



**Economic Development – 380 Agreement
Monitoring Program
Follow-Up Audit Report A2020-07**

Issued by the
Internal Audit Office
September 1, 2020

**City of El Paso
Internal Audit Office
Economic Development – 380 Agreement Monitoring Program Follow-Up Audit A2020-07**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a Follow-Up Audit of the Economic Development – 380 Agreement Monitoring Program Audit Report dated June 26, 2018. The original Audit Report contained two findings. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Original Findings	Status
1	380 Agreements that are in default, completed, or withdrawn are not reported to City Council unless an Amendment is made to the Agreement. As of March 8, 2018, the Economic Development Contract Compliance Coordinator identified 29 incentive agreements that are no longer active and have not been included in the “City of El Paso 380, 351 & 312 2018 Active Agreement Portfolio” Report.	Implemented
2	<p>A review of five (5) rebates issued in FY17 & FY18 to companies whose incentive agreement has a job component identified the following deficiencies:</p> <ul style="list-style-type: none"> • The Compliance Review of rebate payment requests is limited to reviewing employee reports and health insurance documents submitted by the rebate recipient to the Economic Development Contract Compliance Coordinator without verification of payroll records or other records. • Two (2) out of 5 rebate request packets (40%) reviewed did not meet one of the following components of their 380 Agreement's "Full-Time Employment" requirement, but still received full payment: <ul style="list-style-type: none"> ○ 78% payment of the required health insurance premium, ○ Employment of the required minimum number of 50 employees. • Economic & International Development does not report the actual number of jobs created/retained and average annual wages in the “<i>City of El Paso 380, 351, & 318 2018 Active Agreement Portfolio</i>” Report. 	Implemented

For a detailed explanation of the current observations, please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The *Generally Accepted Government Auditing Standards* (Standard 8.30) states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements. The *International Standards for the Professional Practice of Internal Auditing* (Performance Standard 2500.A1) require that the chief audit executive establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

AUDIT OBJECTIVES

The audit objective was to ensure that corrective action was taken by management to address the recommendations detailed in the original Audit Report dated June 26, 2018.

AUDIT SCOPE

380 Agreement incentive rebate payments issued in FY19 & FY20 to companies whose incentive agreement included a job component and agreements that were terminated in FY19 & FY20.

AUDIT METHODOLOGY

To achieve our audit objectives, we:

- Conducted interviews with Economic & International Development management and staff,
- Conducted a review of Economic & International Development Department’s applicable Policies and Procedures,
- Conducted a review of the Economic & International Development Department’s 380 Agreement Active Agreement Portfolio Booklet titled “*City of El Paso 380, 312 & 351 2020 Agreement Portfolio*,”
- Conducted a review of Economic & International Development’s 380 Agreement monitoring processes,
- Conducted a review of Economic & International Development’s reporting mechanisms,
- Conducted a review of 380 Agreements in default, terminated, or withdrawn,
- Tested a sample of 380 Agreement Incentive payments issued in FY19 & FY20 to companies whose incentive agreement included a job component.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. 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.

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CURRENT OBSERVATION AND STATUS

Based on the follow-up audit results, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Finding 1

Current Observation

The Economic & International Development Department is reporting to City Council the outcome of 380 Agreements that become inactive:

- The Economic & International Development Department’s Active Agreement Portfolio Booklet titled “*City of El Paso 380, 312 & 351 2020 Agreement Portfolio*” has been updated to include a Completed, Withdrawn & Terminated Agreements Section at the end of the booklet.
- The booklet is provided on an “as needed” or “upon request” basis. It has not been provided to City Council as a whole. There is a preference among Council Members to only receive a listing of projects located within their respective districts. A review of the separate listings provided to individual Council Members identified that the list of projects does include completed agreements.
- On February 17, 2020, City Council was provided a 5-year overview of executed 380 Agreements to include agreement compliance, jobs created and retained, and savings from terminated agreements.

Status

Implemented

Finding 2

Current Observation

A review was conducted of five (5) rebate payments issued in FY19 & FY20 to companies whose incentive agreement included a job component with the following results:

- Five (5) out of five (5) rebate request packets (100%) reviewed met the requirements of their 380 Agreement's "Full-Time Employment" component and were rebated accurate amounts.
 - It was noted that three (3) of the rebate recipients with a job component in their 380 Agreement provided an allowance for vacation leave, but not sick leave. According to the Contract Compliance Coordinator, the companies combine sick leave with their vacation allowance as paid time off.
- Economic & International Development is reporting the actual number of jobs created/retained and average annual wages in the Economic & International Development Department's Active Agreement Portfolio Booklet titled "City of El Paso 380, 312 & 351 2020 Agreement Portfolio."
 - Actual Average Annual Wages are reported in the individual company recap sheets contained in the booklet and the "actual jobs created/retained" are reported for all agreements as a whole on the Main Summary page of the booklet.
- Five (5) out of five (5) rebate packets (100%) reviewed continue to indicate that the rebate packet review process is limited to reviewing what is submitted by the rebate recipient without verifying against source documents or employment payroll records.
 - There is trust that what is reported and/or submitted by 380 Agreement recipients with a job component is accurate. Each recipient has an executed incentive agreement and is required to submit a notarized Grant Submittal Package Form attesting that they met their obligations under their 380 Agreement. Intentionally reporting inaccurate data or submission of fraudulent documentation could result in the termination of a 380 Agreement with the potential to recapture any incentives disbursed.

Status

Implemented

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our work on the objectives of the Economic Development – 380 Agreement Monitoring Program Follow-Up Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude whether Economic & International Development met the objectives of this audit. Based on our audit work, we have determined that:

1. Economic & International Development met the audit objectives in the following areas:
 - Reporting to City Council the outcome of 380 Agreements that become inactive,
 - Reporting the actual number of jobs that are created and/or retained and the actual average wages that are paid by incentive recipients.
2. Economic & International Development met the audit objectives in the following area but should continue to improve its processes to ensure:
 - Verification of payroll records of incentive recipients that have a “*Full-Time Employment*” requirement in their 380 Agreement.

We wish to thank Economic & International Development management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

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