



## Economic Development Programs

## Internal Audit

February 2018

# Bernalillo County Internal Audit Economic Development Programs

## Executive Summary

### SUMMARY OF PROCEDURES

REDW performed internal audit procedures over selected processes in place for issuing and monitoring Economic Development Programs. Our internal audit focused on evaluating selected processes over Industrial Revenue Bonds (IRB) application submission, review, and approval for issuance, as well as monitoring procedures for IRB funds issued to determine overall compliance with the lease agreements and County policies.

We performed the following procedures:

- Tested a sample of IRB projects issued in fiscal year 2017 and 2018, to determine if applications contained all the required information, were appropriately reviewed, and application fees were paid.
- Tested a sample of IRB projects to determine if Payments in Lieu of Taxes (PILT) was calculated and billed accurately.
- Tested a sample of IRB projects to determine if annual reporting requirements were submitted in accordance with the lease agreements.

### SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

During the course of the audit, we identified areas where controls were functioning properly and established procedures were followed. Our testing identified that applications were completed with all required information prior to submission, and the review process appeared to be appropriately assessing the applications prior to issuing IRBs. Additionally, PILT payments were being accurately calculated and billed, and the payments received agree to the amounts billed.

As a result of our testing, the following significant observation was identified:

- 1) **Projects were not monitored:** There were 4 out of 10 instances where annual reports were not submitted in compliance with the terms of the lease agreement, and information was not available to determine if the business purpose of the IRB was being met.

\* \* \* \* \*

Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

We received excellent cooperation and assistance from the Economic Development department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
April 6, 2018

# **Bernalillo County Internal Audit Economic Development Programs**

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# **Bernalillo County Internal Audit Economic Development Programs Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist Bernalillo County in evaluating economic development programs including Industrial Revenue Bond (IRB) issuance and monitoring processes. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on February 12, 2018, and fieldwork began the week of February 12, 2018. An exit conference was held on March 27, 2018.

## **PURPOSE AND OBJECTIVES**

The Economic Development Department is responsible for the oversight of the economic development programs, including IRB's, issuance and monitoring processes. This includes ensuring that all appropriate documentation is completed and reviews are performed during the application process, prior to award of economic development issuance. Once approved and issued, the Economic Development Department must perform monitoring procedures to verify that companies are completing the performance requirements, as defined in the lease agreement. The internal audit focused on evaluating the application process, assessing the Payments In-Lieu of Taxes (PILT) and post-issuance reporting and monitoring procedures.

## **SCOPE AND PROCEDURES PERFORMED**

**In order to gain an understanding of the processes and operations, we interviewed the following personnel:**

- Mayling Armijo, Economic Development Director
- Deanna Archuleta, Interim Economic Development Director
- Pamela Moon, Director of Accounting and Budget
- Marcos Gonzales, Economic Development Manager
- Sulema Lenz, Economic Development Administrative Officer III

**In order to gain an understanding of the processes, we read relevant portions of the:**

- Bernalillo County Economic Development Financing Policy and Procedures (Amended June 27, 2017)
- Economic Development Financing Application
- FY 2017 Comprehensive Annual Financial Report (CAFR) Footnote H – Tax Abatements

**We performed the following test work:**

**Application Process:** Selected three projects from a total of 11 issued during fiscal year 2017 and 2018. For each sample selected, we obtained the application packet, and tested to determine if:

- The application was submitted and contained all required sign-offs as evidence of the review process;
- All required components of the application were completed including project summaries, project finance request descriptions, expected use of proceeds, community benefits, employment information and bond detail; and,
- The required application fees were paid with the submission of the application.

**PILT Payments:** Selected five of 41 projects (excluding intergovernmental) from the Tax Abatement Disclosure–GASB 77 in the FY 2017 CAFR and tested to determine if:

- PILT amounts were accurately calculated and billed; and,
- PILT payment amounts received from the company agreed to the billed amounts.

**Monitoring:** Selected 10 of 41 projects (excluding intergovernmental) from the Tax Abatement Disclosure–GASB 77 in the FY 2017 CAFR and tested to determine if:

- Annual reports were submitted in accordance with the lease agreements; and,
- The annual reports provided information to determine if the performance requirements in the lease agreements were being met.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

During the course of the audit, we identified areas where controls were functioning properly and established procedures were followed. Our testing identified that applications were completed with all required information prior to submission, and the review process appeared to be assessing the applications prior to issuance of IRBs. Additionally, PILT payments were accurately calculated and billed, and the payments received agree to the amounts billed.

As a result of our testing, REDW identified the following observation:

### ***1) Projects were not adequately monitored***

Each project has a lease agreement which specifies the reporting requirements that must be submitted by the recipient companies on an annual basis. The reporting requirements are designed to assist the Economic Development Department in determining if a company is

utilizing the funding in accordance with the lease agreement. For four of 10 projects tested, annual reports were not submitted in accordance with the lease agreement requirements. In addition, four of 10 projects did not have reporting requirements in their lease agreements therefore we were unable to determine if the project was in compliance with the business purpose.

**Potential Risk: High** – If monitoring procedures are not utilized to ensure that companies are utilizing funds in accordance with the lease agreements, there may be a risk that the County is not receiving the level of economic benefits agreed to in the application. In addition, clawback provisions may be applicable and not caught without proper monitoring procedures in place.

**Recommendation:** Since there is a requirement to report monitoring results to the Commission for FY 2018, it is important to ensure lease agreements are monitored sufficiently. Lease agreements should be evaluated on all current projects to determine the requirements committed to for each project. In addition, the requirements of each agreement should be documented to ensure reports are submitted with all required information.

**Management's Response:** The Economic Development Department has begun a comprehensive evaluation of all active Conduit Financing Lease Agreements. In addition, the Department is establishing a concrete time line for annual, semiannual reporting by the companies, as well as evaluations of all clawbacks and payment schedules. This will allow the Department to gain a clear understand of all lease agreement requirements within a master project document and manage those agreements appropriately.

## **PROCESS IMPROVEMENT OPPORTUNITIES**

### ***1) Economic Development Application***

During our testing of applications we found that they were not easily retrievable and components of each application were often saved/stored in various places. In addition, there was minimal documentation of reviews on the application packets. We recommend that a checklist be implemented in order to efficiently track the application process and allow for documentation regarding required reviews. All information related to the application should be kept in a central location and accessible to the others in the department.

**Management's Response:** All applications and office files are gathered in a central location within the department and organized. A comprehensive review of each project file for absent or incomplete documentation from the physical file is underway. Completing the physical file will be accomplished by cross-referencing programs like Minute Traq, conduit-financing file in the Economic Development Share Drive, and gathering information from knowledgeable staff with longevity within the department as well as engaging Bond Council when necessary. In addition, the Department has also updated its project file checklist to ensure that all future project's files encapsulate the proper information.

### ***2) Monitoring***

Our testing indicated several projects had lease agreements that did not require annual reporting by the company, making it difficult to determine if the company was utilizing IRB funds to promote economic development. The Economic Development Department should assess all projects with lease agreements that do not require annual reports, and determine appropriate

procedures to get comfort that the IRB is being used effectively. This may include conducting site visits to determine if the purpose of the contract appears to be met. For all projects executed in the future, the lease agreements should be drafted in a way that is consistent with the policies and procedures to make sure reporting requirements are consistent from project to project.

**Management's Response:** Projects without a reporting criterion will still be monitored for scheduled payments and will arrange for site visits. The Department will work with Bond Counsel to ensure future agreements comply with current policies as applicable.

\* \* \* \* \*

This report is intended for the information and use of Bernalillo County Management, the Audit Committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved minor observations with management and received cooperation and assistance from the Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
April 6, 2018