board of Education remitted \$1.64 million of SPLOST funds to the Buford City School District as resolution. This payment is included in SPLOST V capital outlay expenditures.

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, 2024, 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

During the year ended June 30, 2024, SPLOST expenditures were as follows:

	Original Budget (1)	Current Estimated Budget (2)	Expended in Current Year (3)	Expended in Prior Years (3)	Project Status	Estimated Completion Date
SPLOST V						
Acquiring, constructing and equipping new schools, fine arts facilities, physical education facilities, sports facilities, other student activity facilities, acquiring and conducting site preparation of real estate for current and future school district purposes, constructing and equipping additional classrooms, instructional and support space, and other school district facilities at existing school district facilities, including but not limited to roofing, HVAC, security and emergency alarm systems, flooring, plumbing and electrical capacity, and acquiring furnishings, equipment and fixtures for new and existing facilities district-wide, including technology equipment, textbooks, library books and school buses.	\$ 147,030,000	\$ 167,373,065	\$36,150,389	\$131,222,676	COMPLETE	12/31/2025
Payment of a portion of the purchase price payments due on that certain Contract between the School District and the Gainesville and Hall County Development Authority, dated as of November 1, 2007, with a maximum payment of \$875,975.	875,975	875,975	-	875,975	COMPLETE	6/30/2023
Payment of a portion of the purchase price payments due on that certain Installment Sales Agreement between the Hall County School District and the Gainesville and Hall County Development Authority, dated as of September 1, 2010, with a maximum payment amount of \$1.045 million.	1,045,000	1,044,993	-	521,453	ONGOING	2/1/2027
Payment of any general obligation debt of the Hall County School District issued in conjunction with the imposition of the Sales Tax.	1,290,036	4,331,006	2,374	4,328,632	COMPLETE	6/30/2024
	<u>\$ 150,241,011</u>	<u>\$ 173,625,039</u>	<u>\$36,152,763</u>	<u>\$136,948,736</u>		

	Original Budget (1)	Current Estimated Budget (2)	Expended in Current Year (3)	Expended in Prior Years (3)	Project Status	Estimated Completion Date
SPLOST VI						
Acquiring, constructing and equipping new schools, fine arts facilities, physical education facilities, sports facilities, other student activity facilities and other school district facilities, acquiring and conducting site preparation of real estate for current and future school district purposes, constructing and equipping additional classrooms, instructional and support space, and other school district facilities at existing school district facilities, including but not limited to roofing, HVAC, security and emergency alarm systems, flooring, plumbing and electrical capacity, acquiring furnishings, equipment and fixtures for new and existing facilities district-wide, including technology equipment, textbooks, library books and school buses.	\$ 198,983,176	\$ 198,973,176	\$38,619,039	\$ -	ONGOING	12/31/2027
Payment of a portion of the purchase price payments due on that certain Contract between the School District and the Gainesville and Hall County Development Authority, dated as of November 1, 2007, with a maximum payment of \$145,996.	145,996	145,996	-	-	COMPLETE	6/30/2023
Payment of a portion of the purchase price payments due on that certain Installment Sales Agreement between the Hall County School District and the Gainesville and Hall County Development Authority, dated as of September 1, 2010, with a maximum payment amount of \$870,828.	870,828	870,828	-	-	ONGOING	2/1/2027
Payment of a portion of debt service on the general obligation bonds of the Hall County School District to be issued in 2020, 2021, or 2022, with a maximum payment amount of \$50,000,000.	50,000,000	50,000,000	2,469,706	-	ONGOING	12/31/2027
	<u>\$ 250,000,000</u>	<u>\$ 249,990,000</u>	<u>\$41,088,745</u>	<u>\$ -</u>		

- (1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.
- (2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.
- (3) The voters of Hall County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

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, 2024. This audit was conducted at the request of the Hall County Board of Education and was 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 audit focused on the School District's compliance with state legislation and the receipt and expenditure of sales tax proceeds for allowable SPLOST 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 District 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 Resolution approved by the Board.
- 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 School District.
- Investment of the sales tax proceeds received by the School 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 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 expenditures.
- Conclude the audit and prepare a draft report.
- Obtain management input and representations and finalize report.

FINDINGS SUMMARY AND CONCLUSIONS

Objective 1:

Determine that the sales tax proceeds are being disbursed in compliance with the SPLOST Resolutions approved by the Board.

- We reviewed the Resolutions approved by the voters which outlined eligible expenditures from SPLOST V and VI proceeds.
- We reviewed the SPLOST V and VI project list and verified projects agree to those stated in the Resolution.
- We conducted interviews with the HCBOE Finance Officer and Facilities and Budget Clerk 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 Resolutions.
- We reviewed the Local Facilities Plan that includes County growth projections, projected student populations, projected priorities, and a facilities outline by school.
- We reviewed ten 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:

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

- We conducted interviews with the Finance Officer 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 and tested to ensure the process was being followed according to board policy.
- 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:

During our procedures, we noted an instance of payment to an incorrect vendor due to inadequate controls over email requests of changes to vendor information. This instance resulted in a change of procedures and prompted the HCBOE to engage an independent audit firm to perform an internal control review. The results of the independent review have not been published as of the date of this report. The various project models include Construction Manager at Risk, Design-Bid-Build, and Design-Build.

Based on conversations, the decision to use the Construction Manager at Risk for the large projects is appropriate and in accordance with program objectives.

Objective 3:

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

- We conducted interviews with the Finance Officer 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.
- We reviewed the general ledger accounts to verify monthly deposits.

Objective 3 Conclusion:

Based on our audit procedures, we conclude that the HCBOE SPLOST program has reliable, valid, and relevant financial information as well as adequate administrative controls over the receipt of sales tax proceeds.

Objective 4:

Determine that the investment of the sales tax proceeds received by the School District has been conducted in a sound fiscal manner.

- We conducted interviews with the Finance Officer 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 district invests monies in the Georgia Fund 1. The Georgia Fund 1 is the combined state general fund and local government investment pool managed by the Office of Treasury and Fiscal Services.

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. Additionally, information about HCBOE SPLOST project status updates and upcoming projects is included on the HCBOE website at www.hallco.org/ESPLOST.

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. Additionally, information about HCBOE SPLOST project status updates and upcoming projects is included on the HCBOE website at www.hallco.org/ESPLOST. Contact information is provided on the website. During regularly scheduled board meetings, there is time set aside for Citizen's input and comments.