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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Economic Development Department

Economic Incentive Monitoring

Project No. AU21-012

September 24, 2021

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

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Economic Development Department (EDD), specifically economic incentive monitoring. The audit objectives, conclusions, and recommendations follow:

**Determine if management is monitoring incentive contracts for compliance and if management is clawing back incentives when incentive terms are not met.**

The Economic Development Department (EDD) has adequate controls in place that are operating effectively to ensure incentive contracts are monitored for compliance and appropriate actions are taken should incentive terms not be met. EDD staff performs a semi-annual review over all incentive agreements by obtaining evidence and support from respective companies and validating key terms. Annually, EDD staff verifies that Bexar County tax records reconcile with agreed to tax abatement amounts. Additionally, proper review and approvals are obtained for grant payments and user access is appropriate in Salesforce, EDD's system for document management and monitoring. Finally, for the companies that were not fully compliant, the City reduced incentives, denied grant payments, or mutually terminated the contracts.

Although the processes are operating effectively, the Monitoring and Compliance Standard Operating Procedures (SOP) do not provide enough detail and are outdated in certain areas.

We recommend that the Director of the Economic Development Department update the Monitoring & Compliance SOP to include detailed tax abatement procedures to ensure the responsibilities, tasks and deliverables are known by the Senior Management Analyst and Department Fiscal Administrator (DFA). Furthermore, the SOP should be updated to reflect the current monitoring processes.

Economic Development Department Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 5.

### **Other Matters**

During the audit, we also determined that although EDD is very thorough in monitoring compliance with incentive contract terms, the process of monitoring incentive contracts is manually intensive. The process is manually intensive due to the type of support received from the various companies and analyzing the support to ensure compliance. Audit recommends EDD investigate the feasibility of using a system to standardize the type and format of support received from the respective companies to make the process more efficient.

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## Background

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The City offers incentives such as loans, grants, and tax abatements to encourage capital investments, the creation and retention of jobs and growth and development of targeted areas of the City. In fiscal year 2020, the Economic Development Department (EDD) was responsible for monitoring approximately 70 EDD incentive contracts.

Chapter 380 of the Texas Local Government Code gives EDD the authority to provide economic loans and grants. Chapter 312 of the Texas Tax Code gives EDD authority to provide tax abatements. The Economic Development Incentive Fund (EDIF) Guidelines have been established to make funds available for financial incentives in the form of economic development grants and/or loans to companies seeking to create or retain jobs, invest in San Antonio, and support initiatives and programs that help achieve the goals outlined in the City's SA Tomorrow Comprehensive Plan and the Forefront SA economic development strategic plan. The main focus of the EDIF is securing high-wage jobs and quality investments in targeted industries. The targeted industries include Aerospace & Advanced Manufacturing, Bioscience/Healthcare, IT & Cybersecurity and Energy. In addition, the City supported Greater: SATX in developing and implementing their strategic plan, including the All in SATX plan which has a goal to add 140,000 jobs and generate a \$55 billion economic impact in the San Antonio metro area by 2025.

Incentives, including grants, loans, and tax abatements, for the EDD contracts total over \$125 million. Recent recipients include companies such as Geekdom, Accenture, Navistar and Caplink.

## Audit Scope and Methodology

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The audit scope included incentive contracts monitored between January 2019 and December 2020.

We interviewed staff to obtain an understanding of the monitoring process. Testing criteria included the EDD Monitoring and Compliance Standard Operating Procedure, respective Incentive Agreements and City Administrative Directives.

We assessed internal controls relevant to the audit objective. As part of our testing procedures, we examined the following areas:

- Communication between the Industry and Monitoring teams of EDD.
- Communication with companies receiving incentives regarding deliverables and compliance.
- Adequacy of support received from the respective companies and accuracy of the compliance status as of 6/30/2020 and 12/31/2020.
- Salesforce user access controls.
- Accuracy of taxes abated in calendar year 2020.
- Approvals of grant payments.
- Compliance resolution process, including recapturing funds and reducing abatements.

We relied on system generated reports in Salesforce to determine the current active incentive agreements and compliance status. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing the support received from the respective companies to the terms per executed incentive contracts. 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 performance 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results and Recommendations

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### A. Update Standard Operating Procedures

The Monitoring & Compliance SOP does not include adequate details on the annual tax abatement review and reconciliation process to ensure the Senior Management Analyst and DFA are aware of the procedures and steps to perform during the annual review. The SOP was last updated in 2019, which provided updates to processes and procedures, however the revisions to the tax abatement reconciliation are high level and need to provide the specific details that were included prior to the update. In addition, the SOP is not updated based on the current bridge visit process due to changes from the COVID-19 pandemic. Outdated procedures increase the risk of the monitoring and compliance process not being performed timely or correctly.

#### Recommendations

The Director of EDD should update the Monitoring & Compliance SOP to include detailed tax abatement procedures with the individuals responsible and update any areas where the processes have changed.

### B. Automate Receipt of Compliance Support

The semi-annual monitoring process is manually intensive due to the individualized terms per each incentive contract and the nature of the support received from the companies to demonstrate compliance with the contract terms. Each company completes a standard Incentive Reporting Form summarizing their results on capital investments, job creation, etc. The companies email the form and the underlining support to EDD. EDD staff manually validates that each contract tenet is achieved by comparing the contract, the summary form, and the underlining support. The manual process increases the time to perform the semi-annual review and increases the risk of potential errors in the review.

#### Recommendations

The Director of EDD should investigate the feasibility of implementing a system to automate the Incentive Reporting Form, where each company logs in to enter their summary data and the system compares the overall results to the contract terms. This would provide EDD with a preliminary compliance status prior to performing the validation on the underlining support. In addition, the system should allow the company to upload their underlining support instead of emailing or mailing hard copies of the support.

## Appendix A – Staff Acknowledgement

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Gabe Treviño, CISA, Audit Manager  
Caitlin Loomis, CPA, Auditor in Charge

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 15, 2021

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

RE: Management's Corrective Action Plan for Audit of Economic Development Department – Economic Incentive Monitoring

The Economic Development Department has reviewed the audit report and has developed the Corrective Action Plan below corresponding to the report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p><b>Update Standard Operating Procedures</b></p> <p>The Director of EDD should update the Monitoring &amp; Compliance SOP to include detailed tax abatement procedures with the individuals responsible and update any areas where the processes have changed.</p>	3	Accept	Justina Tate	12/31/2021
<p><b>Action plan:</b> During discussions about the audit, the Standard Operating Procedures were updated to reflect changes to current process and to include detailed tax abatement procedures, identifying which individuals are responsible for completing tasks.</p>					

Audit of Economic Development Department  
Economic Incentive Monitoring

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
B	<p><b>Automate Receipt of Compliance Support</b></p> <p>The Director of EDD should investigate the feasibility of implementing a system to automate the Incentive Reporting Form, where each company logs in to enter their summary data and the system compares the overall results to the contract terms. This would provide EDD with a preliminary compliance status prior to performing the validation on the underlining support. In addition, the system should allow the company to upload their underlining support instead of emailing or mailing hard copies of the support.</p>	3	Accept	Justina Tate, Assistant Director	12/31/2021
<p><b>Action plan:</b> The Department is currently looking into the feasibility and costs of upgrading Salesforce, the project management system, to make processes within the department more automatic with a focus on updates to better automate the compliance reporting process. The Department is in the process of developing a scope of work and identifying priorities as it relates to updating this system. Ultimately, the scope of the work will be contingent upon available resources to fund an upgrade to Salesforce.</p>					

We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,

  
\_\_\_\_\_  
Brenda Hicks-Sorensen  
Director  
Economic Development Department

09/15/2021  
Date

  
\_\_\_\_\_  
Alejandra Lopez  
Assistant City Manager  
City Manager's Office

9/15/2021  
Date