INTEROFFICE MEMORANDUM

TO: Commissioner William “Bill” Edwards, District 7
Fulton County Board of Commissioners

FROM: Dwight A. Ferrell, County Manager

DATE: March 7, 2014

RE: Response to East Point Camp Creek Tax Allocation District Audit Report

Please find attached the City of East Point’s response to the East Point Camp Creek Tax Allocation District Audit Report.

If you have any questions or need additional information, please contact me at 404-612-8335. Thank you in advance for your assistance.

Attachment: Response to East Point Camp Creek Tax Allocation District Audit Report
February 7, 2014
Mr. Anthony Nicks
Director, Office of Internal Audit
Fulton County Government Center
141 Pryor Street SW, Suite 10061
Atlanta, Georgia 30303

RE: Response to “East Point Camp Creek Tax Allocation District Audit Report”

Dear Mr. Nicks:

The City of East Point Finance Department has concluded its review of the Fulton County “East Point Camp Creek Tax Allocation District Audit Report”. We have noted that the purpose of your audit was 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 Tax Allocation District (TAD) Funds were accurately reported. Additionally, the audit was to confirm that expenditures were for TAD redevelopment and were properly authorized and reported.

Our methodology for responding to your audit is as follows:

1. We will respond with an overall conclusion statement to your audit findings.
2. We will respond to each individual finding by first presenting your Audit Finding, and then writing our Response to your Audit Finding.

Our Overall Conclusion to your Audit Findings are as follows:

We applaud the Audit conducted by the Fulton County Internal Audit Division. We also recognize that all requested information pertaining to the Camp Creek TAD was not presented to the Fulton County Audit team by City of East Point Finance Department staff.

The scope of our research and review was from December 31, 2001 to February 1, 2014. We focused our research on the Bank Deposits and Bank Statement reconciliations that supported TAD incremental Taxes collected by the City of East Point and supporting revenue and collection records.

We have attached summaries of City of East Point bank account deposits and remittances to the TAD Trustee. We believe that the attached reconciled Bank Deposits unequivocally proves that the required TAD remittances were submitted to the TAD Trustee as required by the Redevelopment Powers Law.

To the point of the Fulton County Internal Audit, we reviewed the internal control issues noted in the Findings. We conclude the following points:

A. Transactional errors have occurred during the life of this TAD. We found no transactional error to be intentional.
B. Miscoding and misapplied funds have occurred during the life of this TAD. We have found no miscoding or misapplied funds to be intentional.
C. The majority of transactional errors and miscoding occurred in the early years of the TAD.
D. We have determined that any miss-statement of TAD tax receipts have been cured and corrected by remittances of City of East Point funds to the TAD Trustee.

Our strategic financial and operational plan to safeguard the Camp Creek TAD includes the following on-going actions:
A. Monthly Bank Reconciliations of the Camp Creek TAD and all other deposits, receipts and disbursements;
B. Establishment of comprehensive financial reporting system with strong internal controls.
C. Desk top procedures that documents the receipt of all TAD related receipts;
D. Implementation of process to identify and complete Journal Entries that immediately adjusts any TAD transactional error to ensure the proper transfers of receipts into proper TAD accounts;
E. Monthly Budget-to-Actual Financial reports for all Funds including all TAD activities;
F. Monthly Cash Flow reports that highlight all TAD transactions
G. Implementation of Tax Compliance Policy (please refer to attached Tax Compliance Policy)

Our research of documents that are associated with the Camp Creek TAD has surfaced the following information:
A. The City of East Point has paid $327,692.29 in attorney fees to address "Immediate Project" issues.
B. The time period for these attorney charges is November, 2006 thru July, 2013.
C. The TAD Resolution states that Positive Tax Increments can be used to pay for obligations incurred to address "Immediate Project" needs.

Our review also focused on the Financial Performance of the Camp Creek TAD. We documented the following points:
A. The Camp Creek TAD has shown steady growth through the recession years and to date.
B. We noted that the current 8% TAD interest rate is ripe for a refinancing strategy that will substantially shorten the time to pay off the TAD debt service. We are developing a refinancing strategy to address this future Revenue Enhancement.

Response to Fulton County Audit findings
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 (Fund 270) but there were no such accounting reports provided for the capital Improvement Program. 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 the debt service cost were accounted for and reconciled to the Trustee reports. Additionally, detailed 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 impairs the audit process and results in the scope of our audit being limited; therefore, we did not provide any assurance regarding the overall TAD financial information report.

City of East Point Response:

We acknowledge that some of the requested reports were not provided to Fulton County. We surmise that the purpose of your request was to determine if Capital Expenditures were properly capitalized, and adequate TAD revenue was collected:

1. We have reviewed the schedule of Fixed Assets and are in the process of updating our inventory schedule. We will be developing a listing of TAD Assets.

2. We have attached a schedule of all TAD Bank Deposits that were submitted to the Trustee and traced to the bank statements.

Our conclusion is that our records show that the proper amount of TAD revenues were collected and submitted to the TAD Trustee. Our Records support your “TAD Revenue” Chart on Page 2 of your Audit report.

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

[The total tax increments and other revenues 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 the bank deposit is $1,185,894. We believe that $360,613 of the difference was transferred to the general fund and the $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.]

City of East Point Response:

We believe that the proper amount of TAD revenue was deposited with the TAD Trustee.

1. We have attached a detailed listing of Bank Deposits from 2002 through 2012 that validates the correct amount of TAD funds were deposited with the TAD trustee.

2. We acknowledge the assertion that insufficient accounting records were not provided to the Fulton County Internal Audit Unit.

Our conclusion is that the proper amount of TAD revenue was deposited with the TAD Trustee.

Finding #3 – Discrepancies between TAD Revenues Collected and Reported

[The TAD tax revenues should be properly recorded in the accounting records and reconciled to cash 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 the fiscal year 2004, $784,439 in fiscal year 2005, and $1,240,980 in fiscal year 2006; however, the City reported total 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, influence 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 funds were transferred to other fund sources.]

City of East Point Response:

The Fulton County TAD Remittance Report on Page 2 of the Internal Audit shows a total $23,640,443 in TAD revenues with Fulton County remitting $15,473,201. Our point is to show that the City of East Point submitted its share of TAD revenues to the TAD Trustee:

1. We have attached a “Camp Creek Tax Allocation District Bank Deposit Analysis” that documents Fulton County TAD Deposits, as well as City of East Point TAD Deposits.
2. The attached analysis shows significant TAD Deposit footnotes; a notation that Excess TAD receipts were paid to Fulton County Board of Education in the amount of $169,831; and a reconciliation of TAD contributions to TAD Debt Service payments.

Our conclusion is that the proper amount of TAD Tax receipts were recorded and deposited with the TAD Trustee.

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 risk of defalcation is reduced. TAD related taxes were collected on daily basis and accumulated without being timely deposited. The City of East Point Practice was to make 1 to 2 large deposits within a year. The external auditor noted via an audit adjustment that $1,073,263 was recorded as a deposit twice in a 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 reconciled. The effect of not making timely deposits of funds received weakens internal controls over the safeguarding and reporting of cash proceeds.]

City of East Point Response:

We have determined that the proper amount of TAD tax receipts was remitted to the TAD Trustee:

1. The City acknowledges some untimely deposits of TAD receipts.
2. The City has determined that the proper amount of TAD tax receipts have been deposited to the TAD Trustee.
Our conclusion is that the proper amount of TAD Tax receipts were recorded and deposited with the TAD Trustee.

Finding #5 - Fiscal Agent fees were not reported as Debt Service related cost

[All cost 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.]

City of East Point Response:

The City has worked with its External Auditor to properly report payments made in FY 2006.

Our conclusion is that The Finance Department internal controls are being strengthened and there is currently proper accounting of all TAD related transactions.

Finding #6 - TAD Taxes were deposited into the incorrect bank account.

[TAD taxes remitted by Fulton County and collected by 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 internal control weakness present. If TAD taxes are deposited in the incorrect bank accounts, they can be used for purposes that are not in compliance with the Consent Agreement or the redevelopment plan.]

City of East Point Response:

The Finance Department reviewed the deposits highlighted above with our External Auditors and concurs with the finding:

1. The Finance Department has implemented a process that reconciled Bank Statements are reviewed to ensure that all the TAD Tax receipts are deposited into the TAD Bank Account.
Our conclusion is that the Finance Department has strengthened its internal controls to ensure proper accounting and reconciliation of TAD Tax receipts.

Finding # 7 - The final Disposition of $10,831.35 of TAD funds withdrawn could not be determined.

The 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 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 withdrawn 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 internal control over handling of TAD tax funds was weak.

City of East Point Response:

The Finance Department has documented that transactions that were miscoded in prior years have been rectified and balanced.

Our conclusion is that the attached documentation shows that all required TAD Tax receipts have been forwarded to the TAD Trustee.

Finding # 8 - Contractor’s invoice and Billing Support Discrepancy.

[Invoices and contractor’s billing support should be reviewed for accuracy, proper authorization, and 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 a 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 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.]

City of East Point Response:

Our research regarding Duke Realty focused on transactions with the TAD Trustee in 2007 & 2008.

Our attached TAD Bank Deposits and reconciliations provide the necessary documentation that the required TAD Tax receipts have been remitted to the TAD Trustee.
Our conclusion is that all payments to the TAD Trustee have been accounted for.

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.]

City of East Point Response:

Our conclusion is that we concur with this finding and we have strengthened all internal controls.

Finding #10 - Insufficient records provided to confirm interest deposit and contract.

[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 the interest receipts and $837,188.85 in contractor billings disbursed, which were not reflected in the G.L Fund Activity accounting records provided to us for Fund 260-Duke Construction and Fund 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.]

City of East Point Response:

We have reconciled all interest income and payments to Duke and North American Properties.

Our conclusion is that we concur with this finding and we have strengthened all internal controls.

If you have any questions or need additional information, please contact Leon Glaster at 404-669-4305.

Sincerely,

Ellis E. Mitchell
Interim City Manager

Attachments: Camp Creek TAD Bank Reconciliations FC Audit
              Tax Compliance Policy COEP Finance Department
              Camp Creek TAD Legal Expenses
cc: The Honorable Jannquell Peters, Mayor, City of East Point
Leon Glaster Jr., Interim Finance Director, City of East Point
Corliss Lawson, City Attorney, City of East Point
Robert C. Bobb, CEO, Robert Bobb Group LLC
Merrick Malone, Quality Control, Robert Bobb Group, LLC
Dwight Ferrell, County Manager, Fulton County
Anna Howell, Assistant County Manager, Fulton County Office of the County Manager