



INTERNAL AUDIT REPORT FOR

Rowen Foundation and The Water Tower at Gwinnett

Gwinnett County Government
Audit Plan Year 2023

May 28, 2024

GWINNETT COUNTY
INTERNAL AUDIT DIVISION

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Background & Scope

Gwinnett County (the County) among other responsibilities formulates policies and approves expenditures to enhance infrastructure and maintain high-quality services for approximately one million residents. The County also partners with nonprofit organizations to pursue opportunities that will provide long-term economic growth and job opportunities for residents. The County, the Gwinnett County Development Authority (the Authority), and the Rowen Foundation, Inc. (Rowen), entered into several economic development, financing, and management contracts beginning in 2020 to acquire approximately 2,000 acres in the County for the development of a large mixed-use knowledge community. The development is called the Rowen Project and is expected to generate significant business growth and employment opportunities over many years. The County and the Authority agreed to provide loans to Rowen totaling approximately \$205 million for the purchase of the land and infrastructure improvements. Rowen manages this project according to terms prescribed in an Operating, Marketing, and Administration agreement. The County will provide ongoing capital-operating funds with certain limitations to Rowen during a 15-year funding period. The County and the Authority lent approximately \$18 million in capital-operating funds as of August 31, 2023.

The County also constructed a global innovation facility in Buford, Georgia, to provide space for research, workforce development, and public engagement. The County and the Gwinnett County Water and Sewerage Authority (the Water Authority) leased the facility to a nonprofit organization, The Water Tower at Gwinnett, Inc. (TWT), to develop and operate the campus. Their goal is to provide academia and water industry personnel with classrooms, laboratories, and workspace to encourage collaboration. TWT manages the campus according to responsibilities prescribed in a Marketing and Administration agreement effective 2022. The County provides administrative support subject to certain limitations for five years. This includes staff augmentation and operating funds. The County incurred approximately \$3 million in administrative support during the audit period January 2020 to August 2023.

The purpose of this audit was to evaluate whether the County and nonprofits complied with operating provisions contained in the various economic development agreements during the audit period. We focused primarily on the County's compliance activities for real estate purchases, loans, operational funding, and performance oversight. Internal Audit (IA) conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. The Standards require that we plan and perform the audit to identify and evaluate sufficient information to support engagement results. We interviewed employees, observed certain control activities, and reviewed business documents on a sample basis for the audit period. We believe the evidence provided a reasonable basis for our assessment. See **Exhibit A** for a summary of our audit procedures.

Assessment

The County and nonprofit entities generally complied with key provisions contained in the various economic development contracts for Rowen and TWT. The Department of Financial Services (DoFS) and Water Resources (DWR) control activities that were designed to ensure compliance with key provisions were effective and thorough. We found no evidence of abuse or instances of significant non-compliance. We made **two recommendations** to enhance compliance. The recommendations are improvement opportunities rather than significant weaknesses that could prevent noncompliance with key contract provisions.

Recommendations

1. Annual budget and cash flow plan approvals were not in writing.

Rowen Operating, Marketing and Administration and TWT Marketing and Administration Agreements stipulate both nonprofits must submit annual budgets and cash flow plans to the County's Chief Financial Officer (CFO) and DoFS Director for approval. Approvals must be in writing during funding periods. See **Section 4.04**, Annual Budget and Cash Flow Plan, in both agreements for details. Rowen and TWT submitted budgets and cash flow plans during the audit period, and the CFO purportedly corresponded with Rowen and TWT via email to approve. We believe approval documentation could be better.

RECOMMENDATION

The County should approve in writing the annual budget and cash flow plans for both nonprofits. Approval documentation should be kept for inspection by third parties.

Management Response

CFO agreed with recommendation in meeting held on April 26, 2024.

2. Transition of operational support needed better definition (previously identified by management).

Three full-time County employees currently work for TWT and play a key role in authorizing and processing TWT operating expenses funded by the County. They approve TWT invoices for payment through the County's systems (Lucity and SAP). Per agreement, the County will supply those County employees until August 2025. The County will continue to fund operations through 2027. The current payment processes may not be workable post operational support period, and DWR should modify TWT payment authorization processes as necessary based on any changes in funding methods.

RECOMMENDATION

DWR should modify rules and procedures for processing TWT transactions based on modifications to funding methods after the completion of staff augmentation.

Management Response (DWR)

DWR agrees with this recommendation.

Other Considerations

IA observed opportunities to improve certain business activities based on guidelines that may, in our opinion, produce good outcomes. The advisory comments are for consideration only, and management is not required to provide written responses or corrective action plans. The advisory comments are as follows:

- Public accountants audit the financial statements of Rowen and TWT each year per contractual agreement. These engagements are for audits of financial statements only and do not include audits of internal controls over financial reporting (ICFR). Public accountants should perform integrated audits each year for the nonprofit entities to include audits of ICFR. The objectives of an audit of ICFR are to express an opinion on management's assertions regarding the effectiveness of ICFR and provide reasonable assurance about whether material weaknesses exist. These goals may become more important as operations expand.
- TWT uses a County vendor to source the Office Manager position. The contractor is compensated based on hours worked and an hourly rate. Invoices for services rendered may cover two months. TWT's CEO and DWR Business Services approve invoices, and the County pays them as part of the administrative support agreement. The County does not have any guidelines for maintaining contractor timekeeping records, and they vary by department. TWT and DWR rely on summary data to monitor work and pay invoices instead of weekly time sheets which management believes is sufficient because the CEO works with the contractor. Although invoices may span two months, we agree the risk of overbilling or timekeeping errors is probably low under the circumstances. However, management should require weekly time sheets if the Office Manager incurs significant overtime, assumes responsibilities with other groups, works remotely, or changes work periods. Note: We did examine an approved work authorization form for this part of the Global Innovation Hub Support Services project.

Subsequent Event

The CEO purportedly hired the Officer Manager as a full-time TWT employee as of January 2024. This occurred after the audit period, but before the release of this report.

Exhibit A: Summary of Audit Procedures

IA performed the following procedures to evaluate compliance with agreements:

Rowen

- Interviewed key personnel responsible for contract oversight and operations.
- Reviewed public accounting firm's independent auditors' reports for Rowen's annual financial statements and notes for years 2020 – 2022 as part of internal audit planning.
- Read various economic development, financing, and operating contracts between the County, the Authority, and Rowen. Selected key requirements and obtained evidence to support compliance (**Recommendation 1**). We found no significant instance of noncompliance.
- Obtained all purchase and sale agreements (PSAs) for real estate properties and performed the following tests of compliance: a) traced selected content to Superior Court Clerk's deed records; b) reconciled acreages and purchase prices to contracts and deeds; c) confirmed transactions approved by Law and Commissioners; d) reviewed disclosures for significant appraisal differences; e) confirmed payment draws approved by management; and f) purchase prices agreed with financial records.
- Ensured total funding agreed with all related contract terms.
- Verified County made bond sinking fund payments per schedule for December 2022 and June 2023.
- Confirmed the CFO approved bond fees for Loan A.
- Reviewed Rowen's most recent financial and performance reports to assess compliance with **Sections 4.06** through **4.08** in the Operating, Marketing, and Administration Agreement.

The Water Tower

- Interviewed key personnel responsible for contract oversight and operations.
- Read various economic development, financing, and operating contracts between the County and TWT. Selected key requirements and obtained evidence to support compliance. We found no significant instance of noncompliance.
- Selected judgmental and random sample of 47 operating expenditures paid by the County for review. See **Exhibit B** for Sampling Approach. Reviewed invoices and supporting documentation to confirm expenditure was accurate, authorized, reasonable, and valid for business purposes (**Recommendation 2**).
- Reviewed TWT's most recent financial and performance reports to assess compliance with Reporting Section in the Marketing and Administration Agreement.
- Validated building and real estate in the County's name per Superior Court records.

Exhibit B: Sampling Approach

We used sampling procedures to select operating expenditures for the test of controls. Our sampling objectives were to select representative samples of the population with the smallest sample sizes necessary for evaluating control effectiveness. Based on our risk assessment and engagement objectives, we used a nonstatistical sampling approach. We judgmentally selected samples based on their dollar value to cover at least 10% of the total dollar value of expenditures for the period. We also randomly selected additional expenditures to obtain representative samples. We believe the sample size and selection methods provided sufficient evidence for our evaluation.

TWT Expenditures Funded by the County Audit Period January 1, 2020 through August 31, 2023			Samples	
Categories	Number	Amount	Number	Amount
Miscellaneous	26	\$ 4,827.47	5	\$ 3,336.97
Professional/Cleaning Services	83	556,304.37	10	188,220.22
Repairs & Maintenance	175	474,775.33	9	283,640.13
Self-funded Insurance	82	4,648.64	5	219.83
Supplies	169	122,549.95	9	16,991.10
Utilities	92	170,336.03	9	75,025.76
Totals	627	\$ 1,333,441.79	47	\$ 567,434.01

Data Source: SAP (Unaudited for Financial Reporting Purposes)