

**REVIEW OF
TRAVIS COUNTY
PROPERTY TAX
REBATES AND
ABATEMENTS**

SEPTEMBER 19, 2019

Travis County Auditor's Office

TRAVIS COUNTY
AUDITOR'S OFFICE

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From: Patti Smith, CPA
Travis County Auditor

Date: September 19, 2019

Re: Review of Travis County Property Tax Rebates and Abatements

Scheduled as part of our statutory requirements, specifically those in Texas Local Government Code Sections §112.006, §115.001, §115.002, §115.003 and §115.0035, the Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed an examination of the property tax rebates and abatements in place with Travis County during the 2018 tax year. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

We reviewed Economic Development Agreements (EDAs) between Travis County (grantor) and various private companies (grantees). These property tax rebate and abatement agreements allow for the discount, refund, or elimination of an entity's property taxes on eligible parcels in exchange for various desired outcomes. These outcomes include increasing economic diversity, attracting new businesses, stimulating economic growth, and assisting in workforce development.

Property tax rebates require the grantee to pay all assessed property taxes as legislatively due. The Economic Development and Strategic Investments (EDSI) department, a division of the County Planning and Budget Office (PBO), then verifies that the grantee has complied with the EDA. EDSI then rebates (refunds) a contractually governed percentage of the tax payment to the payor.

Conversely, property tax abatements are reductions to the grantee's actual tax bill according to a contractually set discount percentage. EDSI verifies grantee compliance and abatement accuracy and contacts the Travis County Appraisal District (TCAD) should any adjustments to the granted abatement amount be required due to non-compliance.

Rebate and abatement agreements are subject to the Texas Local Government Code, Chapter 381.004, Texas Tax Code, Chapters 312 and 313, and the Travis County Code, Chapter 28. The following table is a summary of rebates and abatements under review:

Rebate and Abatement Amounts for 2006 through 2017						
Company	Type	Term (Payment years)*	Total property taxes assessed 2006 to 2017	Total property taxes paid 2006 to 2017	Total rebates and abatements granted 2006 to 2017	2017 rebates and abatements only
Home Depot	Abatement	2006-2015	\$2,729,175.00	\$985,525.08	\$1,743,649.92	\$0.00
Hewlett Packard	Abatement	2008-2017	\$7,227,384.77	\$3,484,533.49	\$3,742,851.28	\$367,819.86
Samsung	Rebate	2009-2028	\$75,002,020.62	\$15,000,404.13	\$60,001,616.49	\$6,878,264.64
The Domain	Rebate	2008-2027	\$10,155,600.02	\$6,013,928.06	\$4,141,671.96	\$735,028.07
FRV Solar	Rebate	2013-2032	\$1,276,555.40	\$257,711.08	\$1,018,844.32	\$128,956.80
Apple	Rebate	2016-2030	\$2,313,431.60	\$748,434.92	\$1,564,996.68	\$857,726.03
HID	Rebate	2016-2025	\$265,190.48	\$132,595.24	\$132,595.24	\$65,420.23
RRE Solar**	Rebate	2018-2027	\$0.00	\$0.00	\$0.00	\$0.00
Charles Schwab**	Rebate	2018-2027	\$0.00	\$0.00	\$0.00	\$0.00
Totals			\$98,969,357.89	\$26,623,132.00	\$72,346,225.89	\$9,033,215.63

* **Note:** The rebate/abatement grant term is expressed as payment years, and each corresponds to the previous tax year.

****Note:** RRE and Charles Schwab rebate payments are not due until 2019. However, amounts may be granted, depending on compliance with certain provisions, as early as 2015. For this reason, even though no amount has currently been granted, we reviewed EDSI compliance monitoring related to these entities where applicable.

SCOPE OF EXAMINATION

The primary objective of this examination was to review the rebate and abatement compliance process, policies and procedures, and the associated internal controls.

EXAMINATION METHODOLOGY

Our work was based primarily on reviews of the relevant contracts and supporting documentation, as well as detailed data verification and interviews with EDSI and third party personnel. The use of these techniques would not necessarily disclose all material weaknesses or compliance issues for the rebates and abatements being reviewed. In regard to the written and verbal representations made by EDSI personnel, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF SIGNIFICANT FINDINGS

Specific Findings:

The Domain – A portion of properties for which tax rebates were claimed by The Domain were not actually owned by The Domain. Pursuant to Section 28.002(g), current rebate taxes accrued for tax years 2016 and 2017 in the amount \$313,187.64 may not be payable to The Domain.

Charles Schwab – The compliance verification process was insufficient to validate that Charles Schwab met their 2016 investment requirements. EDSI’s investment compliance review process should have included a review of paid invoices; instead, Schwab’s purchase orders were reviewed.

Home Depot – This entity did not employ sufficient full-time employees to receive the full abatement offered under the contract in 2015. Because of their partial compliance, Home Depot’s abatement for that year should have been reduced by \$10,790. Subsequent to the start of our review, EDSI recouped these funds.

Hewlett Packard – EDSI did not verify HP’s compliance with the terms of the EDA for tax years 2014-2017.

CLOSING

This report is intended solely for the information and use of EDSI and the Commissioners’ Court. We greatly appreciate the cooperation and assistance received from EDSI management and staff during this review. Please contact us if you have any questions or concerns regarding this report.

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SUMMARY OF FINDINGS

Findings Summary			
Finding #	Finding Title	Significance	Page #
A.1	Home Depot - Annual reports were either not complete or were not submitted timely by Home Depot. These reports were also not reviewed timely by EDSI.	Moderate	8
B.1	Hewlett Packard - Compliance with the EDA was not adequately verified or documented by EDSI.	High	10
C.1	The Domain - A portion of properties for which The Domain claimed tax rebates are not owned by The Domain.	High	15
C.2	The Domain - EDSI has not verified the physical existence of low income housing units.	Low	17
D.1	FRV - Compliance with the EDA was not sufficiently documented.	Low	19
E.1	HID - A third-party report partially intended to support the amounts granted to HID in 2017 was incomplete.	Moderate	24
F.1	Charles Schwab - Testing performed by EDSI was insufficient to determine compliance with the 2016 investment requirements.	High	26
F.2	Charles Schwab did not timely submit their annual reports in compliance with the EDA.	Low	27
G.1	2015 Follow-up - Some of the concerns expressed in the 2015 rebates and abatements audit report were not addressed in accordance with the action plans described in the corresponding management responses.	Moderate	28

HOME DEPOT TAX ABATEMENT

Company Overview

The Home Depot USA, Inc. and its subsidiaries (Home Depot) operate full-service, warehouse-style stores averaging approximately 104,000 square feet. The stores stock approximately 35,000 different kinds of building materials, home improvement supplies, and lawn and garden products.

Tax Abatement History

In September 2004, Home Depot formed an Economic Development Agreement with Travis County to construct a Data Center facility located on 8.162 acres of land at 1300 Park Center Drive, Austin, Texas 78753. The facility processes transactions and business records from throughout the United States. Activities at the facility primarily focus on research and development relating to new trade-secret technology and applications essential to Home Depot.

City of Austin

Padgett, Strateman, & Co. LLP (Padgett) performed agreed-upon procedures from 2006 through 2007 on behalf of the City of Austin. These procedures verified only that specific items were mathematically correct and did not express an opinion of compliance. Specifically, they tested the investments required and found minimal exceptions. In 2008, Padgett was unable to obtain supporting documentation for new employees, after which Home Depot's relationship with the City was terminated.

Home Depot EDA Requirements Summary	
Grant Amount	50% abatement of ad valorem taxes on real property taxes and 100% abatement of ad valorem taxes on eligible equipment (business personal property).
Full-Time Employment (FTE) Requirement	Home Depot must create and maintain 500 FTEs over the life of the project. If Home Depot maintains between 400 and 500 FTEs in any year subject to this agreement, that year's abatement amount will be subject to proration. If Home Depot maintains less than 400 FTEs in any given year, the abatement amount granted for that year will be rebated.
Average Salary Requirement	The average annual salary of the required FTEs must be at least \$58,608.
Investment Requirement	Home Depot must invest \$400,000,000 over the life of the project.

Home Depot first became eligible to claim a tax benefit in tax year 2005, but did not meet the minimum standards required to qualify until 2007. The abatement term is January 1, 2006, through December 31, 2015; the chart on the following page details this abatement over time:

Home Depot Tax Abatement History			
Year	Taxes Assessed	Taxes Paid	Benefits
2007	\$ 255,004.00	\$ 65,217.24	\$ 189,786.76
2008	\$ 260,705.00	\$ 90,495.45	\$ 170,209.55
2009	\$ 274,523.00	\$ 98,144.55	\$ 176,378.45
2010	\$ 311,564.00	\$ 118,300.39	\$ 193,263.61
2011	\$ 314,617.00	\$ 121,620.49	\$ 192,996.51
2012	\$ 349,680.00	\$ 139,131.92	\$ 210,548.08
2013	\$ 362,100.00	\$ 133,058.25	\$ 229,041.75
2014	\$ 295,771.00	\$ 110,504.18	\$ 185,266.82
2015	\$ 305,211.00	\$ 109,052.61	\$ 196,158.39
Totals	\$ 2,729,175.00	\$ 985,525.08	\$ 1,743,649.92

Previous Audit

In 2015, REC conducted a review of the Home Depot abatements granted through 2014. The resulting 2015 audit report contained the following:

1. REC stated that Home Depot did not employ sufficient full-time employees in order to receive the full abatement offered under the contract from 2008 through 2014. Based on the contractual pro-rata calculations, a \$260,862 recoupment was requested and received by EDSI on 9/10/2015.
2. REC stated that “County personnel do not mathematically recalculate the abatement or perform substantive test work on the payroll files or investments to ensure they are accurate”.
3. REC recommended EDSI review the annual reports received from Home Depot within 30 days of receipt.

Compliance Monitoring

In 2018, EDSI prepared a compliance report that documented the following:

1. EDSI reviewed employment records in Home Depot’s HR system showing Home Depot maintained 474 FTEs for the 2015 tax year. Section 5.1.1(b) of the EDA provides for proration of the abatement amount if Home Depot maintains between 400 and 499 employees. EDSI calculated the proration in accordance with this section and requested a recoupment of \$10,790 (See Finding A.1 on page 10.).
2. EDSI confirmed Home Depot’s methodology for calculating an average salary that exceeded the contractually required \$58,608.00.
3. EDSI confirmed that the investment requirements had previously been met as documented in our previous audit.

Findings

Finding A.1 (Significance: *Moderate*) – Annual reports were not submitted timely or verified timely by EDSI.

In 2016, EDSI granted Home Depot a full abatement for 2015, their tenth and final abatement year. We noted the following issues regarding this abatement:

- Home Depot did not remit their required annual report for 2015 to EDSI until May of 2018.
- EDSI performed a detailed review of the 2015 abatement in 2018, noting that Home Depot was not in full compliance with the EDA employment requirements. Specifically, Home Depot did not maintain the required 500 employees.

Significance:

In regards to the submission of annual reports, Section 4.2.1(a) of the EDA states the following:

“no later than April 30th of each year, company shall notify TCAD, the Travis County Tax-Assessor Collector and PBO in writing of Agreement Benefits due Company using the format of the Reporting Form attached to this agreement”.

Due to Home Depot not employing 500 persons in 2015, the abatement amount was subject to proration and EDSI was able to recapture \$10,760 on September 6, 2018, pursuant to section 8.2.2(c) which states:

“Recapture of abated taxes is required under this agreement, the county shall also have available all remedies for the collection of tax revenue due”.

In both the case of the abatement recapture and the un-submitted annual report, significant time passed before EDSI reviewed/followed up on these issues. The sooner these issues are noted, the sooner EDSI can take relevant and appropriate action.

Recommendation

We recommend EDSI adopt formal processes to ensure that abatement reviews occur in a timely manner and that all issues noted are alleviated promptly.

Management Response

EDSI agrees with the finding that annual reports were not submitted in a timely manner by Home Depot and recommendation that we adopt formal processes to ensure timely review. As stated previously, we intend on completing procedures in 2019.

HEWLETT PACKARD TAX ABATEMENT

Company Overview

Hewlett Packard, Inc. (HP) is a global provider of software and technology solutions and services to consumers, businesses, and government entities.

HP's operations are organized into seven segments for financial reporting purposes: Personal Systems, Printing, Enterprise Group, Enterprise Services, Software, HP Financial Services, and Corporate Investments. HP employs approximately 49,000 employees throughout the world. They are headquartered in Palo Alto, California.

Tax Abatement History

During 2007 and 2008, HP focused its growth on developing a data center in North Austin in accordance with the EDA with Travis County, executed in 2006.

City of Austin

Padgett performed agreed-upon procedures on behalf of the City of Austin in 2011. These procedures verified that specific items were mathematically correct and did not express an opinion on compliance. By 2010, HP's Tandem location (located outside the City of Austin) began to house the majority of HP's new jobs in the area. Due this shift, the City ended their agreement with HP in 2011.

Travis County

There are two original contracts signed in 2006, one for each of the two local HP properties (Tandem and Ed Bluestein). Both were originally required to have equal investments and employment goals. However, in 2011, HP fell short of the four-year investment goals at its Ed Bluestein site as a condition for the tax abatement. This primarily resulted from HP's focus on and expansion of the Tandem location. In 2012, the contract was amended, allowing HP to combine the investment and employment goals for both sites, resulting in HP regaining compliance with the contract.

HP EDA Requirements Summary	
Grant Amount	60% abatement of ad valorem taxes on all real and business personal property.
FTE Requirement	HP must maintain at least 112 FTEs.
Average Salary Requirement	The average annual salary of the required FTEs must be at least \$60,000.
Investment Requirement	HP must invest \$500,000,000 over the life of the project.

The abatement term is January 1, 2008, through December 31, 2017; the following chart details this abatement over time:

Hewlett Packard Tax Abatement History			
Year	Taxes Assessed	Taxes Paid	Benefits
2008	\$ 758,033.57	\$ 306,990.71	\$ 451,042.86
2009	\$ 864,496.12	\$ 403,643.05	\$ 460,853.07
2010	\$ 783,318.77	\$ 379,520.95	\$ 403,797.82
2011	\$ 623,687.68	\$ 317,805.51	\$ 305,882.17
2012	\$ 621,167.38	\$ 321,492.15	\$ 299,675.23
2013	\$ 770,159.01	\$ 389,742.25	\$ 380,416.76
2014	\$ 715,953.90	\$ 372,318.53	\$ 343,635.37
2015	\$ 586,402.98	\$ 290,599.86	\$ 295,803.12
2016	\$ 806,374.63	\$ 372,449.61	\$ 433,925.02
2017	\$ 697,790.73	\$ 329,970.87	\$ 367,819.86
Totals	\$ 7,227,384.77	\$ 3,484,533.49	\$ 3,742,851.28

Previous Audit

In 2015, REC conducted a review of the Hewlett Packard abatements granted through 2014. The resulting report stated EDSI should “calculate and verify the mathematical accuracy of each report in accordance with each section of the agreement and notify the Company of any errors in a timely manner.”

Findings/Significance

Finding B.1 (Significance: High) – HP’s compliance with the EDA was not adequately verified or documented.

In the County’s EDA with Hewlett Packard (HP), Sections 5.1.1(b)(i) and 5.1.1(b)(v) require that HP maintain between 112 and 140 active positions each year in order to receive their abatement. For these positions, the average employee salary is to be more than \$60,000 with benefits. For tax years 2014 through 2017, EDSI did not receive data from HP necessary to confirm HP’s compliance with these employment requirements. This information is required under Section 5.2.4 of the EDA, which states that:

“Agreement Benefits Notice (submitted by HP) shall also include data showing the number of FTE jobs created and maintained as a result of the Project.”

On July 11, 2018, EDSI emailed HP requesting FTE data with sufficient detail to verify the EDA employment requirements for tax years 2014, 2015, 2016, and 2017. The email stated that failure to provide these documents by July 16, 2018 would cause “Travis County to issue a formal memo that gives HP sixty (60) days to comply or risk noncompliance for each applicable year, in which case HP will be required to refund the full amount of abatements in the applicable years.” HP failed to provide the requested documentation by the due date. As a result, a formal memo allowing for “(60) days to comply or risk noncompliance” has been drafted by EDSI for the County Attorney to review prior to being sent to HP.

Compliance issues not addressed timely could have financial implications for both parties, given HP is subject to EDA provisions allowing for recoupment of all or a portion of the granted abatements if they are deemed noncompliant with the EDA.

Recommendation

We recommend EDSI revise their abatement review processes to ensure abatement requirements are reviewed, recalculated, and verified in a timely manner, and that appropriate actions are taken immediately to resolve instances of non-compliance.

Management Response

EDSI agrees with the finding and recommendation. However, please note that there are no active abatement agreements in force and no further abatement agreements are expected to be executed going forward.

SAMSUNG TAX REBATE

Company Overview

Samsung Electronics Co. Ltd. and its subsidiaries (Samsung) are primarily engaged in the production of consumer electronic products. Samsung distributes its products within domestic and international markets. Samsung was founded in 1938. Samsung is based in Suwon, South Korea.

Tax Rebate History

Samsung formed an agreement with Travis County in 2006 to construct a new semiconductor wafer-manufacturing factory located at 12100 Samsung Boulevard, Austin, Texas 78754.

Samsung EDA Requirements Summary	
Grant Amount	80% rebate of ad valorem taxes on real property for the first 10 years and 65% rebate of ad valorem taxes on real property for the last 10 years.
FTE Requirement	Samsung must maintain at least 700 FTEs.
Average Salary Requirement	The average annual salary of the required FTEs must be at least \$54,000.
Investment Requirement	Samsung must invest \$3,500,000,000 by 12/31/2009 (This requirement was already met according to documentation on file from the 2015 audit).

Samsung first became eligible to claim a tax benefit in tax year 2008. The rebate term is January 1, 2008, through December 31, 2027; the following chart details this abatement over time:

Samsung Tax Rebate History			
Year	Taxes Assessed	Taxes Paid	Benefits
2009	\$ 2,914,707.37	\$ 582,941.47	\$ 2,331,765.90
2010	\$ 5,392,104.77	\$ 1,078,420.95	\$ 4,313,683.82
2011	\$ 4,339,168.89	\$ 867,833.77	\$ 3,471,335.12
2012	\$ 7,253,278.18	\$ 1,450,655.63	\$ 5,802,622.55
2013	\$ 14,385,221.42	\$ 2,877,044.28	\$ 11,508,177.14
2014	\$ 10,935,506.76	\$ 2,187,101.35	\$ 8,748,405.41
2015	\$ 11,053,479.95	\$ 2,210,695.99	\$ 8,842,783.96
2016	\$ 10,130,722.47	\$ 2,026,144.50	\$ 8,104,577.97
2017	\$ 8,597,830.81	\$ 1,719,566.17	\$ 6,878,264.64
Totals	\$ 75,002,020.62	\$ 15,000,404.13	\$ 60,001,616.49

Previous Audit

In 2015, REC conducted a review of the Samsung rebates granted through 2014. The 2015 audit report stated, "County personnel do not perform substantive test work on the payroll files to ensure they are accurate"

Internal Control Improvements

EDSI formed an inter-local agreement with the City of Austin in 2016, agreeing to contract with a third party for the performance of agreed-upon procedures, including substantive testwork to verify payroll records.

Compliance Monitoring

All compliance surrounding rebate payments by the County to Samsung in 2015 and 2016 was verified and documented by EDSI.

In 2015, EDSI did not prepare a compliance report documenting Samsung's compliance with the EDA. However, EDSI was able to provide correspondence indicating that EDSI visited Samsung on March 30, 2015, and confirmed compliance with FTE and average salary requirements by testing and sampling employment records and reviewing system reports.

In 2016, EDSI prepared a compliance report documenting a site visit occurring on August 31, 2016, during which investment amounts and jobs requirements were verified by method of on-site review, sampling, and testing of system reports and employment records.

In 2017, Travis County executed an inter-local agreement with the City of Austin's (COA) Economic Development Department (EDD) to provide a fully independent review of Samsung's EDA compliance. Under this agreement, COA drafts procedures that are completed by a third party (Padgett & Co. or RSM LLC). These draft procedures are modified as needed by EDSI personnel prior to completion by the third party. The procedures were sufficient in order to determine compliance with the FTE and average salary requirements in the EDA.

THE DOMAIN (SIMON PROPERTIES) TAX REBATE

Company Overview

The Domain is a high-density business, retail, and residential center operated by Simon Property Group and Endeavor Real Estate Group (The Domain). It is located in the high-tech corridor of northwest Austin, Texas.

The first phase of the project opened on March 9, 2007, and it included 700,000 square feet of restaurants, office space, retail stores, apartments, and a hotel.

Tax Rebate History

The EDA between The Domain and the County was signed in 2004.

The Domain EDA Requirements Summary	
Grant Amount	50% rebate of ad valorem taxes on real property taxes (less effective year ad valorem taxes paid).
FTE Requirement	The Domain must maintain 1,100 FTEs.
Investment Requirement	The Domain must invest \$100,000,000.00 by 12/31/2008 (This requirement was previously verified.).
Other Requirements	10% of at least 300 housing units deemed affordable.

The Domain first became eligible to claim a tax benefit in tax year 2008. The rebate term is January 1, 2008, through December 31, 2027; the following chart details this abatement over time:

The Domain Tax Rebate History			
Year	Taxes Assessed	Taxes Paid	Benefits
2008	\$ 553,798.59	\$ 297,009.29	\$ 256,789.30
2009	\$ 707,700.36	\$ 373,960.18	\$ 333,740.18
2010	\$ 776,717.07	\$ 408,468.53	\$ 368,248.54
2011	\$ 854,177.04	\$ 447,198.52	\$ 406,978.52
2012	\$ 1,008,370.52	\$ 524,295.26	\$ 484,075.26
2013	\$ 1,104,216.52	\$ 572,218.26	\$ 531,998.26
2014	\$ 1,143,713.46	\$ 591,966.73	\$ 551,746.73
2015	\$ 1,174,598.39	\$ 607,409.19	\$ 567,189.20
2016	\$ 1,322,031.94	\$ 681,125.97	\$ 640,905.97
2017	\$ 1,510,276.13	\$ 1,510,276.13	\$ -
Totals	\$ 10,155,600.02	\$ 6,013,928.06	\$ 4,141,671.96

Previous Audit

In 2015, REC conducted a review of the rebates granted to The Domain through 2014. REC states, in the 2015 audit: “Overall, compliance testing is insufficient to properly ensure that the terms of the contract are being met. Each relevant contractual requirement of the private entity should be reviewed for compliance in sufficient detail to give Travis County personnel a reasonable level of

comfort that these requirements are being met.”

Compliance Monitoring

The City of Austin contracts with a third party to conduct agreed-upon-procedures verifying the number of FTE’s and affordable housing units at The Domain. EDSI employees are present, on-site, during the performance of these procedures in order to confirm compliance with requirements specific to the EDA between the County and The Domain. EDSI also relies on an “Affordable Housing Audit” performed by the Travis County Housing Finance Corporation (TCHFC) to determine compliance with the affordable housing requirements.

EDSI noted no instances of noncompliance with the FTE, investment, or housing requirements between 2014 and 2017. Noncompliance was also not noted in that period on the TCHFC and AUP reports which are relied on to help determine compliance.

Findings/Significance

Finding C.1 (Significance: High) – The Domain does not own a portion of the properties for which it claims incentives.

The Domain receives rebates from the County based on eight separate parcels within a geographic area denoted in the EDA. These properties and their owners are detailed below:

PID	Account No	Owner
767635	02560602030000	Domain Mall LLC
737158	02560603040000	Heritage Communities LP
737156	02560603020000	Domain Mall LLC
737157	02560603030000	Domain Mall LLC
774411	02560603050000	Domain Mall LLC
767636	02560602040000	Macy's Retail Holdings Inc.
767637	02560602050000	Domain Hotel Company LLC
774412	02560603060000	LPF Villages Domain LLC

As detailed above, The Domain does not own the three parcels in red. The Domain’s yearly rebate amount is computed based on the values of all seven properties, and The Domain receives the entire rebate – it is not divided among all of the actual property owners. The table on the following page details the property tax assessment amounts for tax years 2016 and 2017, with the values for the properties not owned by The Domain listed in red:

Rebate Year	Tax Year	Entity	TCAD PID	EZTAX Account No.	Taxable value	Tax Rate	Taxes Assessed
10	2016	TCO	767635	02560602030000	\$ 146,005,192.00	0.003838	\$ 560,367.93
11	2017	TCO	767635	02560602030000	\$ 161,414,889.00	0.003690	\$ 595,620.94
10	2016	TCO	737158	02560603040000	\$ 66,160,900.00	0.003838	\$ 253,925.53
11	2017	TCO	737158	02560603040000	\$ 66,500,000.00	0.003690	\$ 245,385.00
10	2016	TCO	737156	02560603020000	\$ 55,541,009.00	0.003838	\$ 213,166.39
11	2017	TCO	737156	02560603020000	\$ 69,492,895.00	0.003690	\$ 256,428.78
10	2016	TCO	737157	02560603030000	\$ 1,520.00	0.003838	\$ 5.83
11	2017	TCO	737157	02560603030000	\$ 1,351.00	0.003690	\$ 4.99
10	2016	TCO	774411	02560603050000	\$ 11,799,177.00	0.003838	\$ 45,285.24
11	2017	TCO	774411	02560603050000	\$ 14,522,177.00	0.003690	\$ 53,586.83
10	2016	TCO	767636	02560602040000	\$ 10,600,000.00	0.003838	\$ 40,682.80
11	2017	TCO	767636	02560602040000	\$ 10,600,000.00	0.003690	\$ 39,114.00
10	2016	TCO	767637	02560602050000	\$ 97,331,933.00	0.003838	\$ 373,559.96
11	2017	TCO	767637	02560602050000	\$ 97,331,933.00	0.003690	\$ 359,154.83
10	2016	TCO	774412	02560603060000	\$ 6,066,296.00	0.003838	\$ 23,282.44
11	2017	TCO	774412	02560603060000	\$ 6,500,134.00	0.003690	\$ 23,985.49

Within the EDA with The Domain, we found no language allowing The Domain to receive a tax rebate for parcels they do not own. Furthermore, Travis County’s Economic Development Program Policy speaks to the issue of parcel ownership and its relationship to the computation of rebates. Specifically, Section 28.002(g) states:

“To be eligible and subject to receive Grant Incentives, property, both real and business personal, must also be owned by the Applicant seeking the tax incentive...”

The following table details the recomputed rebates for 2016 and 2017 after removing the three parcels owned by other parties:

	A	B	C	D (A-C)	E (B-C)	F	G (D*F)	H (E*F)	I (G-H)
Rebate Year	Taxes Assessed (All Properties) (old)	Taxes Assessed (Only Domain Properties) (new)	Effective Year Taxes Paid	Amount to which Grant % Applies (old)	Amount to which Grant % Applies (new)	Grant %	Amount of Rebate (old)	Amount of Rebate (new)	Difference (Reduction Amount)
2016	\$1,510,276.13	\$1,192,385.35	\$40,220.00	\$1,470,056.13	\$1,152,165.35	50%	\$735,028.07	\$576,082.68	\$158,945.39
2017	\$1,573,280.87	\$1,264,796.37	\$40,220.00	\$1,533,060.87	\$1,224,576.37	50%	\$766,530.43	\$612,288.19	\$154,242.25
Total	\$3,083,557.00	\$2,457,181.72	\$80,440.00	\$3,003,117.00	\$2,376,741.72		\$1,501,558.50	\$1,188,370.87	\$313,187.64

Recommendation

We recommend that EDSI work with the Travis County Attorney’s Office to review the above issue, adjusting the County’s rebate computation going forward and recouping portions of past

rebates as is deemed appropriate.

Management Response

PBO disagrees with the finding that the ownership of the parcels within the project area must reside with the Domain, LLC. As such, PBO and the Auditor's Office agree to request a County Attorney's Opinion of PBO's interpretation of the agreement's requirements regarding property ownership.

Findings/Significance

Finding C.2 (Significance: *Low*) – EDSI has not properly documented affordable housing compliance verification

Section 5.1.1(b) of the EDA between Travis County and Simon Properties states the following:

“The project shall include at least 300 residential units at completion with at least 10% of those units meeting the requirements for affordable housing set forth in Attachment C, ‘Affordable Housing Requirements.’”

For tax years 2014 through 2017, The Domain reported to EDSI that they were actively leasing 417 residential units on the properties included in their rebate. Based on the EDA requirements above, The Domain should therefore be leasing 42 (417 x 10% = 41.7) or more units under the terms of the affordable housing requirements. For 2014 through 2017, The Domain's annual reports denoted 42 affordable housing units, and reports compiled by Padgett in 2014 and 2015, by RSM LLC in 2016, and by EDSI's Corporations Division stated that The Domain's 42 units met the “affordable housing requirements”.

While the above parties have stated that The Domain is leasing the minimum required 42 affordable housing units, EDSI has not performed a detailed verification of these 42 units and the related documents in order to eliminate the possibility of invalid records/units.

Recommendation

We recommend that EDSI attempt to verify that the applicable affordable housing applicants reside in their respective housing units by sending confirmation letters to a sample of these units on an annual basis.

Management Response

EDSI has found no similar compliance requirement related to other housing programs (state or federal). However, EDSI will research this recommendation further, and will seek advice from the County Attorney's Office and will determine whether it is able to implement this recommendation as written, with revisions, or not at all. EDSI has concerns regarding how to handle unanswered letters and the impact of unanswered letters on the compliance of the agreement. In addition, there are privacy concerns that need to be further reviewed.

FRV SOLAR TAX REBATE

Company Overview

FRV Solar (FRV) is a subsidiary of FRV AE Solar. The 35-megawatt (MW) solar farm is located in Webberville, Texas. The solar farm is comprised of 127,728 solar panels purchased from Trina Solar, mounted on single-axis trackers, installed on 380 acres.

Tax Rebate History

FRV formed an EDA with Travis County in April of 2011 and began construction of a new solar farm. SunEdison sold the plant to MetLife and Longsol Holdings in 2012, but will operate the plant for 20 years upon the expiration of the responsibilities of RES Americas. Austin Energy is purchasing the power generated under a 25 year Power Purchase Agreement.

FRV EDA Requirements Summary	
Grant Amount	80% rebate of ad valorem taxes on business personal property (less effective year ad valorem taxes paid).
FTE Requirement	FRV must maintain 3-5 FTEs.
Investment Requirement	FRV must invest \$100,000,000 by 12/31/12 (This requirement was previously verified.).
Other Requirements	30 MW production capacity by 12/31/12, completion of visitor center by 12/31/14, and an educational program worth \$45K-55K for local school districts by 12/31/16.

FRV first became eligible to claim a tax benefit in tax year 2012. The rebate term is January 1, 2013, through December 31, 2032; the following chart details this abatement over time:

FRV Solar Tax Rebate History			
Year	Taxes Assessed	Taxes Paid	Benefits
2013	\$ 308,865.08	\$ 64,173.02	\$ 244,692.06
2014	\$ 303,896.29	\$ 60,779.26	\$ 243,117.03
2015	\$ 273,303.03	\$ 54,660.60	\$ 218,642.43
2016	\$ 229,295.00	\$ 45,859.00	\$ 183,436.00
2017	\$ 161,196.00	\$ 32,239.20	\$ 128,956.80
Totals	\$ 1,276,555.40	\$ 257,711.08	\$ 1,018,844.32

Previous Audit

In 2015, REC conducted a review of the rebates granted to FRV Solar through 2014. The 2015 review report stated, "County personnel currently do not perform substantive test work on the payroll files or investments to ensure they are accurate. In addition, no management review is made to ensure FRV is compliant."

Internal Control Improvements

EDSI currently requires FRV to include copies of the quarterly reports sent to the Texas Workforce Commission (TWC) in their annual reports to serve as support for meeting the EDA employment

requirements.

Compliance Monitoring

EDSI relied on time sheet reports from FRV to determine compliance with FTE requirements during the scope of this audit. Investment and MW production requirements were previously met as documented in our 2015 audit, and EDSI conducts onsite visits, as needed. EDSI produces a compliance report each year detailing their compliance monitoring efforts and conclusions. However, these compliance reports are not always conclusive and do not always contain sufficient detail, as described in Finding D.1, below.

Findings/Significance

Finding D.1 (Significance: *Low*) – FRV’s EDA compliance was not sufficiently documented.

Section 5.1.1 of the EDA with FRV states the following measurable criteria:

- 1. An educational program of an estimated worth of \$45,000 - \$55,000 is to be developed by FRV.*
- 2. A “Visitor’s Center” should be constructed by December 31 of 2014. The center should include a picnic area and restrooms.*

The FRV compliance reports prepared by EDSI for years 2014, 2015, 2016, and 2017 state compliance with Section 5.1.1 of the EDA. However, the EDSI compliance reports do not mention whether the educational program meets the noted value requirement. In addition, the Visitor’s Center did not include a picnic table until EDSI visited the site in January of 2016 and formally requested it. Currently, the Visitor’s Center does not include restrooms; visitors use restrooms in the facility’s office.

Recommendation

EDSI should revise their processes to ensure that the parties receiving rebates meet all aspects of their EDAs. EDSI should clearly document this compliance in their compliance reports.

Management Response

PBO concurs that the value of the educational program could have been better documented. Part of the problem is that the contract does not clearly define how “value” should have been determined. Further, the contract requires that the curriculum/training “...have an estimated value of \$45,000 to \$55,000.” [Emphasis added.] Staff interpreted this as a minimum of \$45,000.

As the staff compliance report for 2016 states, Del Valle ISD did not participate in the training despite repeated attempts by the curriculum writer. Further, Section 5.1.1 (g) of the contract states, “The Parties agree that completion of the training program(s) may depend on the cooperation of Del Valle ISD and ACC and compliance with the Agreement requirements will be determined solely on the participation by Company as set forth in this subsection [g], and will not depend on the final completion of the program(s) where that completion is prevented only by Del Valle ISD and/or ACC.”

Based on the curriculum submitted by the developer, the sign-in sheet for the ACC training, and

the requirements of this section, staff estimated the value as meeting the \$45,000 minimum requirement.

With regard to the lack of visitor bathrooms, the facility's office serves as the visitor center and therefore we believe that the office restrooms are sufficient. The observation tower and picnic table are located less than 30 yards from the facility's office. Further, visitors are allowed onto the site only by appointment and on staff compliance visits to the facility were able to use the bathroom in the facility office/visitor center.

APPLE TAX REBATE

Company Overview

Apple Inc. (Apple) is an American multinational technology company headquartered in Cupertino, California, that designs, develops, and sells consumer electronics, computer software, and online services.

Apple is the world's largest information technology company by revenue and the world's third-largest mobile phone manufacturer after Samsung and Huawei. In August 2018, Apple became the first public U.S. company to be valued at over \$1 trillion. The company employs 123,000 full-time employees and maintains 499 retail stores in 22 countries as of December of 2017. It also operates the iTunes Store, which is the world's largest music retailer. As of January 2016, more than one billion Apple products are actively in use worldwide.

Tax Rebate History

Apple formed an agreement with Travis County in May 2012 to develop a new “Americas Operations Center” (the Center). The Center is located at West Parmer Lane and Delcour Drive in Austin, Texas.

Apple EDA Requirements Summary	
Grant Amount	60% rebate of ad valorem taxes on the eligible property for the first 10 years and 45% rebate of ad valorem taxes on real property for the last 5 years. An additional 5% can be earned by achieving LEED certification and another 5% can be earned if Travis County residents hold more than 50% of the FTEs.
FTE Requirement	300 jobs by 12/31/16, 600 jobs by 12/31/17, 650 jobs by 12/31/18, 800 jobs by 12/31/19, 1,150 jobs by 12/31/20, 1,570 jobs by 12/31/21, 2,020 jobs by 12/31/22, 2,470 jobs by 12/31/23, 2,995 jobs by 12/31/24, and 3,635 jobs by 12/31/25.
Average Salary Requirement	Year 1 \$54,000, Year 2 \$56,000, Year 3 \$58,000, Year 4 \$61,000, Year 5 \$63,000, Year 6 \$65,000, Year 7 \$67,000, Year 8 \$70,000, Year 9 \$72,000, Year 10 \$73,500, Years 11-15 \$73,500.
Investment Requirement	\$56,500,000 by 12/31/15, \$226,000,000 by 12/31/21.

Apple first became eligible to claim a tax benefit in Tax Year 2015. The rebate term is January 1, 2016, through December 31, 2030; the following chart details this abatement over time:

Apple Tax Rebate History			
Year	Taxes Assessed	Taxes Paid	Benefits Granted
2016	\$ 1,088,108.70	\$ 380,838.05	\$ 707,270.65
2017	\$ 1,225,322.90	\$ 367,596.87	\$ 857,726.03
Totals	\$ 2,313,431.60	\$ 748,434.92	\$ 1,564,996.68

Compliance Monitoring

In 2016, EDSI prepared a compliance report documenting multiple site visits occurring between August and September of 2016. During the visit, EDSI verified the 2015 investment amount and job requirements by sampling investments and employment records, and by testing system reports.

In 2017, Travis County executed an Inter-local Agreement with the City of Austin's EDD to provide an independent review of Apple's EDA compliance. Under this agreement, COA drafts procedures to be completed by EDSI. The procedures performed by the RSM and documented in the resulting report were extensive and sufficient to determine compliance with the EDA job requirements in 2016.

HID TAX REBATE

Company Overview

HID Global (HID) is an American company that manufactures physical access cards, readers, printers, encoders, and software. HID also has business segments dedicated to virtualization technology, cashless payment, government ID solutions, among others.

HID employs more than 3,000 people worldwide and conducts business in over 100 countries. HID is currently headquartered in Austin, Texas.

Tax Rebate History

HID formed an agreement with Travis County in October of 2012. The new manufacturing and distribution operations center with approximately 200,000 square feet is located at 601 Center Ridge Drive in the Tech Ridge Development area of North East Austin.

HID EDA Requirements Summary	
Grant Amount	40% rebate of ad valorem taxes on new construction. An additional 5% can be earned by achieving LEED certification and another 5% can be earned if Travis County residents comprise 50% or more of the FTEs.
FTE Requirement	147 jobs by 12/31/14, 276 jobs by 12/31/15, and 276 jobs maintained thereafter.
Average Salary Requirement	Year 1 and 2: \$44,436, Years 3-10: \$53,164.
Investment Requirement	\$30,000,000 by 6/30/14, and an additional \$6,000,000 by 12/31/17.
Other Requirements	Construction workers must receive OSHA training. Health benefits cannot be of less worth than those in place at the time of contract execution.

HID first became eligible to claim a tax benefit in tax year 2015. The rebate term is January 1, 2016, through December 31, 2025; the following chart details this abatement over time:

HID Tax Rebate History			
Year	Taxes Assessed	Taxes Paid	Benefits Granted
2016	\$ 134,350.02	\$ 67,175.01	\$ 67,175.01
2017	\$ 130,840.46	\$ 65,420.23	\$ 65,420.23
Totals	\$ 265,190.48	\$ 132,595.24	\$ 132,595.24

Compliance Monitoring

EDSI prepared a compliance report on October 28, 2016, describing various methods used to determine HID's compliance with the EDA. The report states EDSI was present during the on-site third-party verifications of the EDA requirements, performed by RSM. While onsite, investment amounts, jobs, salary, OSHA, and health benefit requirements were verified by method of on-site

review, sampling, and testing of system reports and employment records.

In 2017, Travis County executed an inter-local agreement with the City of Austin's EDD to provide an independent review of HID's EDA compliance. Under this agreement, COA drafts procedures to be completed by a third party. These draft procedures are agreed to, or modified as needed, by EDSI personnel prior to performance. The procedures documented in the report were sufficient in order to determine compliance with requirements. However, the procedure used to confirm the amount of the rebate due to HID in 2017 was incomplete, as described in Finding E.1, below.

Findings/Significance

Finding E.1 (Significance: *Moderate*) – A third-party report partially intended to support the amounts granted to HID in 2017 was incomplete.

On an annual basis, RSM provides EDSI with a report on agreed-upon procedures (AUP) detailing their findings related to HID's compliance with selected sections of their EDA with the County. However, the AUP for this report did not include one of the parcels contained in the HID EDA. The rebate for this parcel comprised \$19,601.67 (30%) of the \$65,420.23 HID rebate for tax year 2017.

EDSI has since addressed this issue. We reviewed the draft procedures remitted to the City of Austin by EDSI for confirmation of the 2017 rebate amount (corresponding to the \$65,420.23 rebate payment disbursed in October of 2018), and we determined they include sufficient steps to verify the rebate recalculation.

Recommendation

EDSI should review AUP terms with outside parties to ensure they provide sufficient coverage for all applicable aspects of the EDAs under review.

Management Response

EDSI concurs with this finding and, as noted in the audit, now reviews the AUP terms with the outside parties to ensure that they represent the complete compliance requirements related to the County's agreements.

CHARLES SCHWAB TAX REBATE

Company Overview

The Charles Schwab Corporation (Schwab) is a bank and brokerage firm, based in San Francisco, California. It is one of the largest banks and brokerage firms in the United States. The company provides services assisting individuals and institutions with online investing. The company offers an electronic trading platform for the purchase and sale of financial securities including common stocks, preferred stocks, futures contracts, etc. It also provides margin lending, and cash management services, as well as services through registered investment advisers.

Schwab operates in four main divisions: investing, wealth management, banking, and trading. As of December 31, 2017, the company had 8 million active client brokerage accounts, with approximately \$4 trillion in assets. The company operates 345 branches in 46 states, as well as branches in Puerto Rico and London.

Tax Rebate History

Schwab formed an agreement with Travis County in 2015 in an effort to expand its facilities in Central Texas. The new facilities will enhance Schwab’s ability to provide a full range of securities brokerage, banking, money management, and financial advisory services. The new additions will include 250,000 – 300,000 square feet of operating space on a 50 acre lot, located at 2309 Gracy Farms, Austin, Texas.

Charles Schwab EDA Requirements Summary	
Grant Amount	48.5% rebate of ad valorem taxes on new construction. An additional 2-5% can be earned by achieving various levels of LEED certification.
FTE Requirement	59 new jobs by 12/31/15 and 823 new cumulative jobs by 12/31/24. Maintain 927 existing jobs.
Average Salary Requirement	Average \$79,602, Median \$69,032, Minimum \$15 per hour.
Investment Requirement	\$39,166,994 by 12/31/16, an additional \$103,396,434 by 12/31/17, and an additional \$54,579,315 by 12/31/23.
Other Requirements	Construction workers must receive onsite OSHA training. Health benefits cannot be of less worth than those in place at time of contract execution.

Schwab first became eligible to claim a tax benefit in tax year 2017. The rebate term is January 1, 2017, through December 31, 2027. The first rebate payment will be made in 2019, contingent upon the Company’s compliance with 2015, 2016, and 2017 contract performance requirements.

Compliance Monitoring

EDSI conducted an onsite visit on May 1, 2018. EDSI verified (Schwab generated) reports that supported compliance with the FTE and average salary requirements of the EDA in 2015 and 2016. EDSI documented this visit in a formal compliance report. The methods used to determine

compliance for FTE and average salary requirements appear to be adequate.

Findings/Significance

Finding F.1 (Significance: High) – Testing performed by EDSI was insufficient to determine compliance with Charles Schwab’s 2016 investment requirements.

In its property tax rebate EDA with Travis County, Charles Schwab was required to invest at least \$39,166,944 in its Travis County facility. In support of this investment, Schwab provided EDSI a spreadsheet listing 251 invoices and 24 Capital Investment Project (CIP) accounts totaling \$39,393,422.59, an amount Schwab also reported on its 2016 annual report. This amount narrowly meets the EDA investment requirement, as detailed below:

Required/Reported	Dollar Amount	Percent of Requirement
Investment Amount Required	\$39,166,994.00	100.00%
Investment Amount Reported	\$39,393,422.59	100.58%
Requirement Met By:	\$226,428.59	0.58%

EDSI’s compliance report verifying Schwab’s investment total details investment amounts that do not tie to the investment amounts reported by Charles Schwab. The basis for EDSI’s reported balances was their testing of Schwab purchase orders (POs) corresponding to the CIP invoices provided from Schwab, rather than the invoices or CIP accounts themselves.

POs denote initial orders or goods and services, typically defined by a contract. An invoice is a detailed description of the items/services actually purchased, along with the attendant costs, like sales taxes. Due to the timing difference, as well as changing quantities, prices, taxes, and delivery costs, the costs listed on POs are often different from the final invoice price. Because of this, it is not appropriate to test Schwab’s total investment using POs; EDSI should utilize actual invoices instead. In this process, EDSI should utilize an appropriate methodology, preferably one consistent with AICPA standards.

The County has the right to withhold Schwab’s rebate funds until EDSI verifies the investment amount, as stated in Section 8.1.1 of the EDA, which states:

“Non-Payment. The Company understands and agrees that NO payment of Grant Funds will be made for any Payment Year in which the following conditions (as applicable) of this Agreement are not met: 8.1.1 Investment/Construction...”

Recommendation

We recommend EDSI conduct a detailed review of the investment invoices provided by Charles Schwab in order to demonstrate compliance with the 2016 investment requirements. In consideration of the narrow margin by which the investment amount requirement was met, EDSI should consider obtaining a professional consultation to ensure this testing is sufficient.

Management Response

EDSI will work with Charles Schwab this year to review invoices paid rather than purchase orders for the 2016 performance year. Because this is the first year Schwab is eligible for a rebate, EDSI

will devote the time of the Director, Community and Economic Development Specialist, and Senior Financial Analyst to review the 2016 invoices and ensure compliance and sufficient documentation before any payment is authorized.

EDSI will work internally as it considers the recommendation to understand the potential cost of obtaining a professional consultation to ensure this testing is sufficient. It is unclear whether the need will be a one-time need or an ongoing need.

Findings/Significance

Finding F.2 (Significance: *Low*) – Charles Schwab did not timely submit its annual reports in compliance with the EDA.

According to Section 5.3.1 of the EDA, compliance reports for 2015 and 2016 were due on March 31, 2017, and March 31, 2018, respectively. However, Charles Schwab did not provide either of these reports until May of 2018.

Late remittance of required compliance reports reduces the amount of time available for the County to conduct adequate verification of the reported information.

Recommendation

We recommend EDSI adopt a formal process for tracking and obtaining late and/or incomplete annual report submissions from tax rebate grantees.

Management Response

EDSI concurs. As described earlier, EDSI is in the middle of training the new Community and Economic Development Specialist, who is tasked with taking the division's current procedures to the next level of specificity.

REBATES AND ABATEMENTS 2015 REVIEW - FOLLOW UP

The report for our 2015 review of EDSI contained a number of findings and recommendations specific to EDSI's internal controls and compliance protocols. We followed up on these findings and recommendations, observing the following:

Findings/Significance

Finding G.1 (Significance: *Moderate*) – Concerns expressed in the 2015 rebates and abatements audit report were not addressed in accordance with the action plans.

During our review of EDSI, we attempted to verify that all reportable issues noted in our previous examination from 2015 (Examination #15-05, dated October 29, 2015) were resolved. During this review, we noted two issues that remain open. First, we recommended that EDSI compose a conflict of interest policy. We encouraged EDSI to obtain assistance from the County Attorney's Office as needed and to obtain Commissioners' Court approval for the final policy. To date, this has not occurred. Second, we recommended that EDSI fully document a number of their policies and procedures. EDSI has made progress in this area, with a working version of a Compliance Procedures Manual, but this item remains an active concern.

Recommendation

We recommend that EDSI implement the following items from our previous examination report for this area:

- a. Develop a formal conflict of interest policy in consultation with the County Attorney's Office.
- b. Complete and finalize the Compliance Procedures Manual.

Management Response

EDSI concurs with the Auditor's findings. As proposed earlier in this Management Response, EDSI plans to have conflict of interest policy language as well as a procedures manual drafted by the end of this year.

OVERALL MANAGEMENT RESPONSE

Please accept this memorandum as our Management Response to the Auditor's findings related to the County's Chapter 381 agreements. We wish to express our gratitude to the Audit staff who have been very helpful to EDSI staff as we provided them with the documentation they needed to conduct the audit. We appreciate their professionalism and patience. Their audits help us improve the program.

Please note that our overall response is in concurrence with the Auditor's findings. We are working to reorganize how we manage these agreements by allocating hours from our Sr. Financial Analyst (added in FY 2017) in Investment Management to this Economic Development Program. His financial acumen and attention to detail will help our newly hired Community and Economic Development Specialist as she begins her on-the-job training on the compliance reviews. The Director will also be allocating time to her training and the compliance reviews to ensure that the findings of high and moderate significance are addressed as soon as possible.

The findings related to individual agreements will be addressed first; our goal is to have them resolved by September 30, 2019. The procedures will also be refined with a revision expected to be completed this year.

The Auditor's Office recommendation regarding a formal conflict of interest policy will likely take more time, given that we will need to review the Commissioners Court's approved Ethics Policy (Chapter 33 of County Code) and explore whether we should pursue an addition to that policy versus creating a separate, standalone policy. Please expect draft conflict of interest language and a determination on its location in policy by December 31, 2019.

As part of the FY 2020 budget process, EDSI is planning on including a budget request for ongoing funding for a third party to provide compliance assistance to EDSI under contract as recommended by the Auditor's Office. However, until such additional resources are funded, EDSI staff will continue to work to improve our management of the program.