



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DEPARTMENT***

***Report Number: 2015-023***

***FINAL REPORT - Review of Superior Court  
Clerk Processing of Intangible Tax Revenue***

***October 15, 2015***

***Latona Thomas, CPA, Director  
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Barry Huff, Staff Auditor I (Part-time)***

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## COBB COUNTY INTERNAL AUDIT

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Director

October 15, 2015

### MEMORANDUM

**TO:** David Hankerson, County Manager

**FROM:** Latona Thomas, CPA, Director 

**SUBJECT:** **FINAL REPORT** - Review of Superior Court Clerk Processing of Intangible Tax Revenue

Attached for your review is the subject final report. The objective of our audit was to determine if any procedural changes for collecting, reporting and distributing intangible taxes contributed to a \$1.4 million decrease in intangible tax revenue from fiscal year 2013 to 2014.

#### *Impact on the Governance of the County*

The recommendations, when implemented, will help ensure the accurate distribution of approximately \$16 million of intangible tax revenue to the County, its cities, school district, and the State of Georgia.

#### *Executive Summary*

We were unable to determine the reason for the decrease in intangible tax revenue; however, a similar decrease in revenue occurred in two other counties within the metropolitan area. Neither had a definitive explanation for the decrease. In addition, we did not identify any procedural changes in the processing and distribution of the intangible tax that would attribute to the decrease. We were given reports on the number of security deeds processed and the amount of intangible tax collected but was unable to test the completeness and accuracy of the reports because the data was not readily available.

In our analysis of the collection and distribution process, we identified procedures that could be improved to ensure the accurate and timely distribution of the intangible tax. We determined that procedures needed to be implemented to ensure the correct commission rate is assessed prior to distribution of the tax; spreadsheets used to calculate the tax distribution could be improved; informative reports should accompany the distribution checks to the taxing districts; and better information is available to identify the location of property within tax districts. In one department, we also identified miscoding of revenue as intangible tax that needs to be corrected.

Each taxing district (e.g., city, state or school district) is entitled to a share of the intangible tax collected in its district based on that district's millage rate. The Superior Court Clerk (the Clerk) assesses a commission (currently 6%) for collecting the tax and submits the proceeds to the County.

From calendar years 2010 through 2014, we determined that the Clerk's office did not charge the appropriate commission rate against all the taxing districts, which caused a \$1.7 million commission fee underpayment to the County. Ninety-eight percent of the underpayment was due to an undercharge of commission to the school district. The Clerk charged the school district a 1.4% commission rate rather than the prevailing rate during this period. The error was corrected and changed to the current rate as of March 2015.

In addition, the spreadsheets used to calculate the tax distribution are accurate but could be more efficient and less susceptible to unexpected modification. Reports showing the tax distribution calculation should accompany the distribution checks so the taxing districts have more information to assess the validity of the distribution amount. The Clerk should use the Parcel ID<sup>1</sup> (a more specific location description) to identify the location of property within the tax district rather than the Land District/Land Lot (LD/LL)<sup>2</sup> numbers.

The Community Development (ComDev) Agency inappropriately used the intangible tax accounting revenue code to report \$7,461 in advertising income. This error did not affect the accuracy of the tax distribution.

### *Recommendations*

In order to address the areas in need of improvement, we recommend the Clerk designate a person to monitor and ensure that the appropriate commission rate is applied in a timely manner; task an advanced EXCEL user to redesign the spreadsheets to eliminate repetitive input of data and protect cells from unexpected modification; develop a report that shows how the distributed amount of tax revenue is calculated; and determine if the Parcel ID can be used instead of the LD/LL number to locate the property tax district.

We also recommend the Office of Finance and Economic Development (Finance Department) Director ensure that the miscoded intangible tax is corrected in the accounting system and the ComDev Agency's Zoning Division Manager is notified of the correct account code to record future advertising income.

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<sup>1</sup> This Parcel ID is comprised of five elements including the LD/LL numbers, two fields that are not currently used and a three-digit parcel number assigned to each property within the Land Lot.

<sup>2</sup> See Background page 3 for explanation of Land Lot and Districts.

## Response

The Clerk concurred with and has implemented, or is in the process of implementing, three of the four recommendations directed to her office. She disagreed with the recommendation to evaluate the feasibility of using the Parcel ID number to identify the tax district location, stating that using the Parcel ID would not improve the procedures for collection, computing or distributing the intangible tax. Although we did not conduct tests to determine the accuracy of using the LD/LL number to identify the taxing district, we still consider the Parcel ID a more precise way of designating the location of a property. The Clerk provides the assurance that the current method is adequate. In a subsequent discussion with the Real Estate Division, they agreed to consider using the Parcel ID in the upgrade of their Integrated System.

The Finance Department Director/Comptroller agreed with the one recommendation directed to his office and proposed the corrective action to be completed by October 31, 2015.

The complete responses to the draft report are included in Appendices VII and VIII. We will perform follow-up of corrective actions in six months. A copy of this report will be distributed to those affected by the report recommendations. Please contact me at (770) 528-2559 if you have questions or Barry Huff, Auditor-in-Charge, at (770)528-2642.

## *Background*

### ***Recording Security Deeds/Collection of Intangible Tax***

Georgia Code §48-6-61 requires every holder (lender) of a long-term note secured by real estate to record the security instrument in the county in which the real estate is located within 90 days from the date of the instrument executed to secure the note.

Before recording the security instrument with the Clerk of the Superior Court (the Clerk), the security instrument must be presented to the collecting officer of the county in which the real estate is located who will collect the intangible recording tax due from the holder of the security instrument. The collecting officer will then attach a certificate<sup>3</sup> to the security instrument indicating that the tax has been paid.

The tax for recording the note is at the rate of \$1.50 for each \$500.00 or fractional part of the face amount of the note. The amount subject to intangible tax can be affected if the party is exempt from taxation, the note is a modification or refinance of an existing note, or a multi-state or multi-county property. The maximum amount of intangible recording tax on any single note is \$25,000. Failure to pay the tax will incur a 50 percent penalty of the tax amount and 1 percent interest per month from the time the tax was due.

In Cobb County, the Clerk of Superior Court Real Estate Division (RED) serves as both the collecting officer and recorder of the deed. In some counties with population of 50,000 or less, the collecting officer may be the tax collector or the tax commissioner.

### ***Distribution of Tax Revenue***

Georgia Code §48-6-72 requires that once the total tax from each taxing district is identified, the Clerk use the immediately preceding year's millage rate of each participating taxing authority to determine how much of the tax the district retains and how much is sent to the State, county and school district. The distribution shall be made according to the proportion that the millage rate levied for the State and each other tax jurisdiction or district respectively bears to the total millage rate. This calculation is illustrated as an example in Table 1.

A Fiscal Tech (Tech) in the Clerk's Accounting Division is responsible for the computation and monthly distribution of the intangible tax due to each tax district. The Tech receives a daily cash report from the RED on the total intangible tax collected that he manually posts to an internal spreadsheet and agrees to bank balances. At the end of the month, the Tech receives a report from the RED showing the total intangible tax collected and itemized by the source tax district. The Tech then manually posts this information to his internal spreadsheet that calculates how the intangible tax collected in each tax district is distributed.

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<sup>3</sup> In Cobb County, the certificate is an imprint on the face of the deed showing the date the document was filed and recorded, the document number, amount of intangible tax paid and the signature of the Clerk.

In the example<sup>4</sup> below, the total millage rate for the City of Acworth is 37.31, and the total amount of tax collected in the taxing district was \$9,012.50. The percentage of the total millage rate that each proportion represents of the total is calculated (see ‘% of total’ row). The total tax collected is multiplied by each proportional percentage to calculate the gross distribution to the State and each tax jurisdiction or district (see ‘Distribution’ row).

After the Tech determines the amount of intangible tax to be distributed to each tax district, he manually transfers those numbers to another spreadsheet, which, among other computations, calculates the commission<sup>5</sup> charged (see ‘Commission’ row) to each applicable entity and the net distribution (see ‘Net Distribution’ row) to the State, and other tax districts. In the example, the City of Acworth gets \$1,725.68 of the \$9,012.50 collected. The State and other tax districts receive the remaining amounts as illustrated. The commission of \$385.53 is added to the County’s General Fund distribution.

**Example - Distribution of Tax, City of Acworth<sup>6</sup>**

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>	<i>3.06</i>	<i>18.9</i>	<i>7.6</i>	<i>37.31</i>
<b>% of total</b>	0.27%	19.62%	0.88%	8.20%	50.66%	20.37%	<b>100%</b>
<b>Distribution</b>	\$24.16	\$1,768.20	<u>\$79.71</u>	<u>\$739.17</u>	\$4,565.43	\$1,835.83	<b><u>\$9,012.50</u></b>
<b>Commission</b>	<u>(\$1.45)</u>	<u>\$385.53</u>			<u>(\$273.93)</u>	<u>(\$110.15)</u>	
<b>Net Distribution</b>	<b><u>\$22.71</u></b>	<b><u>\$2,153.73</u></b>	<b><u>\$79.71</u></b>	<b><u>\$739.17</u></b>	<b><u>\$4,291.50</u></b>	<b><u>\$1,725.68</u></b>	<b><u>\$9,012.50</u></b>

Table 1 – Source: Internal Audit calculations for example purposes only. Differences are due to rounding.

See **Appendix VI** for the amounts of the actual March 2015 intangible tax distribution to all taxing districts.

***Applicable Commission Rate***

The Georgia Code (§48-6-73) allows the collecting officer (the Clerk) the right to assess a commission against the intangible tax revenue due the municipalities, school district and the State. The commission is retained as compensation for collecting officers. In counties where the collection officer is on salary, the commission shall be paid into the county treasury.

The commission rate was established in 1978 at 6% for counties with populations under 300,000 and 4% for counties with greater populations. The population limit for the 6% rate changed to 500,000 in 1994 and 650,000 in 2002. Effective May 1, 2012, a 6% rate was established for all counties regardless of size. Cobb County’s authorized rate from 2010 to April 2012 was 4% and 6% from May 2012 to current.

<b>Cobb County Applicable Commission Rate Per Georgia Code</b>	
<b>Period of Calculation</b>	<b>Rate per the Ga. Code</b>
<b>2010 - April 2012</b>	4%
<b>May 2012- Current</b>	6%

Table 2 – Source: O.C.G.A. 48-6-73 (various years)

<sup>4</sup> In the draft report dated September 9, 2015, we included a hypothetical example based on the City of Acworth’s 2014 millage rate. After further review and discussion, we changed the example to meet the March 2015 distribution in Appendix VI and to eliminate any potential confusion.

<sup>5</sup> Currently 6%.

<sup>6</sup> Individual and summarized totals may be different due to rounding.

**Location of Property**

Identifying the location of the property is critical in the process of calculating and distributing the intangible tax. The RED uses Land Lots and Land Districts as their means to determine the location of property within a taxing district. In the 1800's, a survey of Georgia divided much of the State into its present grid system of 'Land Lots' and 'Land Districts'. The Land Districts are generally square areas of land and do not necessarily correspond with county boundary lines. Each Land District consists of smaller square grids of land known as Land Lots that vary in size from as small as 40 acres in the northern portion of the State to as large as 490 acres in the central and southern portions<sup>7</sup>.

Our audit scope covered the accounting for intangible tax for calendar years 2010 to 2014. Our review of the law governing the collection, distribution and report of the intangible tax was from the law's inception 1953 to present. The detailed audit objective(s), scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

**Purpose of the Review**

The County's Assistant Comptroller performed an analysis of the revenue for the Superior Court Clerk's Office and determined that two revenue object codes showed significant decreases (See Table 3 below). In August 2014, he sent an inquiry (email) to the Clerk and asked for an explanation for the decrease. The Clerk's explanation indicated the decreases may have been related to the economic downturn and a new staff person would analyze the decrease further. No subsequent definitive data was provided to support this assertion.

**Finance Department Revenue Model Results**

Revenue Object Code	July 2013	July 2014	Decrease
4632 – Recording Fees <sup>8</sup>	\$1,664,891.45	\$1,187,692.76	\$477,198.69
4634 – Intangible Tax	\$3,433,317.50	\$2,400,748.15	\$1,032,569.35

Table 3 - Source: Bill Volckmann, Associate Comptroller

As such, Internal Audit was asked to evaluate the intangible tax revenue procedures and determine the reason for the decrease; specifically, identify factors that may have affected the revenue amount other than the economy.

Our initial analysis of revenue for intangible tax showed that there had been a decrease in revenue each year from Fiscal Year (FY) 2006 through FY2010. Beginning in FY2011, intangible tax revenue amounts increased each year until FY2014 when there was a significant decrease (-33%) in revenue. See Table 4 on the next page and 'Results of Review' section for further discussion.

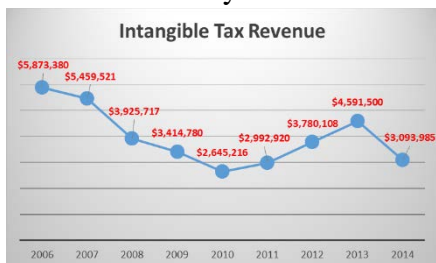


Chart 1 – Source: Forecast Model, Finance Department

<sup>7</sup> <https://www.grec.state.ga.us/infobase/table%20of%20contents%20pdf/Chapter%2027.pdf>

Georgia Real Estate Commission/Georgia Real Estate Appraisers Board website, Georgia Real Estate InfoBase, Part 7 - Legal Descriptions, Chapter 27 Legal Descriptions Used in Georgia

<sup>8</sup> Recording Fees for Deeds, Uniform Commercial Code (UCC) Forms, Business Affidavits, Plats



### Intangible Tax Revenue

<b>Fiscal Years</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Revenue</b>	\$5,873,380	\$5,459,521	\$3,925,717	\$3,414,780	\$2,645,216	\$2,992,920	\$3,780,108	\$4,591,500	\$3,093,985
<b>% Inc/Dec</b>		-7.05%	-28.09%	-13.02%	-22.54%	13.14%	26.30%	21.46%	-32.61%
<b>Amt Inc/Dec</b>		<u>(\$413,859)</u>	<u>(\$1,533,804)</u>	<u>(\$510,937)</u>	<u>(\$769,564)</u>	<u>\$347,704</u>	<u>\$787,188</u>	<u>\$811,392</u>	<u>(\$1,497,515)</u>

Table 4 - Source: Forecast Model, Finance Department

## *Results of Review*

Based on our overall analysis, we are unable to determine definitively why there was a \$1.4 million decrease in intangible tax revenue from FY2013 to FY2014. The Clerk's Office Accounting Division and Real Estate Division (RED) personnel indicated that there had been no procedural changes in the way the tax was collected, calculated, and distributed or any significant personnel changes that could have attributed to the decline in revenue. In addition, there are multiple factors and opinions regarding the decline, including changes in home purchasing habits, a decline in housing costs, the economic downturn and a reduction in mortgage financing. However, we could not identify any conclusive data that supported any of these assertions. According to census<sup>9</sup> and other financial data<sup>10</sup>, housing starts and average/median cost of housing is on an upward trend and the overall economic condition has improved since 2009.

Based on reports from the RED, we saw a decrease in the number of security deed recordings requiring intangible tax, but we were unable to confirm these figures because the source data (security deeds processed for the calendar years 2010–2014) was not readily available. We planned to use the data to evaluate the completeness of the intangible recording tax and accuracy of the tax computations. As such, we are not able to provide any assurance in this area.

We were able to determine that Cobb was not the only county that experienced a decline in intangible tax revenue. Other large metropolitan counties within the region also experienced a similar decrease in revenue. Gwinnett and Fulton Counties reported a noticeable drop in revenue during this period. Fulton had not quantified the amount of decrease, but indicated they received calls from the tax districts about the decline. Gwinnett indicated they had a \$3.4 million drop in intangible tax revenue during the same period. Information from DeKalb County was unavailable.

We also determined that the decline in the intangible tax revenue was across the board in every taxing district except the City of Powder Springs that had a small increase in the intangible tax between calendar year 2013 and 2014.

During our analysis, we identified opportunities to improve the procedures for collecting, computing and distributing the intangible tax. These procedures were in place when the new Clerk took office in January 2013. We also believe using another method for identifying the location of property could be more precise.

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<sup>9</sup> U.S. Census Data: <http://www.census.gov/construction/chars/sold.html>; [http://www.census.gov/construction/nrc/historical\\_data/](http://www.census.gov/construction/nrc/historical_data/)

<sup>10</sup> S&P 500 Historical Chart (2008-

2015)[https://finance.yahoo.com/echarts?s=%5EGSPC+Interactive#{"range":"10y","allowChartStacking":true}](https://finance.yahoo.com/echarts?s=%5EGSPC+Interactive#{)

**Change Distribution Procedures to Ensure Accurate Distribution of the Intangible Tax**

**Accurate Commission Rate**

Over a five-year calendar period, 2010 to 2014, the Clerk’s office did not always charge the taxing districts the proper commission rate for collecting the tax. The table below shows the commission rate applicable for each period and the rate charged by the Clerk’s office.

**Commission Rate Charged the Municipalities and the State**

Period of Calculation (a) <sup>11</sup>	Proper Rate per the Ga. Code (b) <sup>12</sup>	Rate Charged Taxing Districts (c) <sup>13</sup>	Rate Charged the School District (d) <sup>14</sup>
2010-2011	4%	6%	1.40%
Jan- April 2012	4%	4%	1.40%
May- Dec. 2012	6%	4%	1.40%
2013 - 2014	6%	4%	1.40%
Jan-Feb 2015	6%	6%	1.40%
March 2015	6%	6%	6%

Table 5 - Source: Georgia Code 48-6-73, Cobb County Superior Court Records

Over the five-year period, the proper rate was not consistently applied resulting in \$1,690,411 in uncollected commission fees for the County. The Clerk’s office charged the school district a 1.4% commission rate rather than the prevailing rate, which accounted for 98% (\$1,654,513) of the underpayment. We were unable to determine why this rate was used as no documentation was available, but starting in March 2015, the Clerk’s office assessed the correct commission rate and collected an additional \$166,764 (March through June 2015) in commission fees. The remaining \$35,898 of commission underpayment was the net of overpayments and underpayments from other taxing districts from 2010 to 2014. See Table 5 above.

**Recommendation**

The Superior Court Clerk should:

**Recommendation 1:** Assign the Accounting Division Manager the responsibility to monitor the Georgia law applicable to the proper commission rate and ensure its timely application in the distribution calculation. Evidence of the monitoring should be documented and presented to the Clerk for review.

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<sup>11</sup> Period the rate was effective.  
<sup>12</sup> Applicable rate per the law.  
<sup>13</sup> Rate charged the tax districts other than the school district.  
<sup>14</sup> Rate charged the school district.

**Auditee Response:** **Concur.** To keep up with the commission rates, I will have the Accounting Division Manager check the legislative updates that are available July 1<sup>st</sup> every year. She/He will also watch for any potential legislation that may affect these rates. If a commission rate does change, the Clerk and IT Systems Programmer will be notified in order for the necessary changes to be made. Any and all pertinent information will be maintained in our office.

### **Revised Spreadsheets**

Although we determined the spreadsheets used by the Tech calculated accurately based on the formulas and data input, we believe the repetitive manual input and transfer of data from one sheet to another, along with the lack of spreadsheet protection<sup>15</sup> against unexpected changes and recurring rounding errors<sup>16</sup> presents an unwarranted risk to the accurate calculation of the tax distribution. This risk can be mitigated by redesigning the worksheets or automating the calculation using the existing or proposed computer systems.

### **Recommendation**

The Superior Court Clerk should:

**Recommendation 2:** Coordinate with Information Services or EXCEL advanced users to help redesign and protect the spreadsheets to make them more efficient and less dependent on repetitive manual input.

**Auditee Response:** **Concur.** The Accounting Department is in the process of implementing new systems and applications that will make the current processes more automated and efficient. Pertinent data will be populated automatically from the real estate department, which will eliminate tedious and outdated modes of entering data manually. Our Systems Programmer is employed directly by the Clerk and is imminently familiar with the new applications. He will be able to monitor the progress and make any necessary changes or repairs.

### **Reports Accompanying Revenue Distribution**

Currently, the Accounting Division does not provide any details on how the intangible tax is computed when distributing the tax to the taxing authorities. Consequently, the recipient has no way of evaluating the reasonableness of the amount received. Providing additional information such as the number of security deeds processed, the total tax collected and the rate and amount of the commission deducted, would provide the recipient with additional information to evaluate the validity of the amount received. For instance, if revenue received is significantly less than the previous month(s) and the number of security deeds processed remains the same or increased, this may be an indicator to ask for an explanation to validate the amount received.

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<sup>15</sup> EXCEL provides the ability to lock cells or a spreadsheet to prevent unintended changes to cell content. Use of the feature prevents accidental changes that would affect the computation accuracy of the spreadsheet.

<sup>16</sup> **A Floating Point Rounding Error (FPRE)** occurs in a spreadsheet when computations are not based on numbers displayed but rather by the actual number calculated which can be up to a precision of 15 decimal points. You can correct this by setting the spreadsheet option to calculate using the value that is displayed. This floating point rounding error is more significant when calculations are based on prior calculations with precision set using several decimal places.

## ***Recommendation***

The Superior Court Clerk should:

**Recommendation 3:** Provide the intangible tax recipients a detailed report of the calculation to inform them of how their tax is calculated.

**Auditee Response:** **Concur.** Currently, we provide a breakdown of total intangible tax dollars collected minus the commission, along with the total of transfer tax dollars. The actual distribution calculation has been added to the report which will show the breakdown by millage rates.

## ***Use the Parcel ID to Determine the Location of Property***

The methodology to identify a property's tax district location (TDL) could be more accurate if the Tax Assessor 'Parcel ID' information is used. The TDL is used to group the proceeds of the intangible tax by the tax district where the property is located. This grouping needs to be accurate because it determines the share of tax proceeds that will revert to the tax district.

Currently, the RED determines the TDL by inputting the Land District/Land Lot (LD/LL) number into their system that assigns a TDL within a municipality (i.e. Marietta, Power Springs) or Unincorporated Cobb County. The system vendor for the Clerk's system did not know when the table with the land lots and tax district information was last updated. Information was not readily available to test the accuracy of the table data.

The Tax Assessor database identifies all the property located in the County using a Parcel ID comprised of five elements including the LD/LL numbers, two fields that are not currently used and a three-digit parcel number assigned to each property within the Land Lot. Because the Parcel ID can identify the location of property within a Land Lot,<sup>17</sup> it is a more precise way of determining the TDL.

Each year the Tax Assessor's Office provides a data file of the property assessment records. The Clerk's office could use this data to update their system and use the Parcel ID rather than the LD/LL to identify property location.

## ***Recommendation***

The Superior Court Clerk should:

**Recommendation 4:** Evaluate whether using the Parcel ID number is feasible to identify the tax district location of property and incorporate the number into the current or proposed computer system.

**Auditee Response:** **Disagree.** Using the Parcel ID number to identify the tax district or incorporating it with the current system will not improve the procedures for collecting, computing or distributing the intangible tax. The law determines calculation for the intangible tax, not the location. The disbursements are already identified by the land lot and district and has the parcel number already partially integrated. Most importantly, the CIDs are NOT part of the intangible tax disbursements per Cobb County Municipal Code Sec. 6-26 (a).

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<sup>17</sup> A Land Lot can be as large as 490 acres and contain several parcels of land.

### **Additional Internal Audit Comment**

Although we did not conduct tests to determine the accuracy of using the Land District/Land Lot (LD/LT) number to identify the taxing district, we still consider the Parcel ID a more precise way of designating the location of a property. The Clerk provides the assurance that the current method is adequate. In a subsequent discussion with the Real Estate Division, they agreed to consider using the Parcel ID in the upgrade of their Integrated System.

### **Correct Misclassified Revenue**

We reconciled the FY2014 intangible tax amount reported in the Finance Department model to AMS Financial System data and identified \$7,461 of intangible tax revenue reported by the Zoning Division, Community Development Agency. Suspecting this was an error; we contacted the Zoning Division Manager and determined that the amount was actually advertising revenue that was miscoded on a form used to process revenue collections. We informed the Finance Department about the coding problem and they agreed to contact the Zoning Division Manager to make the necessary changes and corrections.

### **Recommendation**

The Director, Office of Finance and Economic Development should:

**Recommendation 5:** Ensure that the misclassified revenue is corrected in the financial system and the Zoning Division Manager is made aware of the correct coding for the advertising revenue.

**Auditee Response:** **Concur.** The Finance Department concurs with this recommendation and will make the necessary correction and notify the Zoning Division Manager prior to October 31, 2015.

*Detailed Objectives, Scope, and Methodology*

The objective of our review was to determine if any procedural changes for collecting, reporting and distributing intangible taxes contributed to the decrease in revenue.

In order to accomplish our objective, we performed the following sub-objectives:

- A. Determined any changes in the recording or reporting of the intangible tax revenue.
  - a. Discussed and documented the methodology for recording and reporting revenue for intangible tax.
  - b. Determined if accounting methods changed during/after the transition to the new Clerk in January 2013.
    - i. Reviewed the monthly deposits for 2012 and looked for a difference in the amount reported in the beginning months of 2013.
    - ii. Determined if any changes were implemented when the new Clerk was appointed in January 2013.
- B. Determined if the calculation of distribution was accurate.
  - a. Discussed the methodology for distributing the revenue to the State, cities and County.
  - b. Verified the calculation from monthly reports FY2013 and FY2014.
  - c. Verified that the Accounting Division used the correct year's millage rate<sup>18</sup>.
  - d. Determined if the tax was distributed to all applicable taxing districts.
- C. Reviewed economic trends to see if there is a correlation between drop in revenue and economic conditions.

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<sup>18</sup> Millage rate approved in July of prior year should be used in computing the next year's intangible tax distribution.

*Abbreviations and Glossary*

ComDev	Community Development Agency
LD/LL	Land District/Land Lot
RED	Real Estate Division
SD	Security Deed



*Major Contributors to the Report*

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

*Final Report Distribution List*

Rebecca Keaton, Clerk, Cobb County Superior Court  
Jim Pehrson, CPA, Director, Office of Finance and Economic Development  
Deborah Dance, County Attorney  
Cobb County Audit Committee  
Internal Audit Department File

## *Outcome Measure(s)*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

### **Type and Value of Outcome Measure:**

- Increased Revenue – Actual: \$166,764 additional commission revenue received from the school district from March to June 2015. (See Page 6).

### **Methodology Used to Measure the Reported Benefit:**

We obtained the spreadsheets used by the Clerk's office to calculate the intangible tax distribution. We used the spreadsheets to calculate the school district commission based on a 1.4% commission rate and a 6% commission rate, totaling up the difference as revenue received.

### **Type and Value of Outcome Measure:**

- Increased Revenue – Potential: \$125,073 estimated additional commission revenue from the school district for the period July to September 2015. (See Page 6).
- Increased Revenue – Potential: \$500,292 estimated additional commission revenue from the school district for the fiscal year period October 2015 to September 2016. (See Page 6).

### **Methodology Used to Measure the Reported Benefit:**

We used the Clerk's office spreadsheets to calculate the average monthly increase (\$41,691) in the school district commission fee for the four-month period March 2015 to June 2015. We multiplied the average monthly increase times the number of months left in the current calendar year (3) to arrive at the projected potential increase for the year. We used the same average monthly increase to calculate the projected increase for fiscal year 2016.

## Appendix VI

### Example of a Monthly Intangible Tax Collection/Distribution<sup>19</sup>

Source: March 2015, Superior Court Clerk, Accounting Reports

#### Acworth: Intangible Tax Collected on Property \$9,012.50

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>	<i>3.06</i>	<i>18.9</i>	<i>7.6</i>	<i>37.31</i>
<b>% of Total Mills</b>	0.27%	19.62%	0.88%	8.20%	50.66%	20.37%	<b>100%</b>
<b>Distribution</b>	\$24.16	\$1,768.20	<u>\$79.71</u>	<u>\$739.17</u>	\$4,565.43	\$1,835.83	<b>\$9,012.50</b>
<b>Commission</b>	<u>(\$1.45)</u>	<u>\$385.53</u>			<u>(\$273.93)</u>	<u>(\$110.15)</u>	
<b>Net Distribution</b>	<u>\$22.71</u>	<u>\$2,153.73</u>	<u>\$79.71</u>	<u>\$739.17</u>	<u>\$4,291.50</u>	<u>\$1,725.68</u>	<u>\$9,012.50</u>

#### Austell: Intangible Tax Collected on Property \$896.07

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>		<i>18.9</i>	<i>3.06</i>	<i>29.71</i>
<b>% of Total Mills</b>	0.34%	24.64%	1.11%		63.61%	10.30%	<b>100%</b>
<b>Distribution</b>	\$3.02	\$220.78	<u>\$9.95</u>		\$570.03	\$92.29	<b>\$896.07</b>
<b>Commission</b>	<u>(\$.18)</u>	<u>\$39.92</u>			<u>(\$34.20)</u>	<u>(\$5.54)</u>	
<b>Net Distribution</b>	<u>\$2.84</u>	<u>\$260.70</u>	<u>\$9.95</u>		<u>\$535.83</u>	<u>\$86.75</u>	<u>\$896.07</u>

#### Cobb County: Intangible Tax Collected on Property \$1,113,968.55

	State	County General	County Bond	County Fire	School General	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>	<i>3.06</i>	<i>18.9</i>	<i>29.71</i>
<b>% of Total Mills</b>	0.34%	24.64%	1.11%	10.30%	63.61%	<b>100%</b>
<b>Distribution*</b>	\$3,749.47	\$274,461.45	<u>\$12,373.26</u>	<u>\$114,733.89</u>	\$708,650.48	<b>\$1,113,968.55</b>
<b>Commission</b>	<u>(\$224.97)</u>	<u>\$42,744.00</u>			<u>(\$42,519.03)</u>	
<b>Net Distribution</b>	<u>\$3,524.50</u>	<u>\$317,205.45</u>	<u>\$12,373.26</u>	<u>\$114,733.89</u>	<u>\$666,131.45</u>	<u>\$1,113,968.55</u>

\*Differences due to rounding are more significant due to the amount of tax collected.

<sup>19</sup> Individual and summarized totals may be different due to rounding.

Kennesaw: Intangible Tax Collected on Property \$13,413.51

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>	<i>3.06</i>	<i>18.9</i>	<i>9.5</i>	<i>39.21</i>
<b>% of Total Mills</b>	0.26%	18.67%	0.84%	7.80%	48.20%	24.23%	<b>100%</b>
<b>Distribution</b>	\$34.21	\$2,504.13	<u>\$112.89</u>	<u>\$1,046.81</u>	\$6,465.58	\$3,249.89	<b>\$13,413.51</b>
<b>Commission</b>	<u>(\$2.05)</u>	<u>\$584.97</u>			<u>(\$387.93)</u>	<u>(\$194.99)</u>	
<b>Net Distribution</b>	<u>\$32.16</u>	<u>\$3,089.10</u>	<u>\$112.89</u>	<u>\$1,046.81</u>	<u>\$6,077.65</u>	<u>\$3,054.90</u>	<u>\$13,413.51</u>

Marietta: Intangible Tax Collected on Property \$75,655.50

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>			<i>24.02</i>	<i>31.77</i>
<b>% of Total Mills</b>	0.31%	23.04%	1.04%			75.6%	<b>100%</b>
<b>Distribution</b>	\$238.17	\$17,433.68	<u>\$785.94</u>			\$57,197.71	<b>\$75,655.50</b>
<b>Commission</b>	<u>(\$14.29)</u>	<u>\$3,446.15</u>				<u>(\$3,431.86)</u>	
<b>Net Distribution</b>	<u>\$223.88</u>	<u>\$20,879.83</u>	<u>\$785.94</u>			<u>\$53,765.85</u>	<u>\$75,655.50</u>

Powder Springs: Intangible Tax Collected on Property \$8,382.79

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>	<i>3.06</i>	<i>18.9</i>	<i>8.5</i>	<i>38.21</i>
<b>% of Total Mills</b>	0.26%	19.16%	0.86%	8.01%	49.46%	22.25%	<b>100%</b>
<b>Distribution</b>	\$21.94	\$1,605.92	<u>\$72.39</u>	<u>\$671.33</u>	\$4,146.42	\$1,864.79	<b>\$8,382.79</b>
<b>Commission</b>	<u>(\$1.32)</u>	<u>\$362.00</u>			<u>(\$248.79)</u>	<u>(\$111.89)</u>	
<b>Net Distribution</b>	<u>\$20.62</u>	<u>\$1,967.92</u>	<u>\$72.39</u>	<u>\$671.33</u>	<u>\$3,897.63</u>	<u>\$1,752.90</u>	<u>\$8,382.79</u>

Smyrna: Intangible Tax Collected on Property \$84,007.65

	State	County General	County Bond	County Fire	School General	City	Combined Millage Rate/Total
<b>Mills</b>	<i>0.1</i>	<i>7.32</i>	<i>0.33</i>		<i>18.9</i>	<i>8.99</i>	<i>35.64</i>
<b>% of Total Mills</b>	0.28%	20.54%	0.93%		53.03%	25.22%	<b>100%</b>
<b>Distribution</b>	\$235.71	\$17,254.10	<u>\$777.85</u>		\$44,549.51	\$21,190.48	<b>\$84,007.65</b>
<b>Commission</b>	<u>(\$14.14)</u>	<u>\$3,958.54</u>			<u>(\$2,672.97)</u>	<u>(\$1,271.43)</u>	
<b>Net Distribution</b>	<u>\$221.57</u>	<u>\$21,212.64</u>	<u>\$777.85</u>		<u>\$41,876.54</u>	<u>\$19,919.05</u>	<u>\$84,007.65</u>

Summary of Distribution<sup>17</sup>

	State	County General	County Bond	County Fire	School General	Cities	Total Distribution
<b>Net Distribution Totals</b>	<u>\$4,048.28</u>	<u>\$366,769.37</u>	<u>\$14,212.00</u>	<u>\$117,191.18</u>	<u>\$722,810.59</u>	<u>\$80,305.15</u>	<u>\$1,305,336.57</u>

Response to Draft Report - Clerk of Superior Court

Rebecca Keaton  
Clerk of Superior Court  
Cobb Judicial Circuit



Kimberly Carroll  
Chief Deputy Clerk

DATE: September 25, 2015

TO: Latona Thomas, CPA, Director, Internal Audit

FROM: Rebecca Keaton, Cobb County Superior Court Clerk

SUBJECT: Response to the Internal Audit Draft Report – Review of Superior Court Clerk Processing of Intangible Tax

This memo is in response to the subject report dated September 9, 2015. In your analysis you could not definitively determine why there was a \$1.4 million dollar decrease in intangible tax revenue from FY 2013 to FY 2014. However, you identified opportunities to improve the procedures for collecting, computing and distributing the intangible tax. You made several recommendations, of which our responses are listed below.

**Recommendation**

The Superior Court Clerk should:

**Recommendation 1:** Assign the Accounting Division Manager the responsibility to monitor the Georgia law applicable to the proper commission rate and ensure its timely application in the distribution calculation. Evidence of the monitoring should be documented and presented to the Clerk for review.

**Response:** Concur

*To keep up with the commission rates, I will have the Accounting Division Manager check the legislative updates that are available July 1<sup>st</sup> every year. She/He will also watch for any potential legislation that may affect these rates. If a commission rate does change, the Clerk and IT Systems Programmer will be notified in order for the necessary changes to be made. Any and all pertinent information will be maintained in our office.*

**Recommendation**

The Superior Court Clerk should:

**Recommendation 2:** Coordinate with Information Services or EXCEL advanced users to help redesign and protect the spreadsheets to make them more efficient and less dependent on repetitive manual input.

**Response:** Concur

*The Accounting Department is in the process of implementing new systems and applications that will make the current processes more automated and efficient. Pertinent data will be populated automatically from the real estate department, which will eliminate tedious and outdated modes of entering data manually. Our Systems Programmer is employed directly by the Clerk and is imminently familiar with the new applications. He will be able to monitor the progress and make any necessary changes or repairs.*

**Recommendation**

The Superior Court Clerk should:

**Recommendation 3:** Provide the intangible tax recipients a detailed report of the calculation to inform them of how their tax is calculated.

**Response:** Concur

*Currently, we provide a breakdown of total intangible tax dollars collected minus the commission, along with the total of transfer tax dollars. The actual distribution calculation has been added to the report which will show the breakdown by millage rates.*

**Recommendation**

The Superior Court Clerk should:

**Recommendation 4:** Evaluate whether using the Parcel ID number is feasible to identify the tax district location of property and incorporate the number into the current or proposed computer system.

**Response:** Disagree

*Using the Parcel ID number to identify the tax district or incorporating it with the current system will not improve the procedures for collecting, computing or distributing the intangible tax. The law determines calculation for the intangible tax, not the location. The disbursements are already identified by the land lot and district and has the parcel number already partially integrated. Most importantly, the CIDs are NOT part of the intangible tax disbursements per Cobb County Municipal Code Sec. 6-26 (a).*

*Response to Draft Report - Director, Office of Finance and Economic Development*

*From the desk of:*  
James D. Pehrson, CPA  
Director and Comptroller  
jpehrson@cobbcounty.org

OFFICE OF FINANCE  
& ECONOMIC DEVELOPMENT



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DATE: September 29, 2015  
TO: Latona Thomas, CPA, Director, Internal Audit  
FROM: James Pehrson, Director, Office of Finance and Economic Development  
SUBJECT: Response to the Internal Audit Draft Report – Review of Superior Court Clerk Processing of Intangible Tax

This memo is in response to the subject report dated September 9, 2015. In your analysis you could not definitively determine why there was a \$1.4 million dollar decrease in intangible tax revenue from FY 2013 to FY 2014. However, you identified opportunities to improve the procedures for collecting, computing and distributing the intangible tax. You made one recommendation to our office, our response to that recommendation is below.

***Recommendation***

The Director, Office of Finance and Economic Development should:

**Recommendation 5:** Ensure that the misclassified revenue is corrected in the financial system and the Zoning Division Manager is made aware of the correct coding for the advertising revenue.

**Response:** The Finance Department concurs with this recommendation and will make the necessary correction and notify the Zoning Division Manager prior to October 31, 2015.

A handwritten signature in black ink, appearing to read "James D. Pehrson".

James D Pehrson, CPA  
Director/Comptroller  
Cobb County Finance Department  
100 Cherokee Street, Suite 400  
Marietta, GA 30090