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# **CITY OF SAN ANTONIO**

## **OFFICE OF THE CITY AUDITOR**



Follow-Up Audit of the Department of Planning and Community  
Development (DPCD)

Tax Increment Reinvestment Zone (TIRZ) Operations

Project No. AU16-F01

October 19, 2016

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

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the action plans made in the Audit of the Tax Increment Financing (TIF) Program dated April 7, 2014. The objective for this follow-up audit is:

**Determine if Planning and Community Development effectively implemented action plans to address prior audit recommendations relating to the Tax Increment Reinvestment Zone (TIRZ) Operations.**

We determined that the Department of Planning and Community Development (TIF Unit) implemented action plans to address the recommendations from the prior audit. Areas that were effectively implemented include:

- A Governance Committee was established in February 2014, which serves as counsel for the approval of new TIRZ projects and for TIRZ projects with issues or concerns.
- The 2008 TIF Program Policy was updated and approved by City Council. Additionally, internal policies and procedures over administration of the TIF Program were created and are being followed by department personnel.
- A standard process for updating finance plans for all TIRZ projects has been implemented.
- Internal controls over the collection of revenue from administrative fees and the disbursements for developer reimbursements have been implemented.

We did note some administrative areas that should be improved to strengthen the effectiveness of the internal controls related to the accuracy of the data used to populate financial reporting. Specifically, reviews and reconciliations should be conducted to ensure the accuracy of the financial data reported to the State Comptroller as well as the tax increment revenue invoiced and collected from participating taxing entities.

Additionally, during our interviews with the TIF Unit and Finance department staff, we noted a communication barrier between the two departments. Due to the lack of communication we identified work redundancies with regard to project deliverables. Defining roles and responsibilities as well as sharing of information between departments would assist to alleviate redundancies in areas such as the developer reimbursement approval process and reporting of financial information to the Governance Committee and TIRZ Boards.

The Department of Planning and Community Development Management's verbatim response is in Appendix B on page 9.

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## Background

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In April 2014, the Office of the City Auditor completed an audit of the Department of Planning and Community Development's (DPCD) Tax Increment Financing Program. The objective of that audit was as follows:

**Are the appropriate controls and governance structures in place to properly manage the Tax Increment Financing Program?**

The Office of the City Auditor determined that DPCD did not have appropriate governance structures in place to properly manage the TIF Program, resulting in operational control deficiencies, as summarized below.

- Executive management had not assigned overall responsibility for ensuring the TIF Program was in line with the City's overall strategic and operational goals and policies.
- Guidelines and criteria for governing the TIF Program were not being managed in accordance with the 2008 TIF Manual and Texas Tax Code.
- TIRZ finance plans were not being updated annually as prescribed by the TIF manual.
- Lack of controls in the billing process of tax increments, the collection of revenue from administrative fees, and the disbursement process of TIF monies.
- Internal policies and procedures regarding basic TIRZ transactions did not exist resulting in inconsistent processes, lack of internal controls, and insufficient knowledge and guidance of appropriate handling of public funding.

Management agreed with our recommendations and developed action plans to address all items.

## Audit Scope and Methodology

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The audit scope was limited to the recommendations and corresponding action plans from the original report for the time frame of FY 2015.

The audit methodology included interviewing TIF Unit and Finance personnel to obtain an understanding of newly implemented controls. We also reviewed source documents such as policies and procedures, amended TIF Program Policy, project and finance plans, Tax Assessor long sheets, Participating Taxing Entity (PTE) invoices, journal entries, contract progress payment request (CPPR) packets, TIRZ Board meeting minutes, state tax codes, and the 2014 annual legislative report.

We relied on computer-processed data in the City's SAP accounting system. Our reliance was based primarily on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this follow-up performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

## Prior Audit Recommendations and Status

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### A. TIF Program Lacks Appropriate Governance Structure

*Prior recommendation:*

The Director of Planning and Community Development (DPCD) should institute a Tax Increment Financing Governance Committee comprised of multiple stakeholders with the authority to make decisions on behalf of the City as to avoid conflicts in city goals and objectives. The committee should include stakeholders made up of 3 levels of decision making: Strategic (i.e. COSA Executives); Tactical (i.e. Boards and City Leadership); Operational (City staff) that provide oversight and direction of the TIF Program.

**Status: Implemented**

A TIF Governance Committee was established in February 2014. Current members include Deputy City Manager, Chief Financial Officer, Finance Director, Director and Assistant Director of the Department of Planning and Community Development, Interim Director of the Center City Development Office, and Deputy City Attorney. The Committee acts as counsel for the approval of new TIRZ projects, provides guidance as needed to the TIF Program, and serves as a mediator between parties for TIRZ projects with issues or concerns. The TIF Program, to include monitoring of TIRZ projects, is administered by the TIF Unit. Ultimately, final decisions for each TIRZ project are made by their respective TIRZ Board and City Council.

### B. TIF Program Lacks Appropriate Administrative Controls

*Prior recommendation:*

The Director of Planning and Community Development should ensure appropriate controls and governance structures are in place to effectively utilize, administer, and monitor the overall TIF Program, to include:

1. Updating TIF manual and submitting to City Council for approval.
2. Updating project and finance plans for all TIRZ.
3. Updating controls over the collection of revenue (i.e. taxes and administrative fees) and over the disbursement process.
4. Creation of internal policies and procedures over the administration of the TIF Program.

## **1. & 4. Approval of TIF Manual & Creation of Policies and Procedures**

### **Status: Implemented**

The TIF Unit updated the 2008 TIF Program Policy, and it was approved by City Council through Ordinance 2015-05-14-0419. Additionally, internal policies and procedures were created over the administration of the TIF and were approved by the Director of DPCD and presented to the Governance Committee on February 9, 2016. Policies and procedures include references to applicable state statutes and local government codes, and are being followed by appropriate department personnel.

## **2. Updates to Financial Data**

### **Status: Partially Implemented**

A standard process to ensure that finance plans for all TIRZ projects are updated was implemented. Financial data is recorded in the finance plans and is considered to be in draft format until reviewed and approved by Finance Management. Updates made to the finance plan include revenues, expenses, CCHIP and CH380 agreements, new projects within the TIRZ, administrative fees, and property valuations. Finance plans are reviewed and finalized by Finance when the related TIRZ projects are subject to be presented to City Council by the TIF Unit.

We randomly selected 10 out of 20 active TIRZ projects and reviewed their financial activity for FY 2015. Testing included verifying that tax increments received, developer reimbursements paid, and administrative fees collected were accurately reported. Additionally, we verified that the financial data followed the format outlined in the prior audit's action plan and was reconciled to SAP by year with no exception.

In addition to presenting updated TIRZ projects to City Council, the TIF Unit is responsible for providing financial updates to the TIRZ Boards. TIRZ projects are managed by members of a Board that were appointed by City Council. TIRZ Board members are responsible for helping to create or amend TIRZ projects and finance plans, approve contractual agreements, approve reimbursement requests from developers, and make decisions on how the TIF funds are spent. However, updated financial information found on the finance plans such as project projections, interest calculations, and property valuations are not always made available for TIRZ Board meetings because the approval process mentioned above has not occurred. Consequently, the Finance team is reluctant to release the finance plans to the TIF Unit.



While an action plan for updating finance plans was implemented, a risk still exists that a TIRZ project may be presented to the TIRZ Board with outdated and/or inaccurate financial information. As a result, TIRZ Board decisions may be based on inaccurate or incomplete information.

### **Compliance with the Texas Tax Increment Financing Act**

We also reviewed compliance with Texas Statute – Tax Code Chapter 311 – The Tax Increment Financing Act. The statute requires the TIF Unit to submit an annual report on the status of each TIRZ to the CEO of each taxing entity in each zone and a copy to the State Comptroller. In order to complete the report the TIF Unit obtains data from SAP and a report provided by the Tax Assessor's office (Tax Assessor long sheets). During our walkthrough with the Economic Development Manager, we noted that a process to verify the accuracy of the data reported to the State does not exist.

Consequently, we performed our own review of a random sample of 10 TIRZ projects to ensure that the financial data reported to the State was accurate. Information reviewed included the TIF fund balance, tax increment received, other fund revenue, administrative expenditure, other expenditures, reinvestment zone base and current captured appraised values.

Based on our review, we identified discrepancies between the amounts reported and the Tax Assessor long sheet for one of the TIRZ projects – Midtown. A variance of \$63,851,253 existed between the reinvestment zone base value reported and the amount noted in the Tax Assessor long sheet. This was a result of a manual data entry error keyed into the legislative report resulting in an over statement of the base property value. Additionally, our reconciliation identified an understatement of the current captured appraised value in the amount of \$160,535,229. The TIF Unit was unable to provide the source document used to obtain the amount reported.

### **3. Implementation of Controls over Collection and Disbursement Processes**

#### **Status: Partially Implemented**

The TIF Unit implemented a standard review process to ensure the accurate collection of revenue from administrative fees and the disbursement of developer reimbursements.

We reviewed the total population of 18 administrative fee transfers made in FY 2015 by reviewing related support and approvals and found no exceptions.

For the total population of 40 developer reimbursements made in FY2015 we determined that the controls in place are working effectively to ensure that each

disbursement is reviewed and approved before payment is made, and accurately recorded in SAP.

An area within the revenue collection process that should be improved is ensuring that the appropriate amount of tax increment revenue is billed and collected from participating taxing entities (PTEs). A reconciliation process is not being conducted by the TIF Unit to ensure the accuracy of the amount billed to the PTE and that the correct amounts are recorded in SAP.

Consequently, we performed our own reconciliations for the total population of 20 active TIRZ projects by reviewing the Tax Assessor's long sheets, PTE invoices, and amounts reported in SAP. The following errors were identified:

- For 2 of 20 TIRZ, a total variance of \$475 existed between the amount billed and the Tax Assessor's long sheet. The TIF Unit confirmed that the PTEs were incorrectly billed and have communicated the error. The PTEs have agreed to pay the short billings in the next billing cycle.
- For 4 of 20 TIRZ, a total variance of \$17,676 existed between the amounts billed and the amounts recorded in SAP. The TIF Unit researched the variances and acknowledged that they were caused by clerical error, and auditors verified the correcting entries made.

### **Communication between Departments**

During our interviews with the TIF Unit and Finance department staff we noted that a communication barrier exists between the departments. Due to the lack of communication we noted that there were some redundancies in work between the two departments. Specifically:

- Review of the developer reimbursement process is conducted by several different parties within the DPCD and Finance departments. It appears that both departments are reviewing the same information and currently the process requires 8 signatures before payment is approved.
- As stated previously, if the finance plans have not been approved by Finance then the data is not released to the TIF Unit. Consequently, in preparation for TIRZ Board meetings, the TIF Unit must go into SAP and gather the financial data that is already recorded in the draft finance plans.

### **Updated Recommendation**

The Director of Planning and Community Development should:

- Perform a review of the annual legislative report before it is submitted to ensure that the financial data reported to the State is accurate and ties back

to supporting documentation. The review should be conducted and approved by someone other than the preparer of the report.

- Perform reconciliations of the tax increment amount billed to the amount found on the Tax Assessor's long sheets, and to the amount of revenue received and recorded in SAP. The reconciliation should be reviewed and approved by someone other than the preparer.
- Improve the communication gap between the TIF Unit and Finance Department by defining roles and responsibilities as well as sharing of information to assist in alleviating process redundancies. Additionally, work collaboratively to provide financial expertise, support of real-time data, and projections for all TIRZ projects so that the financial impact of each TIRZ project can be analyzed.

## **Appendix A – Staff Acknowledgement**

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Sandra Paiz, CFE, Audit Manager  
Reina Sandoval, Auditor in Charge  
Christopher Moreno, CFE, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 26, 2016

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

RE: Management's Acknowledgment and Corrective Action Plan for the Follow-Up Audit of the Department of Planning and Community Development's Tax Increment Reinvestment Zone (TIRZ) Operations.

- ☒ Fully Agree (provide detailed comments)
- ☐ Agree Except For (provide detailed comments)
- ☐ Do Not Agree (provide detailed comments)

The Department of Planning and Community Development and the Finance Department have reviewed the audit report and developed the Corrective Action Plans below for the corresponding report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p><b>TIF Program Lacks Appropriate Administrative Controls</b></p> <p>The Director of Planning and Community Development should:</p> <ul style="list-style-type: none"> <li>Perform a review of the annual legislative report before it is submitted to ensure that the financial data reported to the State is accurate and ties back to supporting documentation. The review should be conducted and approved by someone other than the preparer of the report.</li> </ul>	6-7	Accept	Bridgett White, Director, Planning and Community Development	February 2016

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<ul style="list-style-type: none"> <li>Perform reconciliations of the tax increment amount billed to the amount found on the Tax Assessor's long sheets, and to the amount of revenue received and recorded in SAP. The reconciliation should be reviewed and approved by someone other than the preparer.</li> </ul>	6-7	Accept	Troy Elliott, Deputy Chief Financial Officer, Finance Department and Bridgett White, Director, Planning and Community Development	Semi-Annually March and August
	<ul style="list-style-type: none"> <li>Improve the communication gap between the TIF Unit and Finance Department by defining roles and responsibilities as well as sharing of information to assist in alleviating process redundancies. Additionally, work collaboratively to provide financial expertise, support of real-time data, and projections for all TIRZ projects so that the financial impact of each TIRZ project can be analyzed.</li> </ul>	6-7	Accept	Bridgett White, Director, Planning and Community Development and Troy Elliott, Deputy Chief Financial Officer, Finance Department	December 2016

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b></p> <ol style="list-style-type: none"> <li>1. Second review of financial data completed by a DPCD Fiscal Analyst (shared services) with the submission of the FY15 Legislative Report and reviewed by someone other than the preparer of the information will continue with future filings. Additionally, TIF Unit contacted State Comptroller's office regarding incorrect data submitted in the 2014 Annual Report and submitted corrected copies at the State's request. This action is complete.</li> <li>2. In order to manage the accuracy of the long sheets, the Tax Assessor/Collector Administrator will prepare the information and the data will continue to be reviewed by someone other than the preparer of the information. The long sheets contain a listing of property accounts captured within each zone, base values, captured values and tax increment due for each Participating Tax Entity (PTE). Upon completion, the Long Sheets are provided to the TIF Unit to bill the PTEs. The TIF Unit will ensure that reconciliations are completed semi-annually between the tax increments reported on the long sheets, amount billed to PTEs, and the amount of revenue received from the PTEs and recorded in SAP. The reconciliations will be reviewed by someone other than the preparer of the information.</li> <li>3. The Directors of Planning and Community Development and Finance have met to improve the communication and coordination between the two departments. Emphasis will be in the areas of defining roles and responsibilities, elimination of process redundancies, to include: Contract Progress Payment Requests (CPPR) and approval, the development of Finance Plans, Financial Data (Reports), Contract Management, and Project Management. The two departments will continue to meet as necessary to review each of the areas above and identify opportunities for improvement. Agreed upon improvements will be implemented by December 31, 2016.</li> </ol>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

  
 Bridgett White  
 Director  
 Department of Planning and Community Development


9/26/16  
 Date

  
 Peter Zanon  
 Deputy City Manager  
 City Manager's Office

10-7-16  
 Date

  
Troy Elliott  
Deputy Chief Financial Officer  
Finance Department

9/27/16  
Date

  
Ben Gorzell  
Chief Financial Officer  
City Manager's Office

10/10/16  
Date