



## INTEROFFICE MEMORANDUM

**TO:** Dwight Ferrell, County Manager  
**FROM:** *Anthony Nicks*, Director, Office of Internal Audit  
**DATE:** January 7, 2014  
**RE:** Internal Audit

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The Office of Internal Audit has completed the audit for the East Point Camp Creek Tax Allocation District dated January 7, 2014. Attached is a copy of the final audit report.

As outlined in the report, the agency is required to provide a written response pertaining to findings referenced in the report within 30 days. In the interim, if you have any questions or need additional information, please contact me at extension 21019. Thank you.

Attachment: East Point Camp Creek Tax Allocation District Audit Report dated, January 7, 2014

Cc: Fulton County Board of Commissioners



**FULTON COUNTY  
OFFICE OF THE COUNTY MANAGER  
INTERNAL AUDIT DIVISION**

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January 7, 2014

Ms. Janquell Peters, Mayor  
City of East Point  
2777 East Point Street  
East Point, GA 30344

*Re: East Point Camp Creek Tax Allocation District Audit Report*

Dear Ms. Peters:

The Fulton County Office of Internal Audit concluded its audit of the East Point Camp Creek Tax Allocation District on January 7, 2014. Attached is a copy of the audit report that contains our findings, recommendations and audit concerns.

As outlined in the report, you are requested to provide a written response within 30 days to the County Manager, Mr. Dwight Ferrell and the Office of Internal Audit that supports or refutes any of the audit findings and audit concerns. If you have any questions or need additional information, please contact me at 404-612-1019.

Attachment: East Point Camp Creek Tax Allocation District Audit Report

Sincerely,

Anthony Nicks  
Director, Office of Internal Audit

Cc: Dwight Ferrell, County Manager, Fulton County Government  
Charles Johnson III, Attorney, Holland & Knight  
Reggie Taylor, City Manager, City of East Point, GA  
Derrick Cannon, Interim Director, City of East Point, GA



**FULTON COUNTY, GEORGIA  
OFFICE OF INTERNAL AUDIT**

**EAST POINT CAMP CREEK TAX ALLOCATION  
DISTRICT AUDIT REPORT**

**January 7, 2014**

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## Introduction

The Office of Internal Audit conducted an audit of the City of East Point - Camp Creek Tax Allocation District's (TAD) revenues and expenditures to determine compliance with the Consent Resolution and adherence to the TAD's Redevelopment Plan. Fulton County was one of the taxing jurisdictions that agreed to participate in and provide tax revenue for the redevelopment of the TAD. The principal partner of Hollins & Knight law firm was assigned as the representative to coordinate the audit effort on behalf of the City of East Point. During the course of the audit, all questions and documentation were handled through the office of Hollins & Knight. All of the ensuing meetings, except those conducted at the City's external auditor's office, were conducted on site at the office of Hollins & Knight.

After reviewing the documentation provided by City of East Point, we determined that the information was incomplete and critical documentation was missing. Additionally, through subsequent email communication we indicated we were available to review the original records on site but received no response. At this point of the audit process, we recognized that apparent scope limitations existed, which were caused by insufficient documentation presented and by our inability to directly query key City of East Point personnel.

The audit has been halted due to the scope limitations discussed above. This report presents background information concerning the East Point Camp Creek TAD, the audit scope period, audit objectives, methodology and findings with recommendations and questioned transactions based on our limited review of the TAD records.

## Background

The Georgia Redevelopment Powers Law was enacted in 1985 to give additional powers to local municipalities in order to facilitate the redevelopment of blighted or economically depressed areas. Redevelopment Powers, if approved by local voters, can be used to create a TAD. One of the powers granted to local governments in this law was to issue tax allocation bonds to finance infrastructure and other redevelopment costs within a TAD. A local referendum on redevelopment powers is held during primary elections to establish the district and a specific district is established once the government determines that the area is in need of redevelopment. The Redevelopment Plan explains why the area needs to be redeveloped and how the city plans to revitalize the area. The Plan provides the city with the powers to improve dilapidated facilities and to use tax increment financing (TIF) to achieve the goals of the Redevelopment Plan. The city adopts enabling legislation, which approves the Redevelopment Plan and establishes the base value for the district, certified by the Georgia Department of Revenue (DOR). The other local taxing entities, i.e., school district and county are consenting jurisdictions that have the option to participate in the TAD.

The Redevelopment District is the geographic area in which tax increment financing can be used. The terms, Redevelopment Area and TAD are used interchangeably in Georgia.

## East Point Camp Creek – Tax Allocation District Audit Report

The tax increment is the difference between the amount of property tax revenue generated when the TAD is established (base assessed value) and the amount of property tax revenue generated after the TAD designation. When a TAD is created, the Georgia DOR certifies the base value of properties within the district. Any growth in property taxes resulting from applying the millage rate to the difference between the current market value and the base value of taxable properties is collected in a special fund and used for redevelopment costs inside the TAD and bond debt service. Only property taxes generated by the incremental increase in the values of these properties are available for use by the TAD.

Two contractors, Duke Realty Limited Partnership and North American Properties Camp Creek Marketplace LLC (NAP), were hired to implement the TAD Redevelopment Plan. Based on the terms of the Development Agreement, Duke Realty Limited Partnership (Duke Realty) is responsible for the development of the office and business park and related infrastructure and NAP is responsible for the development of a regional retail center and related infrastructure. Additionally, through collaboration with the private sector, a business hotel with meeting facilities and a business park on Lee property will be constructed.

As noted in the Redevelopment Plan, the financing potential of the East Point Camp Creek Tax Allocation District is predicated on allowing the “designated redevelopment agency to leverage future property tax increases through the issuance of TAD bonds”. The resulting TAD bond issue was for \$22,000,000, amortized 25 years over the development period. The positive tax allocation increment for the period covered by the term of the bonds is estimated to be \$2,785,710 annually (not adjusted for reassessment). The following chart depicts the actual TAD revenues reported including Fulton County’s portion.

<b>Fiscal Year</b>	<b>Fulton County TAD Tax Remittances</b>	<b>Total E. Pt. TAD Tax Revenues</b>
<b>2003</b>	\$1,771	\$185,509
<b>2004</b>	\$298,953	\$50,100
<b>2005</b>	\$784,439	\$82,123
<b>2006</b>	\$1,240,980	\$1,324,270
<b>2007</b>	\$1,086,598	\$2,273,745
<b>2008</b>	\$1,505,151	\$3,040,736
<b>2009</b>	\$1,825,630	\$3,028,664
<b>2010</b>	\$2,377,690	\$3,642,259
<b>2011</b>	\$1,821,898	\$3,061,389
<b>2012</b>	\$2,232,100	\$3,466,062
<b>2013</b>	\$2,297,991	\$3,485,586
<b>Total</b>	<b>\$15,473,201</b>	<b>\$23,640,443</b>

The increase in TAD revenues during a weak economic period (2008 – 2013) indicates that redevelopment is having a positive effect on generating additional revenues.

**Objective**

The objectives of our audit were to confirm that the tax allocation increments derived from ad valorem taxes levied on real property, tax allocation bond proceeds and related transfers within the TAD fund accounts were accurately reported. Additionally, the audit was to confirm that expenditures were for TAD redevelopment and were properly authorized and reported.

**Scope Period**

The audit period covered by this review is the City of East Point Camp Creek TAD from December 31, 2001 to June 30, 2012.

**Methodology**

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). During our audit of the TAD, the Hollins & Knight representative retrieved some but not all of the TAD records requested. Additionally, we reviewed the work papers of the City of East Point’s external auditors, which covered the TAD’s annual financial information reported. We tested Fulton County incremental tax collections and remittances and found no material exceptions. We were unable to test the incremental taxes collected by the City of East Point as supporting revenue and collection records were not provided. We selected a large sample of redevelopment and construction costs to verify their entry into the General Ledger Activity by Fund and Trial Balance reports and to confirm that proper support exists.

Satisfying GAGAS requires that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions. Though the scope of our audit was limited, we found several internal control deficiencies, financial discrepancies and questionable transactions.

**Findings and Recommendations**

**Finding 1 – Scope Limitation: Fund Accounting Reports**

The audit objectives are the basis for establishing the scope of our audit. To achieve the objectives, access to key personnel and requested documentation is necessary. The General Ledger Activity Fund Reports were provided for the Duke Realty Project (Fund 260) and the NAP Project (Fund 270) but there were no such accounting reports provided for the Capital Improvement Program (Fund 350) and Debt Service (Fund 410). As a result of this information not being provided, we could not determine if capital expenditures were properly capitalized and accounted for in the Capital Improvement Program (CIP) account and whether all debt service costs were accounted for and reconciled to the Trustee reports. Additionally, detail revenue collection records were not provided for the TAD funds collected by the City of East Point. The effect of not providing the requested records and reports impairs the audit process and results in the scope of our audit being limited; therefore, we did not provide any assurances regarding the overall TAD financial information reported.

**Recommendation**

City of East Point management and its governing body should ensure that all of the information requested is provided. In addition to its representative, the City should designate key employees of the Finance, Purchasing, Contract Compliance and Public Works departments to assist the auditors as needed.

**Finding 2 – Total Fiscal Year 2007 Revenue was not reconciled to the Bank Deposits**

The total tax increments and other revenue reported for the fiscal year ending June 30, 2007 was \$2,273,747. The bank reconciliation for combined funds, 260 (Duke Construction), 270 (North American Properties) and 350 (Capital Improvement) indicates that \$1,087,853 was deposited into the TAD account for the fiscal year. The difference between the total revenue reported and bank deposit is \$1,185,894. We believe that \$360,613 of the difference was transferred to the general fund and \$825,281 was transferred to the cash pool bank account. We could not determine if the majority of the funds transferred were repaid to the TAD due to insufficient accounting records provided. The effect of not providing the requested records and insufficient documentation impairs the audit process and results in the scope of our audit being limited. Our requests for specific records and documentation remain unanswered.

**Recommendation**

The City of East Point's management and governing body should ensure that all of the bank reconciliations and supporting documentation requested are provided, including the fund accounting reports. A schedule of the due to and due from transactions reported in the TAD, general fund, CIP fund, cash pool, and other fund accounts should be prepared and the resulting balances reconciled to the account balances reported in the Trial Balance by Fund reports.

**Finding 3 – Discrepancies between TAD Revenues Collected and Reported**

TAD tax revenues should be properly recorded in the accounting records and reconciled to supporting cash receipts documentation. The chart displayed on page 2 shows that Fulton County remitted to the East Point Camp Creek TAD taxes of \$298,953 in fiscal year 2004, \$784,439 in fiscal year 2005, and \$1,240,980 in fiscal year 2006; however, the City reported total TAD tax revenues of \$50,100 in fiscal year 2004, \$82,123 in fiscal year 2005 and \$1,324,270 in fiscal year 2006. Comparative analysis for 2006 indicates that not all of Fulton County or the City of East Point TAD funds were deposited into the special TAD account. While an attempt was made to discuss this finding with a representative or the external auditor, we were unable to do so; however, the external auditor's audit report indicates that the former Finance Director significantly influenced the overall financial reporting of TAD activity, which potentially could have contributed to the reporting discrepancies referenced above. Because insufficient records were provided, we could not determine if Fulton County TAD tax funds were properly credited as Camp Creek TAD funds or whether TAD funds were transferred to other fund sources.



**Recommendation**

The management of the City of East Point should resolve this discrepancy by providing the supporting bank reconciliations and bank statements and the fund accounting records, which show how the TAD tax receipts were recorded.

**Finding 4 – TAD Taxes Collected Were Not Timely Deposited**

Taxes collected and remitted to the TAD should be deposited on a timely basis so that funds are properly safeguarded and the risk of defalcation is reduced. TAD related taxes were collected on a daily basis and accumulated without being timely deposited. The City of East Point's practice was to make 1 to 2 large deposits within the year. The external auditor noted via an audit adjustment that \$1,073,263 was recorded as a deposit twice in fiscal year 2010. A prior period adjustment was made to correct the error. Based on the bank reconciliation, it appears that the duplicate deposit was also made in the bank account. There were insufficient records provided to determine if funds were transferred from the bank account in the following month or how the account was reconciled. The effect of not making timely deposits of funds received weakens internal controls over the safeguarding and reporting of cash proceeds.

**Recommendation**

Taxes collected should be receipted, processed for deposit and recorded in the appropriate general ledger accounts in the financial system at least twice a week.

**Finding 5 – Fiscal Agent Fees Were Not Reported As Debt Service Related Cost**

All costs associated with development and bond issues should be capitalized or shown as expenditures in the financial statements. The payment for fiscal agent fees for \$552,491 was not reported as debt service expenditures in the Comprehensive Annual Financial Statement for fiscal year ending June 30, 2006. The only expenditures reported in fiscal year 2006 were for economic development. Additionally, no support has been provided for this expenditure. This is a concern because internal controls over financial and program reporting are weakened if disbursements are not properly classified in the financial statements. Finally, effective decision making can be negatively impacted by distorted financial information reported.

**Recommendation**

The City of East Point's management should provide the authorized support for the fiscal agent fees and reflect how they were classified and reported in the Comprehensive Annual Financial Statements.

**Finding 6 – TAD Taxes Were Deposited Into the Incorrect Bank Account**

TAD taxes remitted by Fulton County and collected by the City of East Point should be deposited into a special account as specified in the Consent Agreement. Proper handling of tax

receipts and accounting for the related revenues supports revenue recognition and safeguards assets. As a result of our examination, we found that the following TAD taxes remitted by Fulton County were deposited into the incorrect bank accounts.

- On July 13, 2005, Camp Creek TAD taxes for \$12,737 were deposited into the City of East Point Cash Pool General Fund bank account.
- On April 27, 2012, Camp Creek TAD taxes for \$5,596 were deposited into the City of East Point Corridors TAD bank account.
- On November 16, 2012, Camp Creek TAD taxes for \$8,863 were deposited into the City of East Point General Fund at Regions Bank.

The cause of these errors has not been determined; however, there appears to be an internal control weakness present. If TAD taxes are deposited into the incorrect bank accounts, they can be used for purposes that are not in compliance with the Consent Agreement or the Redevelopment Plan.

#### **Recommendation**

Internal controls over the handling of tax receipts and remittances should be reviewed and strengthened to ensure that funds are properly accounted for and used as designated by agreements, contracts, policies, laws and regulations.

#### **Finding 7 – Final Disposition of \$10,831.35 of TAD Funds Withdrawn Could Not Be Determined**

Transaction activity should be supported by adequate documentation and proper entries into the accounting system. This provides proof that the supporting documentation exists and is authorized, approved and reflected in the accounting records and financial statements.

On July 7, 2003, \$10,831.35 of TAD taxes was deposited into the Regions Bank – Tax Assessor Note (TAN) Payable account, a General Fund account. On July 17, 2003, \$10,831.35 was withdrawn from this account. The withdrawal was not reflected in the TAD Fund accounting records provided to us. We could not determine why the funds were deposited into the Regions TAN bank account nor determine the final disposition or use of the funds withdrawn. Our inability to determine the final disposition of the funds indicates that the internal controls over the handling of TAD tax funds were weak.

#### **Recommendation**

The City of East Point's management should provide documentation that supports the final disposition of the \$10,831.35 withdrawn.

#### **Finding 8 – Contractor's Invoice and Billing Support Discrepancy**

Invoices and contractor's billing support should be reviewed for accuracy, proper authorization, and for validation of goods and services received. An invoice and billing discrepancy was found

on Duke Construction L.P., invoice number 16. The billing support (Schedule of Values) indicates that \$591,967.56 was approved for current work completed; however, the actual billing invoice was for \$846,977.30 resulting in a difference of \$255,009.74. The \$255,009.74 is also reflected in the Schedule of Values as a component of previous work completed and billed and not as current invoiced work. This discrepancy is the result of an accounting error or a duplicate request for previously completed and billed work. This discrepancy has not been discussed with the City of East Point’s representative.

Additionally, we found no invoice or billing records for Duke Construction L.P. invoice number 15b to support a payment request directed to the Trustee to disburse \$211,974.88 for the portion of the invoices held as retainage.

**Recommendation**

The management of the City of East Point should provide all billing and invoice support for Duke Construction L.P., invoice number 15 (series) for our review of the authorization and costs incurred and billed.

**Finding 9 – Invoice Number 4 and Billing Support – Missing Approval Signatures**

To strengthen internal controls over disbursements and contract compliance, development related invoices should be approved by the City Manager and/or the engineering/architect consultant. The documentation presented to us for invoice number 4 in the amount of \$139,368.84 was not approved by either the cost consultant or the City Manager. An attempt was made to discuss the finding with a representative; however, we were unable to review this finding with a City of East Point representative. All invoices should be properly reviewed and approved to avoid unauthorized and inappropriate disbursements.

**Recommendation**

The management of the City of East Point should review the records, financial and project files to see if a properly approved invoice exists. If an approved invoice is not found, management should determine whether payment of the invoice was justified.

**Finding 10 – Insufficient Records Provided to Confirm Interest Deposits and Contract Disbursements**

The cash receipts, other income and disbursements should be recorded in the accounting records and reconciled in a timely manner. There were \$8,443.82 in interest receipts and \$837,188.85 in contractor billings disbursed, which were not reflected in the General Ledger Fund Activity accounting records provided to us for Funds 260 – Duke Construction and 270 – North American Properties. An attempt was made to discuss the finding with a representative; however, we were unable to review this finding with a City of East Point representative.

**Recommendation**

The City of East Point’s management should provide us with additional records to confirm the entry of interest income and the stated disbursements. We are available to provide a breakdown of the interest and disbursement items.

**Audit Concerns**

**Audit Concern 1- Redistribution of Property Taxes**

We question the redistribution of property taxes from the East Point Corridors 2 TAD to the General Fund. Our analysis of revenues reported Camp Creek TAD revenues from 2002 to 2012 compared to what should have been collected and recorded show a deficit of \$1,132,974. In 2011 the City of East Point’s external auditor discovered that \$1,226,016 in property taxes was erroneously credited to Corridor’s 2 TAD account. Based on our analysis performed, we question whether the property taxes redistributed were General Fund revenues as opposed to Camp Creek TAD revenues. We request that the City of East Point provide detailed support for the property taxes redistributed to the General Fund.

**Conclusion**

The scope of our audit was limited as a result of not receiving information requested and having access to key City personnel. The audit thus far has resulted in the reporting of several findings, as well as the audit concern reported for property taxes that were redistributed. We consider the requested information vital to our ability to complete the audit. Due to the lack of information provided, we were unable to determine if the TAD funds were used properly or transferred to other funds and used for other purposes.

Please provide a written response to this audit within 30 days. You may email your response to the County Manager and Brigitte Bailey, Administrative Coordinator III in the Office of Internal Audit at [Brigitte.Bailey@fultoncountyga.gov](mailto:Brigitte.Bailey@fultoncountyga.gov). We would like to thank the City of East Point representatives for their assistance during this audit. The distribution of this report is reserved for the executive management of Fulton County and the Board of Commissioners and the City of East Point Officials and representatives.