



CITY OF SAN ANTONIO

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February 10, 2015

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Mayor

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Councilman, District 9

Mike Gallagher
Councilman, District 10

**SUBJECT: Audit Report of Follow-Up Audit of Economic Development Department
Economic Development Incentives**

Mayor and Council Members:

We are pleased to send you the final report of the Follow-Up Audit of Economic Development Department Economic Development Incentives. This audit began in August 2014 and concluded with an exit meeting with department management in January 2015. Management's verbatim response is included in Appendix B of the report. The Economic Development Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

A handwritten signature in red ink, appearing to read "Kevin W. Barthold".

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Follow-Up Audit of Economic Development Department

Economic Development Incentives

Project No. AU14-F03

February 10, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Audit of the Economic Development Department's (EDD) Economic Development Incentive Contracts dated August 6, 2013. The audit objective and conclusion follow:

To determine if the Economic Development Department successfully implemented action plans to address prior audit recommendations relating to Economic Development Incentives?

Yes, EDD has successfully implemented action plans that address all recommendations from the previous audit.

EDD enhanced contract language to allow for adequate verification of compliance and provide clear guidelines for reducing tax abatements. In addition, contract language was updated to align with departmental practices. Finally, EDD updated policy and procedures to include site visits, tax abatement verification, and the use of the department's project management system Salesforce as a contract monitoring tool.

Economic Development Department Management's verbatim response is in Appendix B on page 6.

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Background

In August of 2013, the Office of the City Auditor completed an audit of the Economic Development Department's Incentive Division. The objectives of the audit were as follows:

Are the City and companies receiving economic development incentives from the City in compliance with incentive contracts, and is EDD adequately monitoring incentive contracts?

The Office of the City Auditor issued a report that found monitoring and staff's effectiveness could be enhanced and improved by the development of specific contract language pertaining to staff's ability to verify compliance and the reduction of tax abatements when companies fail to meet a portion of their contractual obligations. It also found that contract language should align with departmental practices and that EDD strengthen its policies and procedures to enhance its monitoring function. Finally, EDD had inadequate documentation of the recipients' compliance with prior years' contract requirements related to investments.

Audit Scope and Methodology

The audit scope was limited to the recommendations made in the original report and corresponding action plans and included monitoring records from October 2013 through December 2014.

To obtain an understanding of the department's processes, we interviewed staff and observed controls. We reviewed the most recent contract issued by the Economic Development Department (EDD) to verify that contract language has been updated to allow for adequate verification of compliance, provide clear guidelines for reducing tax abatements, and are aligned with departmental practices.

We also reviewed policy and procedures to verify that a process outlining site visits and tax abatement verification was implemented and reviewed for performance of site visits during FY 2014. We also verified that EDD had a process in place to confirm FY 2013 taxes abated by Bexar County Appraisal District (BCAD). We selected a judgmental sample of 24 contracts and verified that FY 2013 tax abatements were made for the correct amount and reconciled the abatements to the BCAD website.

Additionally, we verified companies receiving Economic Development Incentives in FY 2014 were monitored using EDD's contract monitoring system Salesforce. We tested 25 contracts to determine if reported jobs and investment figures were accurately reported in Salesforce. The audit office selected 18 of the 25 contracts randomly and the remaining 7 contracts were judgmentally selected based on a combination of contract type, industry and investment amount. We reviewed reported investments for appropriate document support and the accurate reporting of compliance status related to jobs and investments.

We relied on computer-processed data from the department's project management software system Salesforce. Our reliance was based on performing direct tests on the data rather than evaluating the systems' general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this follow-up audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Prior Audit Recommendations and Status

A. Contract Language

The Director of Economic Development should collaborate with the City Attorney's Office to ensure that contracts allow for adequate verification of compliance, provide clear guidelines for reducing tax abatements, and are aligned with departmental practices.

Status: Implemented

Economic Development staff has collaborated with the City Attorney's office to clarify and strengthen contract language. We reviewed the latest contract approved by City Council which included updated contract language in regards to support documentation and verifying contract requirements during site visits. In addition, clauses regarding tax abatement reductions have been clarified and expanded. Finally, EDD has updated contract language and department policy and procedures to provide greater uniformity in compliance determinations.

B. Contract Monitoring

The Director of Economic Development should create additional policies and procedures to ensure recipients are complying with contract terms. These additions should cover site visits, Bexar County Appraisal District (BCAD) records verification, and analytical procedures for evaluating compliance reports.

Status: Implemented

The Economic Development Department created additional standard operating procedures (SOP's) outlining the frequency and procedures to follow when performing site visits and verifying BCAD records to ensure tax abatements were appropriately issued in accordance with company's compliance status. In addition, SOP's have been updated to include the use of the department's project management system Salesforce as a contract monitoring tool.

The audit office confirmed that EDD performed monitoring site visits during FY 2014 and noted that FY 2013 tax abatement percentages were manually tracked and verified. The audit office tested 25 contract records and determined that they were accurately monitored in Salesforce.

C. Prior Years' Contract Compliance

The Director of Economic Development should ensure that all recipients provide sufficient support documentation.

Status: Implemented

The Economic Development Department (EDD) has collaborated with the City Attorney's office to clarify and strengthen contract language regarding requirements to provide appropriate documentation supporting contract compliance. The audit office tested records for 8 companies that reported investment figures in FY 2013 and 2014 and determined that EDD did have sufficient support documentation on file for companies noted as compliant with investment requirements.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Cristina Stavley, Auditor in Charge

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

January 13, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Follow-Up Audit of Economic Development Department Incentives

Economic Development Department has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Economic Development Department:

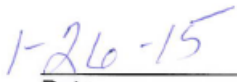
☒ Fully Agrees (provide detailed comments)

☐ Does Not Agree (provide detailed comments)

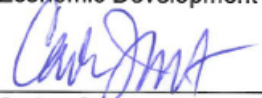
Sincerely,




Rene Dominguez
Director
Economic Development Department



Date



Carlos Contreras
Assistant City Manager
City Manager's Office



Date