



Cobb County...Expect the Best!

INTERNAL AUDIT DIVISION

***FINAL REPORT - Survey of Special Revenue
Funds in Cobb County***

Report Number: 2012-005

May 3, 2012

***Latona Thomas, CPA, Manager
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COBB COUNTY INTERNAL AUDIT

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Division Manager

May 3, 2012

MEMORANDUM TO COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** - Survey of Special Revenue Funds in Cobb County

Attached for your review and comments is the subject survey report. We conducted this survey at your request to evaluate whether Cobb County (the County) is following the legal requirements for setting up and administering Special Revenue Funds (SRF). As of September 30, 2011, the County had nine SRFs set up to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Comprehensive audits related to three of the SRFs (E-911, Street Light District, and 800 MHz) have been completed and the reports issued. This survey covers the remaining six funds.

Impact on the Governance of the County

The results of this survey will provide management with an assurance that Special Revenue Funds were properly set up as required by law or necessity and the data in the financial reports for these funds indicate that the revenue and expenditures are consistent with their purpose.

Executive Summary

We determined that the County has adhered to applicable laws in the creation and administration of SRFs. We did not conduct tests to provide assurance on specific detailed transactions, but the financial reports did indicate that funds used were consistent with the purpose of the respective SRFs.

In order to gather the necessary information, we discussed the administration of the SRFs with employees of various departments, reviewed applicable financial reports, and applicable laws related to the specific SRF.

Details are included in the attached report. Please contact me at (770) 528-2559 or Barry Huff, Auditor-in-Charge, at (770) 528-2558 if you have questions.

Background

In October 2010, the Internal Audit Division issued a report “*Review of Cobb County Street Light District Program*” where we recommended that revenue and expenditures of the program be accounted for in a Special Revenue Fund (SRF). As a result, we were requested to review the set up of the remaining SRFs. A comprehensive analysis of the Emergency 911 and 800 MHz SRFs followed and reports issued in January 2012. A survey of the remaining six SRFs used by the County was initiated and this report presents the results of that survey.

In 1997, the Local Government Uniform Chart of Accounts (UCA) and Reporting Act (HB 491) called for the Georgia Department of Community Affairs (DCA) to develop a uniform chart of accounts for all local governments in the state. The UCA chart requires local governments to use SRFs for law libraries, E-911, confiscated assets, grants, special districts, and the hotel/motel tax. SRFs are, by definition, used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Beginning in fiscal years ending in 2001, local governments in the state adopted and began using the UCA.

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, effective for financial statements beginning after June 15, 2010. This statement clarified that SRFs are used to account for and report proceeds of specific revenue sources that are restricted¹ or committed² to expenditures for specified purposes other than debt service or capital projects. Proceeds of a specific revenue source that are restricted or committed should be recognized as revenue in the SRF and not in the fund initially receiving them (if received in a separate fund). Per the FY2010 Comprehensive Annual Financial Report (CAFR), the County elected early implementation of GASB 54.

Cobb County currently uses nine SRFs to account for specific revenue sources that are legally restricted to the expenditures for specific purposes. They are the:

- Law Library Fund
- Community Services Fund
- Grant Fund
- Housing and Urban Development Grant Fund
- Hotel/Motel Tax Fund
- Emergency 911 Fund
- Parking Deck Facility Fund
- 800 MHz Fund
- Streetlight District Fund

We did not review any other revenue sources for applicability of the SRF definition, but rather relied on the results of the external audit of the County’s financial statements.

¹ **Restricted** - Constraints placed on the use of resources are either externally imposed by creditors, grantors, contributions, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

² **Committed** – Constraints on use are imposed by formal action of the government’s highest level of decision-making authority and remain binding unless removed in the same manner.

Whenever the County no longer expects a substantial portion of a SRF's inflows to be from restricted or committed resources, the SRF should be discontinued and the remaining resources reported in the General Fund. In June 2010, the Senior Services SRF was discontinued for this reason.

Results of Survey

Overall, the SRFs were established and properly administered to account for revenue and expenditures, to meet legal and procedural restrictions. Review of financial reports and other documentation, along with discussion with appropriate County personnel, indicate that the money in the SRFs were spent and reported consistent with each specific purpose. Independent audits of County financial statements are conducted annually by the external auditor and they have expressed an unqualified opinion that data in the financial statements are fairly presented in all material respects. As such, we provide no assurance on the appropriateness of specific expenditure object code transactions as that was outside the scope of this survey.

Law Library Fund

Authority of Fund: Official Code of Georgia (O.C.G.A.), Title 35, Chapter 15 governs the creation of the County Law Library.

Source of Revenue: Five dollars is charged and collected in each action or case, filed in the Superior, State, Probate, and any other court of record, except County Recorder's Court or Municipal courts. Revenue is required to be deposited in a SRF according to O.C.G.A. § 36-15-5.

Use of Fund: Funds collected provide for the operation and maintenance of the County's Law Library including:

- Establishment of a Law Library;
- Purchase of books, reports, texts, periodicals, supplies and desks;
- Maintenance, upkeep and operation of the Law Library;
- Payment for purchases made by Superior, State, Probate, Magistrate, or Juvenile Court;
- Purchase and leasing of computer related legal research equipment and programs; and,
- The establishment and maintenance of the codification of county ordinances.

Excess funds shall be granted to charitable tax exempt organizations which provide civil legal representation for low-income people. Any remaining excess funds shall be turned over to the County Commissioners for the purchase of fixtures and furnishings for the courthouse.

Compliance of County: The Law Library Fund was created properly and review of financial reports indicates that the revenue and expenditures are consistent with the established purpose of the SRF. Other than fines, revenue included the sale of maps, surplus material and interest income. Expenditures included purchases of library material, salaries and benefits, office supplies and indirect costs to the General Fund.

Per O.C.G.A. 36-15-11, the Law Library Fund should be discontinued for counties with a population of 700,000 or more, based on the United States Census. According to the 2010 census data³, the estimated population of Cobb County was 688,078; however, the County needs to monitor this requirement during the next census process.

Community Services Fund

Authority of Fund: Although we did not find anything in the laws that required that a SRF be created for the CSBG funds, the restriction on the use of the funds by the granting agency, DHR, meets the requirement of a SRF according to GASB 54. In addition, the County is exercising appropriate fiscal responsibility in creating a SRF to account for the grant money received for the program.

Source: The CSBG Fund was established to account for grant monies received from the Georgia Department of Human Resources for the Community Services Block Grant Program. CSBG provides operating contributions to community service organizations or programs designed to assist low to moderate income citizens of Cobb County.

Use of Fund: Revenue of the CSBG Fund is the grant money received from the Georgia Department of Human Resources. Only a small amount of revenue is attributed to interest income.

The FY2011 expenditures were consistent with the stated purpose including accounting and consulting fees and the amounts awarded to sub-recipients. The interfund transfer of \$42,008 was a transfer to the Senior Services Department — one of the sub-recipients of the grant funds. According to a Finance Department accountant, it was determined to be more efficient to electronically transfer the award amount rather than process a manual check.

Compliance of County: Based on the review of the laws and regulations governing the CSBG Program and the general guidelines⁴ for creating a SRF, the CSBG Fund was set up appropriately to account for income and expenditures that related to amounts received for the CSBG Program.

³ <http://www.2010.census.gov>

⁴ The Uniform Chart of Accounts for local governments and GASB 54.

Grant Fund

Authority of Fund: The Grant Fund total expenditures for FY2011 of \$17,900,930 exceeds 2% of the General Fund expenditures⁵ and is required to be set up as a SRF per UCA requirements. The Finance Division Manager also indicated the subsidiary⁶ funds are set up based on specific grant requirements or for ease of reporting.

Source: We determined the Finance Department currently has 15 subsidiary funds in the financial system that account for revenue acquired through grants. The Grant Fund reported in the CAFR is the central fund that accounts for all the subsidiaries set up to account for grant funding other than Community Development Block Grant (CDBG) and CSBG. The money from the grants are tracked in various subsidiary funds, at the unit level, by several accountants; however, one accountant is responsible for balancing the Grant Fund's revenue and expenditures at the fund level.

Comparison of FY2010 to FY2011 Grant Fund revenue shows consistent funding from grant sources and client contributions/cost share from Senior Services⁷ clients and charges for services.

Use of Fund: Expenditures comprised of distributions to sub-recipients of the grant funding. Assets and liabilities on the FY2011 Balance Sheet are consistent with the purpose of the SRF. Assets include cash, and receivables consisting primarily of amounts due from other governments and agencies. Liabilities are primarily accounts payable⁸ and money due to other funds. The fund balance is restricted to use within the SRF.

Our test for accuracy of the figures reported on the FY2011 CAFR showed that the subsidiary grant funds' revenue and expenditures and balance sheet account figures were properly combined and rolled up to the overall Grant Fund financial reports in the CAFR.

Compliance of County: The specific legal uses and appropriation of the grant money received by the County are too numerous to address in this survey; therefore, we render no assurance on whether the County or grant sub-recipients complied with the financial or programmatic requirements governing the use and accounting of the SRFs. However, the external auditor did provide an opinion that the County complied, in all material respects, with the compliance requirements as dictated by OMB Circular A-133⁹ that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

⁵ FY2011 CAFR

⁶ Subsidiary funds are separate subordinate funds set up in AMS. When compiled they make up the total Grant Fund.

⁷ Most of the miscellaneous revenue for the Grant fund is from client contributions and cost share for Senior Services.

⁸ Sub-recipient reimbursement requests that had not been received or requested from the original granting agency.

⁹ This document serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit of States, local governments, nonprofit organization and Indian tribal governments that administer Federal financial assistance programs. Source: Circular A133, March 2011.

Housing and Urban Development Grant Fund

Authority of Fund: The CAFR HUD Grant SRF is set up to account for HUD grant money primarily from the CDBG Program. There are currently three subsidiary funds set up to account for all the money related to the CDBG programs. The FY2011 expenditures¹⁰ (\$12.4 million) of the HUD Grant Fund, like the Grant Fund, are in excess of 2% of the General Fund expenditures and should be set up in a SRF. The Finance Division Manager also added that the subsidiary funds are set up based on specific grant requirements or for ease of reporting.

Source: Comparison of FY2010 to FY2011 revenue shows a consistent source of funding from HUD grants and reimbursement of previous assistance provided to homeowners who did not keep their homes for the required period.

Use of fund: The expenditures reflect payments to sub-recipients of various HUD programs. Assets and liabilities on the FY2011 Balance Sheet are consistent with the purpose of the SRF. Assets included cash, and receivables consisting primarily of amounts due from HUD. Liabilities were primarily accounts payable and money due to other funds. The fund balance was restricted to use within the SRF.

Our accuracy test of figures reported on the FY2011 CAFR showed that the subsidiary grant funds' revenue and expenditures and balance sheet account figures were properly combined and rolled up to the HUD Grant Fund financial reports in the CAFR.

Compliance of County: The specific legal uses and appropriation of the HUD grant money received by the County are too numerous to address in this survey; therefore, we render no assurance on whether the County or grant sub-recipients complied with the financial or programmatic requirements governing the use and accounting of the SRFs. However, the external auditor did provide an opinion that the County complied, in all material respects, with the compliance requirements as dictated by OMB Circular A-133 that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Hotel/Motel Tax Fund

Authority of Fund: In 2002, as a requirement of the Local Government Uniform Chart of Accounts Act (HB 491), a SRF was set up to account for monies received from the collection of Hotel/Motel taxes. Prior to the set up of the SRF, the Hotel/Motel Tax revenue was recognized directly in the Business License Division of the Community Development Agency.

¹⁰ FY2011 CAFR

O.C.G.A. 48-13-51 governs county and municipal levies on public accommodation charges for the promotion of tourism, conventions, and trade shows. There are 23 different taxing options that authorize collection and use of a hotel/motel tax.

Local governments imposing a Hotel/Motel Tax are required by state law (as a condition of continuing authority to impose the tax) to file a Hotel/Motel Tax Report for each fiscal period during which the tax is imposed. In addition to this report, local governments are required to file a copy of their local Hotel/Motel Tax Ordinance.

Source: According to the FY2010 and FY2011 annual reports, Cobb County levies an 8% lodging tax based on the provisions in paragraph (a)(5.1) of O.C.G.A. 48-13-51. This paragraph specifies: A county shall expend an amount equal to at least 62.5% of the total taxes collected, at the rate of 8%, for the purpose of:

- Promoting tourism, conventions and trade shows;
- Funding, supporting, acquiring, constructing, renovating, improving and equipping building structures and facilities; including, but not limited to, a coliseum, exhibit hall, conference center, performing arts center, or any combination thereof, etc; and
- At least 50% of the total taxes collected shall be expended for purposes specified in the second bullet above.

The Business License Division collects Hotel/Motel taxes and on a monthly basis, the Finance Department wire transfers all hotel/motel tax cash receipts to the Cobb-Marietta Coliseum and Exhibit Hall Authority¹¹ (the Authority). Once the Authority receives the wire-transfer, they retain 62.5% of the receipts and wire-transfer 37.5% back to Cobb County. The 62.5% of total receipts retained by the Authority is a requirement in O.C.G.A. 48-13-51 (a) (5.1).

Once the wire-transfer is received from the Authority, the Finance Department uses accounting entries to record both the amount retained by the Authority and the amount subsequently returned to the County.

Use of Fund: Sixty-two and a half percent of the revenue is retained by the Authority to operate the Cobb Galleria (convention center). The proceeds from the 37.5% distribution are used to pay for the annual debt service requirements of the Cobb Energy Performing Arts Center. Any remaining amount at the end of the year is transferred to the General Fund to be used, as required by law, to support tourism.

Compliance of County: Each local government imposing the tax is required to include, in its annual audited financial statements, a determination as to whether the local government has complied with the applicable expenditure requirements (O.C.G.A. 48-13-50(a)(8)(B)).

¹¹ The Cobb-Marietta Coliseum and Exhibit Authority is a corporate and political body created and existing under the laws of the State of Georgia. The fiscal year end is September 30. The Authority was established for the general purpose of developing and promoting cultural growth, public welfare, education and recreation. The Authority operates and maintains a multi-use exhibit hall and convention facility, a performing arts centre, and a specialty mall in Cobb County. A majority of the Authority's board members are appointed, either directly or indirectly, by the Cobb County Board of Commissioners. The Authority is prohibited from issuing bonded debt without the approval of the Board of Commissioners.

We determined that the County is compliant with the legal restrictions of this Hotel/Motel Tax Fund:

- Money is accounted for in a SRF.
- Annual Reports are filed based on the proper section of the O.C.G.A.
- The Hotel/Motel Tax Fund is audited annually attesting to the validity of the use of the SRF .
- Financial Reports support the proper use of amounts received.
- 62.5% of the Hotel/Motel Tax Fund revenue goes to the Authority for expenditures of the Cobb Galleria convention center.
- Expenditures were consistent with the legal restrictions of the Hotel/Motel Tax Fund, and the only revenue source was the hotel and motel tax proceeds.
- The Balance Sheet accounts were consistent with the authorization of the Hotel/Motel Tax Fund. The Balance Sheet shows an asset of land, which was purchased for park purposes. The only other asset is money due from the Cobb County Convention and Visitors Bureau at year-end, and the only liability is due to the General Fund.

Parking Deck Facility Fund

Authority of Fund: The Parking Deck Facility Fund (the Parking Fund) was set up as a SRF during the FY1992 budget approval on September 10, 1991. The purpose of the Parking Fund is to record the collection of fees and expenditures for debt payment and operating expenses related to the Cherokee Street and New Court Building parking decks.

Source: The revenue sources are fees charged for employee parking, public leased space, public daily parking fees, and interest income.

Use of Fund: The revenue of the Parking Fund is used to pay expenditures for salaries, indirect costs, lease principal and interest payments. According to the FY2010 CAFR, the Cherokee Street parking deck was funded by a 1997 lease agreement with the Downtown Marietta Development Authority (DMDA). On August 24, 2010, the BOC approved the payoff of the DMDA lease and in January 2011, \$2,425,454.16 was approved to pay off the balance. At the same August meeting, the BOC also approved the funding of the new court building parking deck and authorized the issuance of Association County Commissioners of Georgia Leasing Program Certificates. In FY2011, an interest payment of \$175,156 was paid on the outstanding certificates.

Compliance of County: In accordance with the GASB 54 requirement, the BOC approved to account for the funding and source of debt repayment for the parking decks in a SRF.

The financial reports are consistent with the purpose of the Parking Fund. Review of the FY2011 Balance Sheet shows Assets consisting of cash on hand and a small amount of accrued receivable. Liabilities included small balances in amounts payable, payroll accrual and deferred revenue. The Fund Balance shows an amount committed for Debt Services.

Detailed Objectives, Scope, and Methodology

Our overall survey objective was to determine the authority for the creation of the six remaining SRFs and any applicable legal restrictions, the County's compliance accordingly, and whether the financial reports support that the funds are being maintained and administered consistent with their purpose.

To accomplish our objective we:

- I. Researched the basis for each respective SRF (i.e. Uniform Chart of Accounts, Georgia Code, GASB Statement 54, Cobb Ordinance, BOC Agenda, etc).
- II. Contacted and discussed the purpose and financial reports with employees of various departments, including Finance.
- III. Reviewed the FY2010 and FY2011 CAFRs, most recent budget books, and other financial reports.
- IV. Determined whether the balances in the financial reports were consistent with the purpose of the respective SRFs.

Appendix II

Abbreviations and Glossary

AMS	AMS Advantage - The County's financial accounting system.
BOC	Cobb County Board of Commissioners
CAFR	Comprehensive Annual Financial Report
CSBG	Community Services Block Grant Program
CDBG	Community Development Block Grant Program
HUD	Housing and Urban Development
SRF	Special Revenue Fund
UCA	Uniform Chart of Accounts

Appendix III

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Division Manager
Barry G. Huff, Auditor-in-Charge

Final Report Distribution List

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