

MAYOR'S OFFICE OF ECONOMIC DEVELOPMENT



FY2024 Follow-Up Audit
Report

Report# 2024-07

OFFICE OF THE HOUSTON CITY CONTROLLER

CHRIS HOLLINS
CITY CONTROLLER

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CITY AUDITOR



OFFICE OF THE CITY CONTROLLER
CHRIS HOLLINS, CITY CONTROLLER

May 3, 2024

The Honorable John Whitmire, Mayor

SUBJECT: REPORT #2024-07
MAYOR’S OFFICE OF ECONOMIC DEVELOPMENT (ED) – FOLLOW-UP AUDIT
REPORT

Mayor Whitmire:

As part of providing independent and objective assurance services related to efficient and effective performance¹, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.² We have completed follow-up procedures on remediation efforts performed by ED management relating to:

Report Number	Report Title
2018-01	Housing and Community Development Department Mayor’s Office of Economic Development Fund 2409 – Affordable Housing – Performance Audit
2018-08	Mayor’s Office of Economic Development Chapter 380 Program – Performance/Compliance Audit

A total of five open findings were related to these reports.

Our follow-up audit process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

The efforts of management and the procedures performed towards the remediation of the issues from previous audits are assessed under the four criteria below:

- (a) **Not Implemented:** No formal policy and/or no documented effort to address the audit finding.
- (b) **Incomplete/Ongoing:** Ongoing development of a process and/or effort toward a policy to address the audit finding.

¹ GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

² IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that “.... captures the relevant observations, agreed corrective action and current status.”



OFFICE OF THE CITY CONTROLLER
CHRIS HOLLINS, CITY CONTROLLER

- (c) **Substantially Implemented:** Significant effort directed toward remediation of the audit finding.
- (d) **Fully implemented:** Successful implementation of measures to address the audit finding.

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.³ Our conclusions are as follows:

Report #2018-01:

One open finding: Based on our procedures, we conclude that this finding has a status of “**Incomplete/Ongoing**” and will remain open.

Report #2018-08:

Four open findings: Based on our procedures, we conclude that all four of these findings have a status of “**Incomplete/Ongoing**” and will remain open.

Details of remediation activities are contained in Exhibit 1 of the accompanying report.

We would like to thank the Mayor’s Office of Economic Development for their cooperation during the follow-up audit process.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "C. Hollins", is written over a horizontal line.

Christopher G. Hollins
City Controller

xc: City Council Members
Gwendolyn Tillotson-Bell, Chief Development Officer, Mayor’s Office
Chris Newport, Chief of Staff, Mayor’s Office
Courtney Smith, City Auditor, Office of the City Controller

³ See Exhibit 1 for the Detailed Remediation Assessment

TABLE OF CONTENTS

	Page
Transmittal Letter	i
Table of Contents	iii
Report Sections	
Background	1
Audit Scope and Objectives	2
Procedures Performed	2
Follow-Up Approach	2
Conclusions	3
Audit Standards	4
Acknowledgment	4
Exhibits	
Exhibit 1 - Detailed Remediation Assessment - Economic Development	5

Background

As part of providing independent and objective assurance services related to efficient and effective performance¹, compliance, and safeguarding of assets, we perform follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits.²

We have completed our follow-up procedures related to remediation efforts performed by management of the Mayor's Office of Economic Development (ED), as they relate to findings contained in Audit Report #2018-01, "*Housing and Community Development Department Mayor's Office of Economic Development Fund 2409 – Affordable Housing – Performance Audit*" and Report #2018-08, "*Mayor's Office of Economic Development Chapter 380 Program – Performance/Compliance Audit*".

Findings issued under these reports are as follows:

REPORT #	# OF FINDINGS
2018-01	1
2018-08	4

Audit Scope and Objectives

The audit procedures described in this report are based on remediation efforts for the five open findings.

The objectives of our follow-up audit were to determine:

1. The status of each open item; and
2. The adequacy of the department's remediation process to resolve open findings.

Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed, and assessed management's status updates to open findings;
- Determined the findings for which management's status updates indicated remediation;
- Determined and requested documentation necessary to

¹ GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

² IIA Standard 2500 Implementation Guidance stresses the importance of having a process that "captures the relevant observations, agreed corrective action, and current status."

support the finding status reported by management; and

- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

Follow-up Approach

Our follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Our follow-up audit process includes sending requests for status updates on management's progress toward the remediation of open findings. Management provides status updates through an online portal. This information is then assessed by the follow-up auditor who considers (1) responsiveness to the original issue, and (2) remediation of the issue.

AUDIT/TESTING VERIFICATION:

A management status update indicating that a finding has been remediated is then tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates is used as a basis for follow-up testing. If necessary, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed as one of the following four categories:

- **Not Implemented** - No formal policy and/or no documented effort to address the audit finding.
- **Incomplete/Ongoing** - Ongoing development of a process or efforts towards a policy to address the audit finding.
- **Substantially Implemented** - Significant efforts directed towards the implementation of the audit finding.
- **Fully Implemented** - Successful implementation of the finding remediation.

Conclusions

Based on the procedures performed, we believe we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.

CONCLUSION 1 - (AUDIT OBJECTIVE 1)

Based on work performed, the status of each open item is listed below:

- Audit Report #2018-01: The open finding from this audit will remain open.
- Audit Report #2018-08: The four findings issued during this performance audit will remain open.

Please see Exhibits 1 for the Detailed Remediation Assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

Based on audit procedures performed, our conclusions on management efforts to remediate findings are as follows.

Audit Report 2018-01:

- Procedures performed revealed that management has not performed any corrective action towards the remediation of the finding. As a result, the finding remains open and is categorized as ***“Not Implemented”***.

Audit Report 2018-08:

- Procedures performed revealed that management has not performed any corrective action towards the remediation of these four findings. As a result, the findings remain open and are categorized as ***“Not Implemented”***.

Please see Exhibits 1 for the Detailed Remediation Assessment.

Audit Standards

We conducted follow-up audit procedures in accordance with Generally Accepted Government Auditing Standards issued by the Government Accountability Office and the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient and 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.

Acknowledgment

We would like to thank the Mayor's Office of Economic Development for their cooperation during the follow-up audit process.

City of Houston
Office of the City Controller - Audit Division
Project: FY2024 Follow-Up - Economic Development (ED)

Exhibit 1 - Detailed Remediation Assessment, ED FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Status
2018-01	Incorrect Tax Increment Amounts Transferred to Fund 2409 for TIRZs 5 and 21	<p>During fiscal year 2015, Fund 2409 funded by TIRZ 5 was under-funded by \$316,193.27, while in fiscal year 2016, it was overfunded by \$187,248.50 resulting in net underfunding in the amount of \$128,944.77 for the two fiscal years under audit.</p> <p>Similarly, during fiscal year 2015, Fund 2409 funded by TIRZ 21 was underfunded by \$139,218, while in fiscal year 2016; it was underfunded by \$85 resulting in net underfunding in the amount of \$139,303 for the two years under audit. The over/under funding amounts revealed by our audit procedures are shown below:</p> <p>TIRZ 5 Tax Year Fiscal Year Amount as per Approved Operating Budget Amount Received Over/(Under) 2014 2015 \$1,340,532.00 \$1,024,338.73 \$(316,193.27) 2015 2016 \$1,053,058.00 \$1,240,306.50 \$187,248.50 Total \$(128,944.77)</p> <p>TIRZ 21 Tax Year Fiscal Year Amount as per Approved Operating Budget Amount Received Over/(Under) 2014 2015 \$251,482.00 \$112,264.00 \$(139,218.00) 2015 2016 \$100,178.00 \$100,093.00 \$(85.00) Total \$(139,303.00)</p> <p>Management representation in response to our inquiries regarding the reason(s) for the under-funding; indicated that budgets for all TIRZs with affordable housing set-aside have a projected amount for affordable housing based on 1/3 of projected increment. As a result, when actual increment is known, the practice is to distribute 1/3 of actual increment for affordable housing which may be less than the budgeted amount in the contract agreement.</p>	<p>Management's Updated Response (As of January 8, 2024)</p> <p>TIRZ is now being funded in accordance with the provisions of the Affordable Housing agreement. This funding practice will be formally documented in the Mayor's Office of Economic Development's (ED) policies and procedures on or around March 29, 2024.</p>	<p>The follow-up review methodology consisted of reviewing supporting documentation to verify whether ED had fully implemented the audit recommendation, which basically required that the Tax Increment Reinvestment Zones (TIRZ) be funded in accordance with the Affordable Housing agreement.</p> <p>Our review indicated that management had not taken all the necessary steps to prevent underfunding or overfunding the improvement projects in the TIRZ.</p>	Incomplete/Ongoing

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Exhibit 1 - Detailed Remediation Assessment, ED FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Status
2018-08	CHAPTER 380 PROJECT CONDITIONS/COMMITMENTS WERE NOT MET PRIOR TO REIMBURSEMENTS	<p>We judgmentally selected and reviewed five (5) of the ten (10) projects/agreements that were included in our original sample. Various conditions/commitments agreed to by the Companies were required for reimbursement by the City. The following exceptions were noted:</p> <ul style="list-style-type: none"> • Four (4) of the five (5) companies selected did not meet their agreed conditions/commitments either partially or fully prior to receiving reimbursements from the City. In one instance, the company sent documentation to support compliance with their agreed to condition(s), however, further review revealed the documents sent for compliance did not meet the conditions outlined in the agreement. One of those conditions was "Job Creation", which is a crucial component to economic development and the terms agreed upon for reimbursement; The Economic Development Division (EDD) was not adequately monitoring the Chapter 380 agreements to ensure compliance with agreed conditions/commitments for each project prior to paying reimbursements to those companies, as required by the agreements; • We found one Company/Tenant where sworn statements of compliance were submitted as required attesting to compliance of agreed conditions/commitments. However, one Compliance Statement was missing for the calendar year 2012 (i.e., there should have been a Compliance Statement each year since 2011). Also, one of the four Compliance Statements submitted was late. According to the agreement, a Compliance Statement should have been submitted "... On or before January 1 of each year...", but it was submitted February 19th. In addition, another Company that was selected for review, submitted both of their Compliance Statements after the date required per the agreement; and • Although, language in four of the five agreements reviewed, stated that the City may rely solely on the sworn Compliance Statement to determine the Company's compliance with agreed conditions/commitments, one of the five agreements did not have that language. There was no documentation that EDD verified the conditions/commitments agreed to were met for the one Company or that the company was contacted for failure to comply prior to reimbursement, as stated in the agreement. • During our review of agreements for selected projects, we noted one agreement was never executed. However, the Legal Department was made aware of this issue, and it was properly executed with the City Controller's countersignature and date. 	<p>Management's Updated Response (As of January 8, 2024)</p> <p>ED has implemented a monitoring process whereby it verifies before disbursing funds to recipients/grantees that those parties have fulfilled their contractual obligations. This monitoring process is expected to be formalized in ED's policies and procedures on or around March 29, 2024.</p>	<p>The follow-up review methodology consisted of reviewing supporting documentation to verify whether ED had fully implemented the audit recommendation, which essentially required that the developers had (1) fully completed their commitments before receiving reimbursements from the city of Houston, and (2) submitted all the required documentation as stipulated in their agreements with the city of Houston.</p> <p>ED management was unable to show us what monitoring process it had developed and implemented to ensure (1) developers are not paid City funds before they had completed their commitments, and (2) all required (developer-related) documentation is on file, as mandated in the agreement.</p>	Incomplete/Ongoing
2018-08	INADEQUATE DOCUMENTATION FOR CHAPTER 380 PROGRAM PROJECTS	<p>We judgmentally selected a sample of ten (10) of the twenty-seven (27) Chapter 380 Projects/Agreements within the scope period from the effective date of City Ordinance No. 1999-674 through December 31, 2015 for review. In reviewing files of the selected sample for documentation of compliance with the Chapter 380 State statute, City Ordinance, corresponding agreements, and EDD's process procedures, the following were noted:</p> <ul style="list-style-type: none"> • One of the ten (10) projects reviewed did not have documentation in the project files of the initial applicants' application/letter applying for assistance in the Chapter 380 program; • Eight (8) of the ten (10) projects had inadequate (partial) documentation for one or more criteria tested according to the Ordinance and/or the Application Process procedures developed by EDD; • Six (6) of the ten (10) projects did not have documentation that the applicant paid the required application fee or that the EDD Director waived the fee if the entity was a non-profit, as stated in City Ordinance No. 1999-674, Exhibit "A". Three (3) of the ten (10) companies (applicants) reviewed were non-profit entities; • Nine (9) of the ten (10) projects had inadequate (partial) documentation for one or more criteria tested per the Ordinance and/or the Evaluation Process procedures developed by EDD; and • There was no documentation in the files examined as evidence that any of the ten (10) projects included in the sample selection (excluding any construction projects of infrastructure) were being monitored by the EDD throughout the various project stages to ensure compliance with terms of the agreement. Two (2) of the ten (10) projects were completed projects that were monitored and inspected by the Public Works & Engineering Department (PW&E) in order to issue a "Certificate of Final Completion" as required by the City. 	<p>Management's Updated Response (As of January 8, 2024)</p> <p>ED's written policies and procedures relative to the proper administration of the Chapter 380 Program are expected to be completed on or around March 29, 2024.</p>	<p>The follow-up review methodology consisted of reviewing supporting documentation to verify whether ED had fully implemented the audit recommendation, which basically required that management to follow approved procedures to help facilitate transparency in the Chapter 380 Program.</p> <p>During fieldwork, ED management was unable to show us (a) approved departmental procedures, and (2) what practices it had implemented to help facilitate transparency in the Chapter 380 Program.</p>	Incomplete/Ongoing

City of Houston
Office of the City Controller - Audit Division
Project: FY2024 Follow-Up - Economic Development (ED)

Exhibit 1 - Detailed Remediation Assessment, ED FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Status
2018-08	NO FORMAL APPROVED DIVISION PROCEDURES	<p>EDD provided the Audit Team with written procedures that were prepared during the audit for their 380 Process to include Application, Approval, and Reimbursement. The procedures did not show evidence of formal approval or an effective date. A lack of formal approved procedures led to the following:</p> <ul style="list-style-type: none"> • Inconsistencies and in some instances a lack of documentation to determine eligibility; • Lack of documentation on EDD's evaluation of potential Projects; and • Insufficient documentation contained in the project files provided and reviewed. For example, some projects only had handwritten notes as documentation, which at times were illegible. 	<p>Management's Updated Response (As of January 8, 2024)</p> <p>ED's written policies and procedures relative to the proper administration of the Chapter 380 Program are expected to be completed on or around March 29, 2024.</p>	<p>The follow-up review methodology consisted of reviewing supporting documentation to verify whether ED had fully implemented the audit recommendation, which required that management EDD management formally develop/approve departmental procedures from the Chapter 380 Program initiation to its completion.</p> <p>During fieldwork, ED management was unable to show the formalized Chapter 380 Program procedures.</p>	Incomplete/Ongoing
2018-08	CITY OF HOUSTON, ORDINANCE NO. 1999-674 GOVERNING THE CHAPTER 380 PROGRAM IS OUTDATED	<p>In the 18 years since passage of City Ordinance No. 1999-674, there have been procedural changes implemented by various City of Houston Mayors during their administrations, and the language in some sections of the original City Ordinance has become outdated and/or is no longer applicable. Examples include but may not be limited to:</p> <ul style="list-style-type: none"> • Ordinance No. 1999-674 limits assistance package duration to a maximum of 10 years, however two (2) projects have terms beyond 10 years; • The original \$500 application fee, authorized in the Ordinance has not been reviewed or evaluated since its passage; and • The Mayor's Office has administered the Chapter 380 Program since Fiscal Year (FY) 2012, rather than the Planning Division as authorized in the Ordinance. 	<p>Management's Updated Response (As of January 8, 2024)</p> <p>This action plan is expected to be completed on or around January 31, 2024.</p>	<p>The follow-up review methodology consisted of reviewing supporting documentation to verify whether ED had fully implemented the audit recommendation, which required that ED, in conjunction with the Mayor's Office, request that the City's Legal Department review the existing Chapter 380-related ordinance and make any necessary changes.</p> <p>During fieldwork, ED management was unable to show us a copy of the ordinance which was reviewed by the Legal Department.</p>	Incomplete/Ongoing

Audit Team

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City Auditor

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Audit reports are available at:

<http://www.houstontx.gov/controller/audit/auditreports.html>