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December 7, 2012

Dr. Cheryl Atkinson
Superintendent
DeKalb County School District
1701 Mountain Industrial Boulevard
Stone Mountain, GA 30083

Dear Dr. Atkinson:

We have completed our forensic accounting and investigative services for DeKalb County School District (DCSD or District) as outlined in the May 15, 2012 Engagement Agreement. This report to you represents our final report with respect to our services.

The data included in this report was obtained from DCSD on or before December 7, 2012. We have no obligation to update our report or to revise the information contained therein to reflect events and transactions occurring subsequent to December 7, 2012.

This report is solely for your information and is not to be referred to in communications with or distributed for any other purpose to anyone who is not a member of District management or the DeKalb County Board of Education.

Please contact me at 404-222-3327 or Sarah Jacobs at 404-222-7209 if you have any questions or comments. We look forward to working with you in the future.

Sincerely,

KPMG LLP

Phillip Ostwalt
Partner

PDO:sj:cb

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Superintendent
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1701 Mountain Industrial Boulevard
Stone Mountain, GA 30083

Dear Dr. Atkinson:

This report contains the results of our forensic accounting and investigative services for DeKalb County School District (DCSD or District) as outlined in the May 15, 2012 Engagement Agreement.

At your direction, KPMG LLP (KPMG) performed an analysis of:

- the movement of cash between specific funds,
- the purchase order approval process,
- certain Title I and II activity,
- certain SPLOST III activity,
- certain activity within the "Term Fee" account at Fidelity,
- certain aspects of the DeKalb County Board of Education (Board) approved FY11 budget reductions, specifically those within the Central Office, and
- disbursements from the $23,460,000 line of credit to purchase textbooks.

In order to develop our understanding, KPMG obtained and read the District's audit reports issued by the State. For each of the areas we developed our understanding through interviews, read the applicable policies and procedures, analyzed financial data, and reviewed a sample of transactions.

This report contains a section for each analysis we performed. Within each section we provide an overview, specific procedures performed, and observations.

Some of our key observations are noted below:

1. Our analysis of the cash accounts and the manner in which cash was disbursed and transferred between accounts was inconsistent with the process certain employees indicated. In addition, we were not able to identify support for certain transactions subject to our sample.

2. Our analysis noted the 2008 SchoolNet payment of $1,600,000 was initially paid for from the General Fund; however, an adjustment was made on June 30, 2010 to charge the expense to SPLOST III. The District has not been able to provide KPMG with supporting documentation as to the reason SPLOST III was charged.

3. The current purchasing policy does not sufficiently address the procurement of certain types of costs. We noted a policy related to the issuance and approval of a purchase order for all expenditures in excess of $50,000. However, for certain areas of costs (i.e., professional services) that policy was not followed.

4. Our analysis identified control weakness around the District's accounting system (TERMS). In one instance, an erroneous account number was entered into TERMS and the system automatically accepted the erroneous code and allowed the entry to be made. In another instance, our analysis identified a travel expense recorded to a charge code for which there was no budget.

5. The District does not use the State approved codes to account for federal funds (i.e., Title I and II).

6. Our analysis identified instances in which the detail on the Title I and II Completion Reports, submitted to the State, does not match the actual expense detail in TERMS. Although the total amount of expense agrees, there are function/object codes that do not reconcile. This could result in inaccurate, and potentially inappropriate, expenditure reporting.

7. We noted SPLOST III financial reporting discrepancies between TERMS and IMPACT (the Parsons/Jacobs proprietary project management system). In addition, we noted redundant data entry and additional reconciliation processes because two disparate systems are used.

8. Our analysis found the SPLOST III budget does not reflect Georgia State Financing & Investment Commission (DOE reimbursements) revenue but does reflect the expenses for projects funded with this revenue. The revenue is recorded in Fund 410 and the expenses are recorded in Fund 421.

9. There are currently three retirement accounts maintained for District employees. In 1979, the Board elected to replace Social Security with the Board TSA plan. While certain contributions continue in the current period, some portions of this funding were eliminated in 2009. KPMG was informed there is some active litigation related to the Districts retirement program.

10. The Board approved a budget reduction on May 10, 2010, whereby the District was to eliminate 150 Central Office positions. Our analysis revealed 122 termed employees (as of June 30, 2010) and 33 previously vacated positions. Of the 122 termed employees, 56 were either immediately reassigned or rehired during FY11.

11. The District applied an “average salary” to determine the FY11 Central Office budget, rather than the actual salaries known at the time. This contributed to a budget to actual difference of $29,213,734.

12. Our analysis identified that funds from the $24,460,000 line of credit were used for textbooks purchased in prior periods.

13. KPMG was not able to locate Board minutes which document the Board’s approval of engaging Merchant Capital (related to the textbook line of credit) or the fee paid to Merchant Capital.

Additional items are noted within each section of the report.

Limitations

Our engagement was performed under the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The sufficiency of the procedures conducted by KPMG in connection with this engagement is solely the responsibility of DeKalb County School District. Consequently, we make no representations regarding the sufficiency of these procedures, either for the purpose for which we were engaged, or for any other purpose.

The findings set forth herein were prepared by us on the basis that we were provided all relevant information from DeKalb County School District concerning the above referenced matters. The information included herein was obtained primarily from DeKalb County School District prior to December 7, 2012. We have no obligation to update our report or to revise the information contained herein to reflect events or transactions occurring subsequent to December 7, 2012.

Because of its special nature, this report is not suited for any purpose other than to assist you in better understanding historical practices of the DeKalb County School District, specific to items referenced above, and is not to be referred to in communications with or distributed for any other purpose to anyone who is not a member of District management or the DeKalb County Board of Education.

Movement of Cash

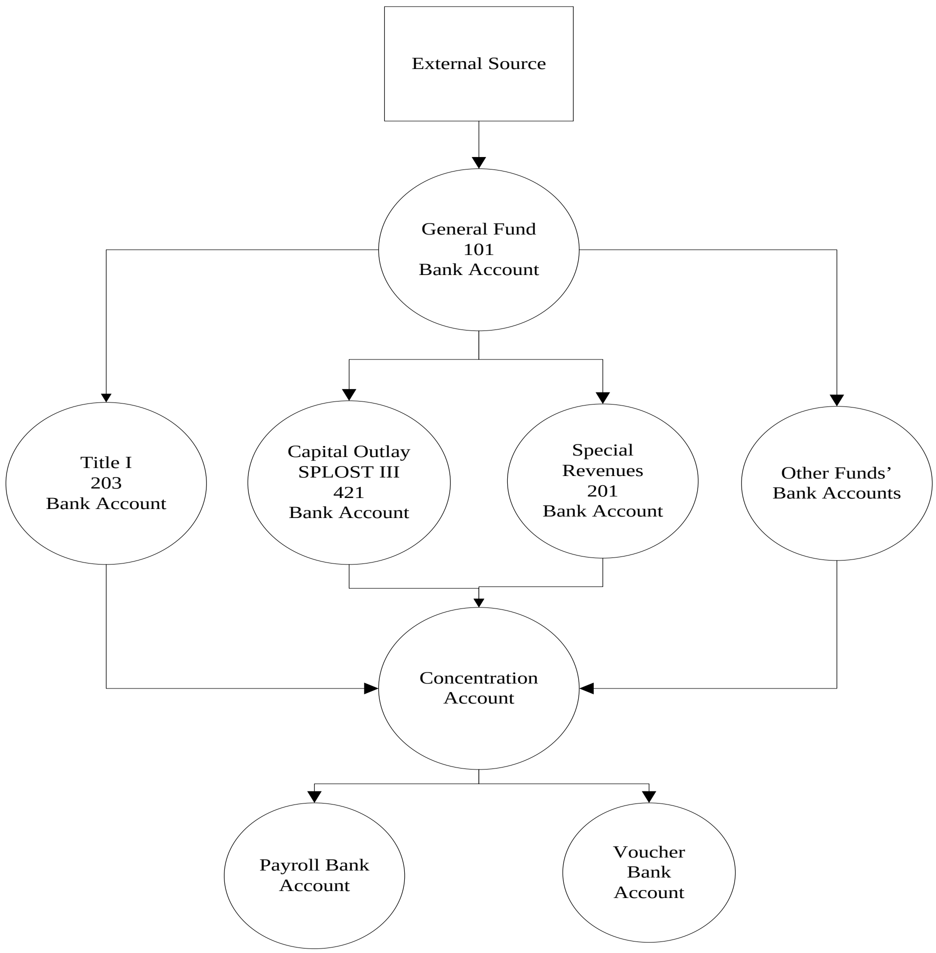
KPMG was asked to gain an understanding of the movement of cash within select DeKalb County School District bank accounts. In order to develop this understanding, KPMG conducted interviews with individuals from the Finance Department and analyzed various bank statements[1]. Through these interviews KPMG learned how funds are intended to be deposited, transferred between accounts, and disbursed. However, based upon our analysis, KPMG determined that the actual flow of money differed from the process described in the interviews. It should be noted that individuals interviewed were only familiar with certain aspects of the movement of cash.

Background

During the interviews, KPMG learned how funds are intended to be deposited, transferred between accounts, and disbursed. All funds are to be received into the General Fund bank account. From the General Fund bank account the money is transferred to the appropriate fund[2] bank account. The money remains in the fund bank account[3] until it is ready to be disbursed, at which time the cash is manually transferred to the District's Concentration bank account. The Concentration bank account acts as a conduit account between the various fund accounts and the Voucher bank account or the Payroll bank account. The transfer of money from the Concentration bank account to the Payroll and Voucher bank accounts is automated. The Voucher bank account is used to pay vendors and the Payroll bank account is used to pay employee salaries.

[1] See Appendix 1 of a list of all bank statements analyzed.
[2] KPMG was informed that each fund has a corresponding bank account. For example SPLOST III, Title I, and Title II
[3] The receipt of funds is recorded in the fund's general ledger when they are transferred from the General Fund bank account to the fund's bank account.

Diagram of KPMG's understanding of how cash is intended to move between the various accounts:



Analysis

After gaining an understanding of the process, KPMG analyzed bank statements for certain accounts from July 2010 through June 2011 (FY11). KPMG analyzed transfers into and out of the following bank accounts:

- General Fund,
- Concentration Account,
- Capital Outlay SPLOST III,
- Title I, and
- Special Revenues (Title II).

KPMG selected a sample of the transfers and obtained supporting documentation.

General Fund

KPMG noted the following transfers into and out of the General Fund bank account during FY11:

Bank Account	Transfers In	Transfers Out
BOA 201 – Special Revenues	$1,183,992.19	$53,047,664.13
BOA 203 – Title I	$1,385,706.48	$49,287,326.74
BOA 410	$ 0.00	$87, 278.80
BOA 421- Capital Outlay SPLOST III	$8,831,714.73	$26.00
BOA 607	$0.00	$ 1,156.00
BOA 621	$0.00	$113,885.12
BOA 622- Food Services	$ 3,739,347.57	$37,040,912.79
BOA 627 – Warehouse Service	$ 37,216.79	$0.00
BOA 702- Employee Alternative Benefits	$238,749.83	$7,664,486.47
BOA 726	$0.00	$300,000.00
BOA Market Investment	$283,182,470.80	$315,361,125.00
BOA Voucher Acct.	$ 3,717.61	$0.00
Concentration Account	$ 5,327.59	$572,087,054.40
Total	**$298,608,243.59**	**$1,034,990,915.45**

KPMG was informed in an interview that occasionally transfers from other accounts occur when the General Fund bank account is used to cover the cost of an expense for the other funds. For example, a teacher may take a continuing education class that should be funded with Title I funds. The District seeks reimbursement in arrears; therefore, the money to cover the expense comes from the General Fund bank account. When the District is reimbursed from the State, the money will follow the standard transfer process: deposited into the General Fund account and transferred to the Title I account. However, once the money is transferred to the Title I account it is transferred to the General Fund account as reimbursement for covering the original expense. This may explain the transfers into the General Fund bank account from the other fund accounts.

Concentration Account

KPMG affirmed that the Concentration account acts as a conduit account; $1,099,751,118.13 was transferred into the bank account and $1,099,224,947.95 was transferred out of the account[4]. The majority of transfers from the Concentration account were to either the Payroll or Voucher bank accounts.

KPMG noted the following transfers into and out of the Concentration bank account:

Bank Account	Transfers In	Transfers Out
BOA 101 – General Fund	$571,551,893.68	$5,327.59
BOA 201- Special Revenues	$58,910,855.63	$0.00
BOA 203 – Title I	$47,870,464.49	$1,312.19
BOA 421 – Capital Outlay SPLOST III	$110,420,465.83	$389,854.03
Voucher Account	$0.00	$435,235,784.95
Payroll Account	$5,319.89	$432,753,874.41
Market Investment Account	$231,316,443.94	$230,750,000.00
Other Accounts	$79,675,674.67	$88,804.78
Total	**1,099,751,118.13**	**$1,099,224,957.95**

Capital Outlay SPLOST III[5]

Bank Account	Transfers In	Transfers Out
BOA Capital Outlay Contingency	$6,780.00	$9,040.00
BOA Concentration Account	$389,854.03	N/A
BOA Special Revenues	$5,400	$4,448.96
BOA General Fund	N/A	$8,831,714.73

[4] It should be noted that there is a difference of approximately $500,000 between the amount transferred into the account and the amount transferred out of the account during FY11.
[5] KPMG only analyzed transfers between specific funds, not between the fund and the General Fund or the Concentration account.

The District asked KPMG to identify information associated with eight cash transfers (totaling $8,831,714.73) from SPLOST III to the General Fund in FY11.

Date	Transfer Amount	Comments
7/30/2010	$1,600,000.00	The $1,600,000 annual payment to SchoolNet, Inc.[6] was initially paid out of the General Fund in August 2008 (FY09). On June 30, 2010 (FY10), the original entry was reversed ("per L. Hammel") and the SPLOST III fund balance was charged. The cash did not actually transfer between the SPLOST III and General Fund bank accounts until July 30, 2010 (FY11).
11/23/2010	$1,074,991.25	The amount is comprised of a principal payment of $670,000 and an interest payment of $404,991 related to Series 2007 COP. The original payment was wired from the General Fund and SPLOST III reimbursed the General Fund.
11/30/2010	$2,117,190.62	The amount is comprised of a principal payment of $1,385,000 and an interest payment of $732,191 related to Series 2005 COP. The original payment was wired from the General Fund and SPLOST III reimbursed the General Fund.
5/23/2011	$413,177.39	The amount is comprised of an interest payment of $393,266 related to Series 2007 COP and the transfer of a $19,911.14 Covendis Technology expense from the General Fund to SPLOST III[7].

[6] SchoolNet, Inc. is an educational software company that develops, distributes, and licenses the use of educational software and provides hosting, training, and other services for K-12 education. DCSD and SchoolNet, Inc. entered into a software license and service agreement on December 29, 2007. Schedule C to the Agreement contained a payment schedule totaling $7,249,735. A payment of $1,600,000 was due on July 1, 2008.

[7] A handwritten comment on the Covendis Technology invoice notes the $97,059.20 payment was to be broken out between the General Fund ($21,960), Title I ($8,436) and SPLOST III ($66,663.20). The payment was initially applied as follows: General Fund ($19,911.14), Title I ($4,448.96) and SPLOST III ($72,699.10).

5/31/2011	$2,918,402.34	The amount is comprised of a $2,868,402.34 payment related to the Chamblee High School Project and $50,000 in earnest money to First American Title Insurance for Chamblee High School. The original payment was wired from the General Fund and SPLOST III reimbursed the General Fund.
6/14/2011	$707,953.13	The amount is for an interest payment of $707,953 related to Series 2005 COP. The original payment was wired from the General Fund and SPLOST III reimbursed the General Fund.
Total	**$8,831,714.73**	

Title I[8]

Bank Account	Transfers In	Transfers Out
BOA Special Revenues	$1,485,705.08	$1,258,350.71
BOA Food Services	N/A	$64.90
BOA General Fund	N/A	$1,385,706.48

Special Revenues (Title II) [9]

Bank Account	Transfer In	Transfer Out
BOA Capital Outlay SPLOST III	$4,448.96	$5,400.00
BOA Title I	$1,258,350.71	$1,485,705.08
BOA Food Services	N/A	$71,895.83
BOA General Fund	N/A	$1,183,992.19
BOA Concentration Account	N/A	$131,489.18

Subsequently, there was a "reclass" entry which moved the amounts initially charged to the General Fund and Title I to SPLOST III.

[8] KPMG only analyzed transfers between specific funds, not the between the fund and the General Fund or the Concentration account.

[9] Ibid

Observations

1. Our analysis of the cash accounts and the manner in which cash was disbursed and transferred between accounts was inconsistent with the process certain employees indicated.

2. There are instances of cash being transferred between SPLOST III, Title I, and Title II bank accounts. Support could not be located for all sampled transactions.

KPMG selected 16 FY11 transfers to analyze in detail. There were two transfers (presented below) for which KPMG was not provided any supporting detail or the support provided did not explain the nature of the transfer (e.g., a copy of the TERMS Journal Entry form was the only document provided).

Account (Originating)	Transfer Amount	Date	Account (Destination)
Title I	($1,176,986.86)	10/29/10	Title II
SPLOST III	$389,854.03	9/8/10	Concentration Acct

The remaining transactions included transfers related to indirect cost payments, charter school expenses, and payroll allocations.

3. KPMG noted there are several District bank accounts related to each fund. These bank accounts are located at more than one bank. The District identified Bank of America as its primary bank. Therefore, KPMG used Bank of America bank statements for its analysis of the movement of cash. The District's other bank accounts have been identified at Wachovia, US Bank, SunTrust, Deutsche Bank, BB&T, Bank of North Georgia, and State of Georgia Office of Treasurer during FY11. In interviews, KPMG was told that the Wachovia bank accounts were closed sometime during 2010. However, during our bank statement analysis, KPMG observed transactions within Wachovia bank statements between two different Wachovia bank accounts (the Concentration account and the Voucher account). Although the transactions in these accounts were limited, it is important to note that transactions were occurring subsequent to when KPMG was told the accounts were "closed".

4. Our analysis noted the 2008 SchoolNet payment of $1,600,000 was initially paid from the General Fund; however, an adjustment was made on June 30, 2010 to charge the expense to SPLOST III. The District was not able to provide KPMG with supporting documentation as to the reason SPLOST III was charged.

Purchase Order Analysis

KPMG was asked to assess whether DCSD's purchasing policies, specifically those related to the purchase order approval process, were appropriately followed in FY10 and FY11.

Background

The DCSD policy[10] requires both capital and non-capital purchases and contracts equal to or greater than $50,000 be approved by the DeKalb County Board of Education. This amount was increased to $100,000 in February 2012.

Procedures

KPMG requested a listing of all purchase orders created in FY10 and FY11, as well as a listing of all requisitions and invoices for the same time period. KPMG created a database of all the purchase orders, invoices, and requisitions. For purposes of the analysis we removed blanket purchases and purchase orders below $50,000. KPMG analyzed the data to identify records with an invoice date prior to the purchase order date. This population of records indicates an invoice for goods and/or services was received prior to the related purchase order being submitted or approved. KPMG was told that for certain categories of invoices (e.g. legal fees, lease payments) it was standard to create the purchase order after the invoice was received. Additionally KPMG was told that for services which require a contract (e.g., SPLOST III capital improvement) it was customary to create a purchase order after the invoice is received. KPMG worked with the District to identify the vendors who are subject to the above exceptions and remove them from the population of purchase orders created after the invoice date. From the remaining population of purchase orders, KPMG selected a sample of 15 records to test whether or not appropriate approvals were obtained prior to issuance of the purchase order.

Observations

1. KPMG identified 676 records in which the invoice amount was equal to or greater than $50,000 and the invoice date preceded the purchase order date. The 676 records have a total value of $208,186,993.41.

2. KPMG was told that for certain categories of invoices (e.g. legal fees, lease payments) it is standard to create the purchase order after receipt of the invoice; however, KPMG did not find

[10] Applicable for FY10 and FY11

this exception noted in the purchasing policies we reviewed. No supporting documentation was provided for the below sample.

Vendor	Invoice Amount
Alexander & Associates	$85,416.25
Intalage Inc	$539,908.24
Global Teacher Research Inc	$317,799.30
Administrative Assistants	$850,000.00
Banc of America Instit & Publi	$124,935.35

3. Five purchase orders from the sample were associated with SPLOST III activity. KPMG was told that purchase orders for SPLOST activities do not require Board approval when the purchase order relates to a contract already approved by the Board. KPMG was able to find Board approval for four of the five contracts. KPMG received supporting documentation for the following:

Vendor	Invoice Amount	Comments
Samples Construction S.E. LLC	$68,010.00	A contract was executed on May 26, 2009; however, Board minutes documenting the approval of the contract could not be located.
Parsons Commercial Technology	$501,570.56	The contract was approved at the June 8, 2010 Board meeting. The approval was for Parsons Corporation but the signed contract is with Parsons Commercial Technology Group, Inc.[11]
Doster Construction Co. Inc	$299,447.00	The contract was approved at the February 8, 2010 Board meeting.

[11] KPMG did not confirm if Parsons Commercial Technology Group, Inc is a subsidiary or related party to Parsons Corporation.

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Evergreen Corporation	$1,311,476.00	The contract was approved at the May 4, 2009 Board meeting.
Manley Spangler Smith	$172,223.00	The initial contract was approved at the November 10, 2008 Board meeting and addendums were approved thereafter.

4. The 5 remaining purchase orders were from vendors other than SPLOST III or professional service vendors. KPMG compared the invoice date to the date the purchase was approved by the Board. There is documentation of Board approval (prior to the invoice date) for four of the five purchases.

Vendor	PO Date	Invoice Date	PO Amount	Comments
Textbook Warehouse Inc	9/4/2009	9/2/2009	$62,705.20	The District did not provide, nor was KPMG able to locate Board minutes approving a purchase from Textbook Warehouse in 2009.
Discovery Education	11/18/2009	10/22/2009	$388,538.00	Board approved purchase prior to the invoice date – at the October 12, 2009 Business Meeting of the Board, the Board approved the purchase of a two year license agreement with Discovery Education in the amount of $388,538.00.
SchoolNet	7/28/2010	5/11/2010	$1,058,383.00	At the June 7, 2010 Board meeting, the Board approved the annual payment of $1,058,383.00. Although the Board's approval was obtained after the invoice date, the contract was approved in 2007.

SchoolNet	7/21/2010	5/24/2010	$179,975.00	Board approved purchase prior to the invoice date – at the May 10, 2010 Business meeting of the Board, the Board approved the purchase of a formative assessment test item bank from Education Testing Services at a cost of $449,937.00 (over three years)[12].
NAPA Auto Parts	1/26/2011	1/6/2011	$87,040.83	At the June 8, 2009 Board meeting, the Board approved the award of RFP 10-15 to NAPA. The RFP was to provide "complete parts operations with the confines of the Maintenance Facility."

[12] The May 10, 2010 Business Meeting agenda notes that Educational Testing Services' assessments will be available through SchoolNet. The $449,937 was paid over three years in the amounts of $179,975 (2010); $179,975 (2011); and $89,987 (2012).

Title I and II

KPMG was asked to gain an understanding of policies and procedures related to funding for the Federal programs Title I, "Improving the Academic Achievement of the Disadvantaged," and Title II, "Improving Teacher Quality of the Higher Education Opportunity Act of 2008." KPMG compared budgeted revenues and expenses to actual revenue and expenses for FY10 and FY11 and reconciled revenue and expenses to the Consolidated Applications (The Budget), Completion Reports, and Drawdown Reports. The District asked KPMG to specifically analyze travel expenses charged to Title I and II.

Background

Title I, "Improving the Academic Achievement of the Disadvantaged," funds are to be used to enable schools to provide opportunities for at-risk and disadvantaged children to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children . The law provides flexibility and opportunity for local educational agencies and schools to meet the purposes of Title I.

Under Title II, "Improving Teacher Quality of the Higher Education Opportunity Act of 2008", local educational agencies are responsible for reforming teacher licensure and certification, alternative certification, teacher testing for subject matter knowledge, and assisting teachers in becoming "highly qualified." There are multiple programs within Title I and II funds. The programs distinguish various academic related areas on which federal funds can be expended.

At the beginning of each 15 month grant period, DeKalb County School District submits a Consolidated Application for the each program under both Title I and Title II to Georgia's Department of Education (State). The Consolidated Application includes a budget describing how DCSD anticipated expending Title I and II funds. The budget is submitted based on the State's function and object codes. Functions are four digit codes representing the highest level of expense classification (e.g., instruction, pupil services), and objects are three digit codes representing a detailed breakdown of the function (e.g., teachers, substitutes, extended day teachers). Once the State approves the Consolidated Application, it is given to the Finance Department who enters the Consolidated Application into the accounting system.

The Georgia Department of Education uses the state of Georgia's published Chart of Accounts for purposes of identifying function and object codes. DCSD uses the State function and object codes when submitting the Consolidated Application, but uses DCSD specific codes when recording entries into the accounting system.

During the course of the grant period, DCSD will expend Title I and II funds. DCSD will record the expenses within their accounting system (TERMS) to a Title I or Title II fund and further, to the appropriate program code. The expenses are recorded using DCSD's function and object codes. At regular intervals, usually, but not always, monthly, DCSD will prepare and submit a Drawdown Report to the State. It should be noted that DCSD does not receive Title I and II funds in advance; rather, they are reimbursed after submitting the Drawdown Report. The Drawdown Report contains a summary of expenses to date; however, no supporting documentation is required nor supplied upon final submission to the State. DCSD receives reimbursement from the State and records the revenue in specific Title I and Title II bank accounts.

At the conclusion of the program grant period (within 30 days of grant closing date), DCSD submits a Completion Report to the State. The Completion Reports details, based on the State's function and object codes, the amount budgeted and actually expended by program code for each Title fund. According to a DCSD finance employee, the Completion Report is compiled by pulling the expenditures directly from the TERMS at the end of the 15 month grant period.

Analysis

KPMG received an electronic file of all journal entries recorded in TERMS for FY10 and FY11. We isolated the Title I and Title II journal entries by fiscal year and fund. In order to compare the actual journal entries to the Consolidated Application and the Completion Report, KPMG had to use a crosswalk file. The crosswalk file matches the State function and object code to DCSC's function and object codes. KPMG matched DCSD's function and object codes to the appropriate State function and State object codes for each journal entry using the crosswalk file provided.

KPMG aggregated the journal entries by total revenue and expenses for each program to determine where to focus our analysis. The program with the highest percentage of activity (revenue and expense) were Title 1, Program 1750 (Regular, Title I) and Title II, Program 1784 (Title II-A, Improving Teacher Quality).

KPMG compared total budgeted amounts (from the Consolidated Applications), the crosswalked journal entries from TERMS (actual expenses), and the amounts from the Completion Reports. KPMG determined the total expenses recorded in TERMS agreed to the total amount reported on the Completion Reports.

KPMG identified the revenue journal entries by fund and program, and reconciled the amounts to the total dollar amounts received from the State through the Drawdown Report.

From the journal entry detail, KPMG identified travel expenses for Title I programs by sorting the journal entries first by Fund (to identify Title I transactions) and then by State object code 580 and description "Batch Cash Disbursements" (to identify travel expenses). A sample of 17 journal entries (10 in FY10 and 7 in FY11) was judgmentally selected and KPMG reviewed the supporting documentation.

Observations

1. The District does not use the State approved codes to account for federal funds (i.e., Title I and II), which then requires a manual reconciliation process to be performed.

2. We did not see evidence that a crosswalk reconciliation is required either in TERMS or outside of TERMS. After applying the crosswalk, KPMG noted the following:

- Not all function/object codes used in TERMS were included in the Consolidated Application.
- Not all function/object codes included in the Consolidated Application were used in TERMS.
- Some function/object codes included in the Completion Report were not included in the Consolidated Application or in TERMS.

3. Entries were made to a program code that no longer exists because the District uses local rather than State codes, which could again cause errors in the accounting process for federal funds.

4. An account was created with a nonexistent program code and entries were made to that invalid account. The entries were later reversed; however, the ability to post entries to a nonexistent or "catch all" program code could allow manipulation or errors within the accounting system.

5. An account number is comprised of the following components: "fund.function.object.subobject.project.location.program". If an erroneous account number is entered in TERMS (i.e., an invalid object code), the system will automatically accept the erroneous code and allow the entry to be made. It is KPMG's understanding that there is no log of account numbers which were automatically approved and contain erroneous components. There were Title I entries made to an account number which contained an invalid program code. The error was caught and later corrected; however, there is a lack of general and system controls to prevent this from happening.

6. Journal entries were made under Title I fund code with Title II program codes. The entries were later caught and reversed; however, the ability to make this mistake could allow misreporting of funds expended and requested for reimbursement under each of the program grants.

7. Completion Reports submitted to the State do not match the actual expenses noted in TERMS based on the function and object codes used. It was reported that the Completion Report is compiled by pulling expenses directly from the accounting system; however, there seems to be some discrepancy between the accounting system and the Completion Reports submitted to the State. Although they reconcile in total, there are function/object codes that appear on one but not on the other. This could result in inaccurate reporting and allows for the potential of inappropriate expenditure reporting.

8. KPMG noted a lack of segregation of duties. One District employee prepares both the cash draw downs and the Completion Report.

9. Our analysis of travel expenses identified the following:

- KPMG identified an email in which a District employee stated a travel expense in the amount of $1,221.25 was submitted for reimbursement to a charge code in which the remaining budget was insufficient to cover the expense. However, that charge code was still used for reimbursement.

- The service fee charged by the travel agency was not consistently included as an expense when seeking reimbursement.

- The District could not provide supporting travel documentation for our FY10 sample. KPMG was told that all FY10 supporting documentation is stored at an offsite location, and District was unable to provide KPMG with the required documentation. Supporting documentation for two journal entries for FY11 could not be located.

SPLOST III

KPMG was asked to gain an understanding of the budget shortfall for SPLOST (Special Purpose Local Option Sales Tax) III as well as the policies and procedures related to SPLOST III funds.

Background

A Special Purpose Local Option Sales Tax (SPLOST) authorizes the collection of a penny sales tax on any purchase taxed in DeKalb County. Monies collected can be used to pay for necessary capital improvements including building improvements, new schools, classroom additions, technology, and transportation needs. In order to be enacted, voters must approve a SPLOST in a special referendum.

On March 20, 2007, the citizens of DeKalb County voted to approve the SPLOST III referendum. In addition to the SPLOST, the voters approved a $300 million financing bond. The initial SPLOST III budget was $466 million with $400 million allocated to Capital Improvement Projects and $66 million allocated for SPLOST II bond debt repayment. The receipt of sales tax began after the conclusion of the SPLOST II program in July 2007 and ended in July 2012.

In 2009, the DeKalb Board of Education approved an adjustment of $47.47 million, thereby raising the budget to $513.47 million. The increase was due to a projected increase in sales tax revenue of $24.47 million, and $23 million in anticipated Georgia Department of Education reimbursements not previously recognized as a revenue stream for SPLOST III projects.

In April 2012, there was a budget adjustment to reduce the budget to $508 million.

The Georgia Department of Revenue deposits the sales tax revenues into DeKalb County School District's (DCSD) US Bank bank account on a monthly basis. The revenue, like the expenses, is coded to fund 421.

Some projects are co-funded by Georgia State Financing & Investment Commission (GSFIC) (aka Department of Education reimbursements).

Following the transition of the former Chief Operations Officer (COO) of DCSD in 2009, the management of the SPLOST program was restructured to include the formation of the DCSD Capital Improvement Team (CIT). The CIT included DCSD employees and was led primarily by Parsons Commercial Technology Group and Jacobs Project Management Co. (hereafter these two firms will be referred to as Parsons/Jacobs). These two outside consulting firms provided program management, project management and administrative functions required to implement the DCSD Capital Improvement Program. Project Managers were mostly contractors and were responsible for the budget and the day-to-day tasks associated with each project. Project Managers can have multiple projects.

Parsons/Jacobs uses their own proprietary software, IMPACT, to track contracts, projects budgets and actuals. The Project Managers are responsible for recording project expenses in IMPACT, identifying the correct project code on the invoice, and sending the invoices to the DCSD Finance Department for recording in TERMS. The consultants do not have access to TERMS.

In March 2012, the Superintendent appointed a new Chief Operations Officer (COO) with expanded responsibilities including capital construction and facility maintenance. Previously, Parson/Jacobs was primarily responsible for the management of the SPLOST III program; however, effective March 2012 the responsibility is under the new COO. Under this new organizational structure, a new DCSD department for Facilities Management and a new section for Design and Construction were created to provide specific oversight of the capital construction program. This new DCSD staff includes, but is not limited to: an Executive Director of Facilities Management, Design and Construction Manager, Owner's Architect, and a Quality Control Specialist. This team provides an internal staff capacity for program oversight and accountability which includes the SPLOST program management firm (a contracted firm) and the associated architects, builders and sub-contractors who are responsible to complete the various projects.

<u>*Analysis*</u>

KPMG gained an understanding of the policies and procedures related to SPLOST III by conducting interviews with DCSD staff and reviewing the policies and procedures manual.

In order to analyze the SPLOST III[13]expenses, KPMG received an electronic file of all journal entries recorded in TERMS for Fund 421 (SPLOST III). The budgeted expenses were compared against the actual expenses to analyze if any project was over budget.

KPMG also analyzed the SPLOST III revenue by tying all sales tax revenue deposited into Fund 421’s US Bank account to revenue recorded in TERMS and to the “Sales Tax Collections” reported in the Capital Improvement Program Progress Report[14]. The revenue was then analyzed by Object type.

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[13] The SPLOST III analysis was from the inception of the program through April 30, 2012.
[14] This report is provided to the DeKalb Board of Education and contains SPLOST III project specific updates. KPMG was provided with the most current Report dated May 31, 2012.

Observations

1. The SPLOST III budget in TERMS does not reflect the $508,840,870 budget approved by the Board in April 2012. District management is aware that due to erroneous entries the approved budget in TERMS (the District's financial accounting system) is overstated. Of the 108 project codes in TERMS, 53 contain a difference between the TERMS budget and the April 2012 budget. In addition, there are three project codes within Fund 421 (SPLOST III) which are not included on the approved list of projects (180421, 186,421, and 345421).

2. We noted SPLOST III financial reporting discrepancies between TERMS[15] and IMPACT (the Parsons/Jacobs proprietary project management system). In addition, we noted redundant data entry and additional reconciliation processes because two disparate systems are used.

- The Capital Improvements Program Progress Report, presented to the Board, is generated from IMPACT; therefore, to ensure the accuracy of the information there should be a reconciliation of the information presented in the report to the information contained in TERMS. It is our understanding that the Quality Assurance Manager recently started performing a monthly reconciliation of the project budgets and actual results between these two systems.

- KPMG identified that SPLOST III revenue recorded in TERMS was $1.3 million higher than the "SPLOST Sales Tax Collections" reported in the Capital Improvements Program Progress Report. The revenue recorded in TERMS agrees to sales tax revenue deposited into the US BANK SPLOST III bank account. It is our understanding that this issue has been addressed by DCSD. A memo was prepared on July 19, 2012 detailing the discrepancy and emphasizing the need for timely reconciliation of the information between TERMS and the information reported in the monthly Capital Improvements Program Progress Report.

- $29.6 million in revenue from Local Government Investment Pool (LGIP) and Interest Income is recorded in TERMS to Fund 421 but is not reflected in the revenue section (as prepared by the Finance Department) of the Capital Improvements Program Progress Reports.

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[15] The District's Finance Department is responsible for recording and updating the accounting information maintained in TERMS.

3. DCSD is moving to an Oracle based program for scheduling and project tracking.

4. The initial SPLOST III budget did not include $60 million of interest payments on the $300 million bond. There was an additional budget shortfall in the amount of $6.10 million for the actual costs (interest and principal) to retire the SPLOST II debt.

5. Our analysis found the SPLOST III budget does not reflect Georgia State Financing & Investment Commission (DOE reimbursements) revenue, but does reflect the expenses for projects funded with this revenue. The revenue is recorded in Fund 410 and the expenses are recorded in Fund 421.

6. Below is a list of project codes in TERMS that had actual expenses but no budget, as well as projects that were over budget.

Project Code	TERMS Budget[16]	Previous Budget[17]	Current Budget[18]	Budget Adjustments (Previous to Current)	Actual Expenditures	Current Budget to Actual Variance
098421	$1,405,379	$0	$3,720,052	$3,720,052	$1,868,299	$1,851,753
180421	$0	$0	$0	$0	$4,859,779	($4,859,779)
186421	$0	$0	$0	$0	$4,923,272	($4,923,272)
207421	$0	$0	$8,658	$8,658	$8,658	$0
220421	$0	$0	$2,380	$2,380	$2,380	$0
345421	$0	$0	$0	$0	$5,688,461	($5,688,461)
000421	($5,190,801,716)	$30,000	$96,265	$66,265	$307,008,404	($306,912,148)
104421	$12,714,528	$11,452,000	$12,714,528	$1,262,528	$12,714,528	$0

7. TERMS will prevent payment of an invoice that exceeds a purchase order requisition; however, we understand there can, and have been, overrides in the system.

[16] Budgets are from the journal entry transactions for Fund 421. Budgets are entered as credits and budget reductions are entered as debits.
[17] $513M approved in 2009
[18] $508M budget approved in April 19, 2012

8. TERMS will not prevent payment of an invoice exceeding a contract amount. While we did not find examples of actual expenses exceeding the contract amounts, we did find examples of contracts exceeding budgets[19].

Name	Project Number	Current Budget	Current Contract	Paid to Date
SPLOST Audit	421-000	$96,265	$2,386,178	$2,386,178
SW DeKalb HS - SPLOST II Deferred, ADA	421-102	$0	$2,692,176	$2,493,318
Hawthorne ES - Roof	421-224	$536,703	$561,593	$558,203
Capital Improvement Team Compensation	421-650	$19,113,278	$20,515,033	$18,421,934

[19] As reflected in the May 31, 2012 Capital Improvement Program Progress Report

Fidelity Investment Accounts

KPMG was asked to gain an understanding of the various retirement plans and other accounts the District has with Fidelity Investments (Fidelity). Additionally, the District asked KPMG to analyze cash disbursements from the "Term Fee" account.

Background

DeKalb County School District and its employees are eligible to participate in three different retirement plans maintained by Fidelity. In addition to the three retirement plans, the District has one other account with Fidelity. The three plans and one account are described below.

Board TSA[20] (403b)

In 1979, the DeKalb Board of Education elected to opt out of contributing to Social Security on behalf of its employees. As an alternative to Social Security, they established the Board TSA plan with Fidelity. The Board authorized the District to make contributions[21] into an account for each eligible employee. Under the plan, employees are not allowed to make personal contributions into their Board TSA account, but are allowed to select the investments in which he or she desired the funds to be placed.

Terminated employees can elect to rollover the funds to another plan, take a cash withdrawal, or elect to leave the money in their Board TSA account. If the funds remain in their TSA account, their account is subject to a $15 annual fee[22]. The fee is deposited into DCSD Term Fee Account, also maintained at Fidelity (described below).

The Board suspended some of the contributions to the TSA account on July 31, 2009. However, according to an accountant with DCSD, the District continues to contribute to the Board TAS for certain PSERS (Public School Employees Retirement System) employees[23] and those on long term disability. KPMG was informed there is some active litigation related to the Districts retirement program.

As of October 22, 2012, there are currently 15,566 Board TSA accounts (both current and former employees) with an aggregate value of approximately $450,663,829, of which 2,269 are still being funded.

[20] Tax Sheltered Annuity (TSA)
[21] The amount of the contribution varied based on the employees date of hire.
[22] Refered to by the District as a "term fee".
[23] Cafeteria workers, bus drivers, and custodians

Optional TSA (403b)

The Optional TSA program allows employees to open an account that is funded through pretax payroll deductions (contributions). The employee is able to choose the investment option in which they would like their contribution invested. There are currently 418 District employees in the Optional TSA.

Deferred Compensation (457b)

The deferred compensation plan is open to all DCSD employees and is completely voluntary. Employees can elect to have part of their compensation deposited into the deferred compensation plan and can direct the investment in their account. This is solely an employee contribution plan which has 4 current participants.

Term Fee Account[24]

The Term Fee account is a District controlled account (as opposed to District contributions made on behalf of an employee) that was established in December 2002. The account was opened with funds ($493,151.25) from a SunTrust[25] account and continues to be funded with a $15 annual fee charged to former employee's Board TSA accounts. Additionally, the account earns dividends. As of July 9, 2012, the account had a balance of $432,076.96.

Analysis

KPMG conducted interviews with two Fidelity employees to gain an understanding of the different retirement plans and accounts the District has with Fidelity, as well as the individual disbursements from the Term Fee Account. KPMG analyzed the Term Fee account statement[26] to understand the activity within the account. KPMG obtained and analyzed documentation in support of the seven disbursements from the Term Fee account.

[24] KPMG held multiple discussions with two Fidelity employees.
[25] Term Fee Account statement and July 11, 2012 email from a Fidelity employee to Michael Perrone (DCSD).
[26] The account statement was from January 1, 2000 through July 9, 2012.

Dr. Cheryl Atkinson
DeKalb County School District
December 7, 2012

Below is the activity in the Term Fee account from inception (December 2, 2002) through July 9, 2012:

Year	Beginning Balance	"Term Fee"	Interest	Dividend	Disbursements	Ending Balance
2002	493,151.25*			474.30		$493,625.55
2003	493,641.83**	8,613.97		4,468.24		$506,724.04
2004	506,724.04			5,425.82		$512,149.86
2005	512,149.86			15,071.84	(20,270.00)	$506,951.70
2006	506,951.70	270,927.62	7,082.21	35,650.69	(26,937.50)	$793,674.72
2007	793,674.72	184,167.86	(1,762.13)	45,362.43		$1,021,442.88
2008	1,021,442.88			28,199.89	(947,060.94)	$102,581.83
2009	102,581.83	89,361.41		833.29		$192,776.53
2010	192,776.53	91,543.00		35.53	(10,000.00)	$274,355.06
2011	274,355.06	90,595.35		32.97		$364,983.38
2012	364,983.38	67,073.87		19.71		$432,076.96
Total		**$802,283.08**	**$5,320.08**	**$135,574.71**	**($1,004,268.44)**	

* Funds from SunTrust account

** Beginning balance of $493,625.55 plus additional funds of $16.28

According to discussions with a Fidelity employee, the $15 annual fee from inactive Board TSA accounts is recorded as either a Term Maintenance Fee or as an Annuity Recording Fee. In 2011 the District asked Fidelity to establish an automatic quarterly withdrawal for the $15 annual fee. Prior to 2011, the District would verbally notify Fidelity to withdraw the fee.

The following table itemizes the distributions from the Term Fee account:

Disbursement Date	Description	Disbursement To	Invoice Date	Amount
11/17/2005	Annuity Recording Fee	Jones Day Law Firm	9/30/2005	$2,770.00
11/30/2005	Annuity Recording Fee	Iron Capital Advisors*	7/15/2005	$8,750.00
11/30/2005	Annuity Recording Fee	Iron Capital Advisors	9/30/2005	$8,750.00
1/17/2006	Annuity Recording Fee	Iron Capital Advisors	1/3/2006	$8,750.00
5/19/2006	Annuity Recording Fee	Jones Day Law Firm	3/31/2006	$687.50
5/19/2006	Annuity Recording Fee	Iron Capital Advisors	3/30/2006	$8,750.00
8/9/2006	Annuity Recording Fee	No Support Provided	Unknown	$8,750.00
12/1/2008	Contribution Offset	Board TSA**	Not Applicable	$947,060.94
4/28/2010	Annuity Recording Fee	DeKalb County School District***		$10,000.00
			Total	**$1,004,268.44**

* At a July 11, 2005 Board meeting, the Board approved engaging Iron Capital Advisors to serve as the investment consultant to DCSD for a $35,000 annual fee[27]. On October 1, 2007, the Board approved an extension of the Iron Capital Advisors' agreement and an increase of the annual fee to $40,000. The $40,000 was to be paid from the Board TSA.

** In December of 2008, the District elected to use funds from the Term Fee account to fund contributions to the Board TSA accounts (as opposed to using funds from the General Fund).

*** According to a District employee, the $10,000 disbursed to DCSD was used to pay Iron Capital Advisor's quarterly fee.

As part of our analysis of the Fidelity Investment Accounts we were asked to explore whether Fidelity was the source of watches that had been provided at an employee appreciation event. At a May 2012 retirement party a token of appreciation was given to each retiring District employee. The watches, charms, and money clips were purchased from the vendor, SMI Awards. The May 16, 2012 invoice notes that 300 DeKalb County logo watches, 200 custom

[27] The fee was paid in quarterly payments of $8,750.

charms, and 100 custom money clips were purchased for $4,998.18[28]. According to a District employee, the practice of providing a token of appreciation to retiring employees has been in effect for three to four years. KPMG located two prior invoices from SMI Awards:

- October 11, 2010 (FY11) - $3,760.00
- May 12, 2011 (FY11) - $3,893.45

The District asked KPMG to determine the source of funds used to purchase these gifts. It was thought that the gifts may have been provided by Fidelity. When asked, a Fidelity employee confirmed that Fidelity does not provide gifts nor do they provide funds to be used to purchase gifts. All three SMI Awards invoices were paid for with funds from account number 702.64.60.00.099702.742.0000:

- Fund 702 - Alternative Plan
- Function 64 – Support Services Central and BU
- Object 60 – Supplies
- Sub Object 00 – 00
- Project 099702 – Agency Accounts
- Location 742 – Department, Staff Services
- Program 0000 - Undistributed

[28] Unit Price: Watch - $11.80; Charm - $4.75; Money Clip - $4.75; Shipping Charge - $33.18

A District employee informed KPMG the above account number is used to pay for food and promotional items for meetings. In FY12 the budget for the account was $20,000 and actual expenses were $12,747.06.

Vendor	Invoice Date	Amount
DeKalb County School System	7/13/2011	$37.50
Sam's Club	10/12/2011	$1,063.55
Chick-Fil-A	4/27/2012	$518.00
Office Depot	5/7/2012	$114.80
Office Depot	5/7/2012	$210.20
Booker Promotions	5/16/2012	$531.67
SMI Awards	5/16/2012	$4,998.18
Booker Promotions	5/23/2012	$2,614.80
Booker Promotions	5/23/2012	$1,656.70
Sam's Club	5/31/2012	$1,119.48
Total		**$12,864.88**[29]

Observations

1. Our analysis identified seven disbursements from the Term Fee account totaling $1,004,268.44. KPMG was provided support for five of the disbursements. Support was not provided for the following disbursements:

- Annuity Recording Fee of $8,750 on August 9, 2006
- Contribution Offset of $947,060.94 on December 1, 2008

2. There is currently a balance of $432,076.96 in the Term Fee account. It is Fidelity's recommendation that the District seek a legal opinion as to the allowable uses of the funds.

3. KPMG noted that the Board's approval of Iron Capital Advisors (in both 2005 and 2007) does not agree with the signed agreements between Iron Capital Advisors and the District.

[29] There is a $117.82 difference between the invoice detail and the actual expenses due to a correcting journal entry in that amount.

The District was able to locate two 2006 signed agreements between Iron Capital Advisors and the District. One of the agreements had a fee schedule reflecting an annual fee of $24,000 and the other agreement did not have a fee schedule. The District also located a fee schedule reflecting a $40,000 annual fee but could not find the associated agreement.

FY11 Budget Reductions

KPMG was asked to analyze certain aspects of the FY11 budget to determine if the DeKalb County Board of Education's FY11 budget reductions were implemented, specifically those related to the Central Office.

Background

The DeKalb County Board of Education held a Business Meeting on May 10, 2010, whereby they approved a series of cuts to the FY11 proposed budget. Included in the budget cuts was the elimination[30] of 150 Central Office[31] positions, totaling $11,500,000[32] in costs.

The Human Resource Department was responsible for notifying the effected employees and assisting them with finding and applying for other vacancies with the District. The Human Resource Department was responsible for notifying Position Control of the eliminated positions/people so Position Control could "red line" the position in the position control file. For the position to be added back to the control file (and subsequently filled), the process required the approval of the Superintendent.

Analysis

KPMG gained an understanding of the budgeting process by speaking with individuals in the District's Finance, Position Control, and Human Resource Departments. KPMG read the minutes to the May 10, 2010 Board's Business Meeting to gain an understanding of the FY11 budget cuts approved by the Board. The minutes did not contain detail of the Central Office positions which were to be eliminated, but instead noted the elimination of 150 positions totaling $11,500,000. The Human Resource department provided KPMG with a file which included the positions eliminated at the direction of the Board. The file contained 155 Central Office[33] individuals which equated to 152 full time positions.

[30] Effective June 30, 2010
[31] KPMG learned that salaries for most "Central Office" employees are in a specific range of account numbers (Fund: 101; Object: 0-19; and Location: 700 or above); however, there are other employees who are considered "Central Office" but are accounted for in non-Central Office account numbers (e.g., school resource officers or Fernbank employees).
[32] It is unclear if the $11,500,000 was to be a reduction in salary or salary and benefits.
[33] The file contained 144 individuals included within the Central Office account numbers and 11 individuals who are included in a non-Central Office account number.

Type Of Elimination	No. Of People	Salary
"Resigned and Not Replaced"*	33	$2,094,022.80
"RIF"**	122	$7,032,495.02
Total	**155**	**$9,126,517.82**

* These positions were vacated during FY10 and were not to be refilled in FY11.

** These individuals were removed from their position as of June 30, 2010.

KPMG performed an analysis to compare the salary budget and actual expense for the Central Office[34] in FY10 and FY11.

	FY10	FY11	Difference
Approved Budget	$96,566,132	$87,542,036	($9,024,096)
Actual Expense	$116,626,026	$116,755,770	$129,744
Difference	$20,059,894	$29,213,734	

Observation

1. KPMG noted the District did not use the actual FY10 salary expense when calculating the FY11 salary budget; instead, they used an average salary by location and position. This process resulted in the FY10 and FY11 actual salary expense for the Central Office to exceed the budget by $20,059,894 and $29,213,734 respectively.

2. KPMG noted there is not a one-for-one relationship between District employees and position numbers[35]; therefore,

- It is difficult for the District to determine how many actual positions (not position numbers) are vacant and eligible for hire.

[34] At the instruction of individuals within the Finance Department, KPMG calculated Central Office salary (budget and actual) where: Fund: 101; Object: 0-19; and Location: 700 or above.
[35] For example, the position "Mechanic, Air Conditioner/Heat" is number 760380 but there are many individuals who occupy that position.

- Position Control is not able to "red line" a position and prevent it from being filled if another individual is assigned to the same number (e.g., if the District eliminates one of the five mechanic positions there is no way to reflect the positions as frozen since four other individuals are assigned to the position).

3. The District used a higher than actual average salary when calculating budget reductions, which resulted in overstating estimated savings. An average Central Office salary (and benefits) of $76,666.67 was used when calculating the anticipated budget reduction of the 150 eliminated positions; however, the average salary (and benefits) for the termed Central Office is between $57,000 and $65,000[36].

4. KPMG noted 122 individuals were termed as of June 30, 2010; of those, 56 were reassigned or rehired during FY11. Twenty-seven of the individuals were reassigned or rehired to a Central Office position (including Fernbank and School Resource Officer) and the remaining 29 were reassigned or rehired to non-Central Office positions.

[36] KPMG was provided two different average salaries for the Central Office; $57,000 and $65,000. The difference is caused by the lack of clarity in which positions are included in the "Central Office".

Textbook Line of Credit

KPMG was asked to gain an understanding of disbursements made from the $23,460,000 Bank of America line of credit.

Background

According to a Merchant Capital representative, Merchant Capital began working with the District in January 2009 to develop a financing structure which would allow the District to "catch up" on its annual textbook purchases that had been deferred due to State budget cuts. During 2009 it was determined that a private placement of the lease purchase obligation was advantageous over a public offering or a letter of credit backed lease; therefore, Merchant Capital served as placement agent instead of the role of managing underwriter.

DCSD (lessee) entered into a Master Equipment Lease/Purchase Agreement (Lease) with Bank of America (lessor) on December 1, 2009. The lessee, the lessor and Deutsche Bank National Trust Company (custodian) entered into an Acquisition Fund and Account Control Agreement as of December 1, 2009, related to the Lease.

The Master Equipment Lease/Purchase Agreement was to cover the acquisition and lease "of certain textbooks for [the District's] students[37]". As a requirement of the Lease, the funds (an amount not to exceed $23,460,000) were to be deposited into an escrow account for the purpose of fully funding the lease and to provide a mechanism for the application of such amounts to the purchase and payment of authorized equipment.

In order to request reimbursement for equipment purchased, DCSD was required to submit a Schedule 1[38], Disbursement Request, with supporting invoice documentation to Deutsche Bank, who would then disburse funds from the escrow account.

The Original Term of the Lease expired on December 31, 2009, but automatically renewed for consecutive one year terms until the District notified Bank of America in writing. It is KPMG's understanding the Lease was terminated in FY12.

There were six disbursements, totaling $10,567,743.03, from the line of credit between December 28, 2009 and March 7, 2012.

[37] Master Equipment Lease/Purchase Agreement date December 1, 2009 (page 1)
[38] Schedule 1 of the Acquisition Fund and Account Control Agreement dated December 1, 2009

Analysis

KPMG requested support for the 6 disbursements. Upon our review we noted that four of the six were for textbooks, and the other two disbursements were related to professional fees.

KPMG received and analyzed invoices for only three of the four disbursements for textbook purchases. The District was not able to provide invoices for the remaining disbursement. KPMG obtained the Purchase Order numbers associated with this disbursement and obtained the invoice information from the Purchase Order file we had previously created[39].

Type of Purchase	Vendor	Date	Amount	Support Provided
Non-Textbook	Merchant Capital	12/28/2009	$164,220.00	Yes
Non-Textbook	King & Spalding	2/19/2010	$71,700.00	Yes
Textbook	Multiple	8/10/2010	$1,276,513.81	No
Textbook	Multiple	12/20/2010	$7,221,328.52	Yes
Textbook	Multiple	10/5/2011	$1,218,102.47	Yes
Textbook	Multiple	3/7/2012	$615,878.23	Yes
		Total	**$10,567,743.03**	

Observations

1. KPMG noted that funds from the $24,460,000 line of credit were used to reimburse the General Fund for textbooks purchased in prior periods.

- Invoices could not be located for the $1,276,513.81 disbursement on August 10, 2010. KPMG determined the disbursement was comprised of 10 purchase orders.

- Nine of the ten purchase orders were dated prior to the date of the line of credit. The earliest purchase order was dated June 11, 2009 (almost six months before the line of credit) and the latest was dated December 8, 2009.

- The ten purchase orders were for thirty-three invoices, with the earliest invoice dated November 6, 2008 (almost a year before the date of the line of the credit) and the latest dated January 6, 2010.

[39] See Purchase Order section of report.

3. KPMG was not able to locate Board minutes which document the Board's approval of engaging Merchant Capital (related to the textbook line of credit) or the fee paid to Merchant Capital.

4. Merchant Capital's fee of $164,200 equates to $6.999 per $1,000 (in relation to $23,460,000). A District employee mentioned the fee seemed excessive (based on available documentation); however, the Placement Agent has asserted that the transaction took approximately one year to structure and place as justification for this "placement fee" being equal to an "underwriting fee" on similar lease purchase offerings.

Should you have any questions or comments, please contact me at 404-222-3327 or Sarah Jacobs at 404-222-7209. We look forward to working with you in the future.

Sincerely,

KPMG LLP

Phillip Ostwalt
Partner

PDO:sj:cb

Appendix 1: Bank Statements Analyzed

Bank	**Correlating Fund**	**Account Number**	**Months Analyzed**
Bank of America	General Fund	xxxxxxxx3501	July 2010 – June 2011
Bank of America	Concentration	xxxxxxxx6523	July 2010 – June 2011
Bank of America	SPLOST III (Fund 421)	xxxxxxxx6424	July 2010 – June 2011
Bank of America	Special Revenues (Fund 201)	xxxxxxxx6341	July 2010 – June 2011
Bank of America	Title I (Fund 203)	xxxxxxxx6358	July 2010 – June 2011
Wachovia	Concentration	xxxxxxxxx0490	July 2010 – June 2011