



# Georgia Department of Audits and Accounts Performance Audit Division

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## Why we did this review

This follow-up review was conducted to determine the extent to which state-level recommendations in our December 2013 special examination (Report #12-09) have been addressed.

The original examination answered House Appropriation Committee questions regarding local development authorities and assessed state level controls related to award and expenditure of state economic development grant funds.

## About Local Development Authorities

Development authorities are separate entities created by local governments to promote the general economic welfare within their jurisdictions.

State law requires that development authorities annually register with and report financial information to the Georgia Department of Community Affairs (DCA). DCA also manages several economic development grant and loans programs, including those funded by the OneGeorgia Authority that are awarded to development authorities.

Development authorities receive the majority of their operating revenue from local government grants or special option sales tax revenue.

## Follow-Up Review

### Local Development Authorities

### Additional Action Could Improve Controls, Transparency, and Accountability

#### What we found

Since our 2013 special examination, the Department of Community Affairs (DCA) has strengthened its controls related to local development authorities (LDA). Specifically, DCA has taken steps to increase annual registration compliance and ensure development authorities are properly registered prior to being awarded state grant funds. In addition, DCA improved procedures to ensure development authorities receiving state grants undergo annual financial audits.

However, DCA should take additional action to ensure accountability of state grant funds by independently verifying agreed upon public benefit goals (job creation and private investment) are attained. DCA continues to accept an attestation from the grant recipient that goals are met. As a result, there is no independent assurance that state funded projects are achieving their intended benefits. According to DCA, implementing this recommendation would require additional resources.

DCA has not developed procedures to verify the accuracy of information submitted by development authorities. O. C. G. A. §36-81-8 requires all development authorities to submit to DCA an annual report of revenues, expenditures, assets, and debts, including individual bond issues exceeding \$1 million. Another state law (O. C. G. A. §36-82-10) requires development authorities to separately submit information regarding debt issuances exceeding \$1 million. DCA maintains the submitted information in two databases and does not perform any reconciliation. In the original audit, we identified variances in the information reported, indicating that there is no accurate and complete listing of debt

issued by development authorities. DCA stated it would require additional resources to verify the data received.

The original report noted several improvements that could be achieved with legislative action. However, no statutory changes have been made.

- **Development Authorities Law and Downtown Development Authorities Law<sup>1</sup>** – Development authority board members are currently required by state law to complete eight hours of training on development and redevelopment programs within the first 12 months of appointment. State law does not require DCA to collect information regarding the training requirement. In addition, the law which requires board member training does not specify a consequence if these requirements are not met. As noted in the original report, only one of six LDAs we visited was able to produce documentation that all board members had completed the required training. To ensure that development authority board members are satisfying their statutory requirement, authorities should be required by statute to report to DCA the training status of board members and specify consequences if board members do not comply.
- **Conflicts of Interest (O.C.G.A. §21-5-3)** – Board members and executive directors of state boards, commissions, and authorities are required to complete and file Personal Financial Disclosure Statements with the Georgia Transparency and Campaign Finance Commission, while board members of *local* development authorities are not. To ensure potential conflicts of interest are identified and made transparent to the public, LDA board members should be required by statute to complete and file Personal Financial Disclosure Statements.

It should be noted that this follow-up reviewed actions taken at the state level to improve transparency and accountability. We did not review actions that may have been taken within local development authorities. State level recommendations were directed at DCA and the General Assembly.

*DCA's Response:* DCA indicated it is committed to improving its policies and procedures to the extent it is able based on available resources and legislative authority. DCA stated that significant appropriations would be required to independently verify information regarding job creation and private investment goals obtained from grant recipients and the 487 economic development authorities. Regarding reconciliation of financial reporting and debt issuance databases, DCA intends to employ a technology-driven process to identify discrepancies and follow up with the appropriate development authority.

The following table summarizes the findings and recommendations in our 2013 report and actions taken to address them. A copy of the 2013 special examination report #12-09 may be accessed at <http://www.audits.ga.gov/rsaAudits>.

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<sup>1</sup> O.C.G.A. §36-62A-21 of the Development Authorities Law and O.C.G.A. §36-42-7 of the Downtown Development Authorities Law

| <b>Local Development Authorities<br/>Follow-Up Review, June 2016</b>   |   |
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| <b>Original Findings/Recommendations</b>   | <b>Current Status</b>   |
| <p><b>While DCA and OneGeorgia’s policies and procedures generally ensure that state grant funds awarded to development authorities are appropriately awarded and expended, further strengthening of controls could improve accountability and transparency.</b></p> <p>We recommended that DCA strengthen controls related to development authority registration compliance and financial audits. We also recommended DCA consider implementing procedures to independently verify that job creation and private investment goals have been attained.</p>   | <p><b>Partially Addressed</b> – DCA has taken steps to strengthen controls related to registration compliance and financial reporting. Specifically, DCA has ensured development authorities are properly registered prior to being awarded state grant funds by verifying authority registration upon application. In addition, DCA improved its procedures to ensure it receives required financial audits. Our review of recently closed projects found financial audits accounting for the appropriate receipt and expenditure of state grant funds present in all files.</p> <p>However, DCA continues to accept attestations from the grant recipient rather than independently verifying that job creation and private investment goals have been attained. According to DCA, implementing this recommendation would require additional resources.</p>   |
| <p><b>While development authorities generally complied with relevant state laws, improvements are needed to maximize accountability and transparency.</b></p> <p>To improve accountability, we recommended DCA strengthen controls related to property acquisition and audit findings. To improve transparency, we recommended all development authorities be required to have a written conflict of interest policy, provide evidence they meet Georgia’s Open Meetings law, and submit to DCA Personal Financial Disclosure Statements similar to those required of members of state boards and authorities.</p> | <p><b>Not Addressed</b> – DCA continues to require appraisals for state-funded property acquisition only, rather than all projects receiving state funds, as we recommended. DCA stated that it does not require an appraisal when the project’s state funds are not directed at property acquisition. However, ensuring that purchase prices associated with state-funded projects are in line with appraised values—even if the property itself is locally-funded—would maximize accountability of state funds.</p> <p>DCA does not ensure its policies are followed regarding conflicts of interest. Though DCA policies and procedures require LDAs to have written codes of conduct, DCA does not verify that development authorities comply with this requirement.</p> <p>DCA requires staff to follow up with LDAs that have significant audit findings; however, staff indicated that findings related to segregation of duties are allowed to go unaddressed due to the small size of some LDAs.</p> <p>Finally, neither DCA policy nor statute have not been changed to require LDA board members to complete and file Personal Financial Disclosure Statements with the Georgia Government Transparency and Campaign Finance Commission.</p> |
| <p><b>DCA should develop procedures to ensure registration and financial information submitted by development authorities is accurate and complete.</b></p> <p>We recommended that DCA develop procedures to verify the accuracy and completeness of information submitted by development authorities, including an annual comparison of its two financial databases to identify inconsistencies and a periodic review of data entered into the registration database to identify errors or omissions.</p>   | <p><b>Partially Addressed</b> – DCA has taken steps to increase registration compliance. To obtain a more complete list of LDAs, DCA initiated a more frequent notification schedule to local development authorities which, according to DCA, has yielded an improved annual response rate.</p> <p>DCA has not taken action to verify the accuracy of information submitted. Management stated that implementing this recommendation would require additional staff and enhanced regulatory authority in statute.</p>  |

| <b>Local Development Authorities<br/>Follow-Up Review, June 2016</b>  |   |
|---|---|
| <b>Original Findings/Recommendations</b>  | <b>Current Status</b>   |
| <p><b>Development authorities should ensure that development authority board members receive the training required by state law.</b></p> <p>We recommended that the General Assembly consider revising state law to require development authorities report the training status of their board members to DCA during the annual registration process and that DCA establish procedures to ensure this information is reported before accepting registrations from the development authorities. We noted that without these changes, there are no assurances that development authority board members are satisfying their statutory requirement to attend and complete at least eight hours of training on development and redevelopment programs.</p> | <p><b>Not Addressed</b> – No action has been taken by the General Assembly or DCA to ensure development authority board members receive required training.</p> <p>While state law requires development authority board members complete at least eight hours of training on development and redevelopment programs, it does not require DCA to collect this information. DCA noted that it continues to accept board members' training status from LDAs that voluntarily provide the information, but it is not statutorily authorized to restrict registration compliance for those that fail to report.</p> |
| <p><b>Local governments are members of multiple development authorities for a variety of reasons; the multiple memberships do not necessarily cause a duplication of effort.</b></p> <p>We noted that multiple memberships do not necessarily cause duplication or inefficiencies as many local governments with multiple authorities share the same staff resources among the authorities.</p>   | <p><b>No Recommendations to Address</b></p>   |
| <p><b>5 Findings</b></p>  | <p><b>0 Fully Addressed</b></p> <p><b>2 Partially Addressed</b></p> <p><b>2 Not Addressed</b></p> <p><b>1 No Recommendations</b></p>  |

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The Performance Audit Division was established in 1971 to conduct in-depth reviews of state-funded programs. Our reviews determine if programs are meeting goals and objectives; measure program results and effectiveness; identify alternate methods to meet goals; evaluate efficiency of resource allocation; assess compliance with laws and regulations; and provide credible management information to decision-makers. For more information, contact us at (404)656-2180 or visit our website at [www.audits.ga.gov](http://www.audits.ga.gov).