
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Center City Development and Operations Hemisfair Park
Redevelopment Corporation Contract Monitoring

Project No. AU16-004

March 1, 2017

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Center City Development and Operations (CCDO), specifically its contract monitoring of the Hemisfair Park Area Redevelopment Corporation (HPARC). We added an additional objective regarding contract terms during the planning phase of the audit. The audit objectives, conclusions, and recommendations follow:

Determine if controls are in place for the monitoring of the Hemisfair Park Area Redevelopment Corporation contract.

While controls are in place for the monitoring of the HPARC contracts, monitoring should be improved and the terms of the HPARC contracts need to be strengthened. We noted that the terms in the agreements do not ensure HPARC's contractors have adequate insurance, and do not adequately impose requirements on HPARC to ensure it has an adequate system of internal controls. CCDO has not had input into the existing agreements with HPARC, as they have been developed by the City Manager's Office.

We recommend that The City Manager's Office should include CCDO in Funding Agreement Negotiations.

Additionally, the CCDO Director and the City Manager's Office should negotiate future funding agreements that:

- Impose insurance requirements, as approved by Risk Management, on all contractors of HPARC, regardless of the source of funds. Also require copies of the relevant insurance certificates to be provided to the CCDO contract monitor.
- Include additional reporting requirements, such as a monthly status report that includes HPARC's budget vs. actual, summary of expenditures, and/or other information the CCDO contract monitor needs to assess HPARC's progress and compliance with its contracts.

CCDO should also ensure that HPARC strengthens its internal controls over expenditures and assets.

Additionally, we noted that the contract monitor has had little direct contact with HPARC personnel and has not performed any risk-based on-site monitoring visits. Consequently, we recommend that CCDO:

- Conduct periodic on-site monitoring visits to test compliance with significant contract terms, ensure the accuracy of any reports provided to the City, test the efficacy of internal controls, and to ensure HPARC is meeting its goals.

- Ensure the contract monitor has direct access to HPARC personnel for gathering information related to HPARC's compliance with contractual terms.

CCDO Management's verbatim response is in Appendix B on page 8.

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Background

In 2009, the San Antonio City Council established the Hemisfair Park Area Redevelopment Corporation (HPARC), a local government 501(c)3 nonprofit organization appointed to manage and revitalize the Hemisfair area. The overall mission of HPARC is to expand the existing park complete with plazas, courtyards, green space, art and cultural amenities, playgrounds, residences, and local businesses.

An 11-member board comprised of representatives from a cross-section of local stakeholders governs HPARC. The San Antonio City Council approves Board Members to serve two or four-year terms. The responsibilities of HPARC include acquiring property, planning, developing, constructing, managing, maintaining, and financing projects at Hemisfair.

HPARC receives funds predominantly from two City Sources: 1) the Transportation and Capital Improvements Department (TCI) for bond-funded projects related to Hemisfair Park, and 2) the Center City Development and Operations Department (CCDO) for non-bond projects and operating expenses. Our audit focused on those contracts HPARC entered into with CCDO (see Table 1 below).

Table 1. CCDO Agreements with HPARC

Agreement Name	End Date	Amount
Master Agreement	Expiration of all agreements	None
Funding Agreement FY 2015	09-30-2015	\$1,426,680
Master Lease	12-31-2113	HPARC to pay City \$10/year
Funding Agreement FY 2016	09-30-2016	\$1,687,694

Audit Scope and Methodology

The audit scope was from October 1, 2014 through February 29, 2016 and included all agreements between the City and HPARC subject to CCDO oversight as well as the monitoring documentation and activities related to those agreements. It also included HPARC expenditures for the above period and assets currently in inventory.

We interviewed staff of both CCDO and HPARC. We reviewed monitoring documentation and correspondence, audited financial statements of HPARC, and agreements between CCDO and HPARC. We tested a judgmental sample of HPARC expenditures from high-risk categories and verified a judgmental sample of asset inventory. High-risk categories included non-recurring charges and reimbursements to employees.

We did not rely upon any computer-processed data for this audit. Thus, no testing of general and application controls was required.

We conducted this 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 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.

Audit Results and Recommendations

CCDO has a contract monitor responsible for overseeing the contractual compliance of HPARC. In accordance with City procurement policies, the monitor has assembled a contract monitoring file and keeps track of HPARC's progress towards compliance with all contractual requirements. However, we identified several areas in which CCDO and City Management should strengthen contract terms and contract monitoring.

A. Contract Requirements

A.1. Insurance

HPARC contractors may not have adequate insurance.

Although HPARC may choose to require its contractors to obtain insurance,¹ neither the City's Risk Management office nor the CCDO contract monitor has received copies of the insurance requirements placed on those entities or the associated insurance certificates so that they can ensure the adequacy of the insurance.

HPARC is a local government corporation, which means that although it is a non-profit, it is also a governmental arm of the City of San Antonio. Its accounting books are consolidated into the financial statements of the City and the City's annual financial statements state that it has the ability to impose its will on HPARC. Additionally, under state law, the City may absorb the duties, responsibilities, assets, and liabilities of HPARC at any time. As such, all of HPARC's funds are effectively the City's and HPARC's contractors are the City's contractors. Furthermore, HPARC's mission is to develop the Hemisfair area, which is City property. Thus, any insurance risk of HPARC with regard to its contractors is also an insurance risk to the City.

A.2. Internal Controls

The HPARC funding agreement lacks specificity with regards to internal control requirements HPARC must implement and maintain.

HPARC's funding agreement relies heavily on passive requirements, such as reserving the right of the City to inspect HPARC's records and requiring HPARC to have a system of internal controls. The agreement does not specify in any

¹ HPARC's funding agreements, master lease, and master agreement do not obligate HPARC to require its contractors to maintain insurance in accordance with the City's Risk Management standards unless they are being paid directly with funds provided to HPARC under the funding agreement. HPARC has sources of income and funding other than the funding agreements, such as bank loans, donations, and in the future, rent and parking revenues

detail what controls HPARC must have, what subjects policies and procedures should cover, what kinds of expenditures are unallowable, etc.

Additionally, HPARC's operating expenses are pre-funded, not reimbursed. HPARC is not required to submit expenditures to the City for approval and only submits high level financial reports after-the-fact. Although it has a yearly annual financial statement audit, the audit doesn't examine whether expenditures are allowable and prudent. HPARC also does not submit to the CCDO contract monitor any reports of its budget vs. actual expenditures, or of its progress in achieving its objectives (e.g., a status report).

This doesn't mean that HPARC does not have a system of internal controls, merely that the City is not setting standards for or reviewing those controls in depth.

To test HPARC's controls over expenditures, we judgmentally selected 36 (\$13,774) out of 1,252 expenditures made from high-risk categories (\$158,777). Two expenditures were reimbursed, leaving a sample of 34 expenditures. We found:

- The majority of expenditures (27 of 34) did not have evidence of supervisory approval, nor did all reimbursements have an associated expense report, as required by HPARC's policies and procedures.
- Three of 34 expenditures only had partial support for the payment made. They had receipts, but were missing the names of persons partaking in the meal, documentation to support travel charges on a vendor's invoice, or did not document the reason for the travel.
- Two of 34 expenditures had no documentation retained that supported the amount spent. One was a \$184 charge for catering in which the only receipt was a gift receipt that did not include prices. The other expenditure was a \$518 dinner for which no documentation could be located. HPARC stated that it was a combination going-away party and holiday dinner.

Finally, HPARC's asset list currently includes only capitalized assets and lacks detailed descriptions of its assets, such as computer serial numbers or asset tracking numbers. This information would be useful in case of theft and for tracking disposal of assets. The City tracks assets that meet the definition of capitalized assets that do not meet the monetary capitalization threshold. This includes items such as computer monitors, microwaves, and refrigerators, among others.

The lack of internal controls can result in an environment subject to fraud, waste, and abuse.

Recommendations

The City Manager's Office should include CCDO in Funding Agreement Negotiations.

Additionally, the CCDO Director and the City Manager's Office should ensure that future funding agreements:

- Impose insurance requirements, as approved by Risk Management, on all contractors of HPARC, regardless of the source of funds. Also require copies of the relevant insurance certificates to be provided to the CCDO contract monitor.
- Include additional reporting requirements, such as a monthly status report that includes HPARC's budget vs. actual, summary of expenditures, and/or other information the CCDO contract monitor needs to assess HPARC's progress and compliance with its contracts.

CCDO should also ensure that HPARC strengthens its internal controls over expenditures and assets by: 1) specifying in detail what constitutes unallowable expenditures and, 2) tracking assets that meet the definition of capitalized assets even though they may not meet the monetary capitalization threshold.

B. Oversight of HPARC

On-site monitoring visits are not performed by the contract monitor, who rarely has direct contact with HPARC staff (in person or via phone or email). The CCDO project manager obtains information and status updates from HPARC and forwards this information to the contract monitor. Additionally, as noted in finding A, funding agreement requirements are often vague and reports are few, limiting the effectiveness of contract monitoring.

Finally, CCDO has not performed any on-site monitoring visits (pertaining to the contractual requirements) since the initiation of the agreements with HPARC. On-site monitoring is vital to ensuring contract compliance, as it provides CCDO with the opportunity to test, on a sample basis, compliance with contract requirements and laws and regulations.

As evidence of on-site monitoring, CCDO provided documentation showing the contract monitor attended one in-person meeting at HPARC in June 2015 to discuss contractual obligations and outstanding deliverables – the same items usually requested from HPARC via the project manager. However, on-site monitoring visits are generally used to obtain a more in-depth look at a vendor's operations than a desk review would provide, by testing areas such as expenditures, completeness of supporting documentation, internal controls, payment of obligations, and compliance with laws, such as Davis-Bacon.

Recommendations

The CCDO director should ensure that:

- Periodic on-site monitoring visits are conducted to test compliance with significant contract terms, ensure the accuracy of reports provided to the City, test the efficacy of internal controls, and ensure HPARC is meeting its goals.

- The contract monitor has direct access to HPARC personnel for gathering information related to HPARC's compliance with contractual terms.

Appendix A – Staff Acknowledgement

Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager
Susan Van Hoozer, CIA, CISA, Auditor in Charge

Appendix B – CCDO Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
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November 17, 2016

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

RE: Management's Corrective Action Plan for Audit of CCDO Hemisfair Park
Redevelopment Corporation Contract Monitoring

Center City Development and Operations has reviewed the audit report and has
developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Contract Requirements</p> <p>The CCDO Director and the City Manager's Office should ensure that future funding agreements:</p> <ul style="list-style-type: none">• Impose insurance requirements, as approved by Risk Management, on all contractors of HPARC, regardless of the source of funds. Also require copies of the relevant insurance certificates to be provided to the CCDO contract monitor.• Include additional reporting requirements, such as a monthly status report that includes HPARC's budget vs. actual, summary of expenditures, and/or other information the CCDO contract monitor needs to assess HPARC's progress and	4-5	Accept	Bruce Martin	9/30/2021

Appendix B – CCDO Management Response (cont.)

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>compliance with its contracts.</p> <p>CCDO should also ensure that HPARC strengthens its internal controls over expenditures and assets by: 1) specifying in detail what constitutes unallowable expenditures and, 2) tracking assets that meet the definition of capitalized assets even though they may not meet the monetary capitalization threshold</p>				
	<p>Action plan:</p> <p>1a. CCDO will propose future funding agreements include insurance requirements approved by Risk Management on all HPARC contractors regardless of funding source and relevant insurance certificates be provided to CCDO contract monitor.</p> <p>1b. CCDO will propose future funding agreements include reporting requirements that include HPARC's budget vs. actual, summary of expenditures, and/or other information the CCDO contract monitor needs to assess HPARC's progress and compliance with its contracts.</p> <p>1c. CCDO will propose future funding agreements direct HPARC to strengthen internal controls over expenditures and assets by: 1) specifying in detail what constitutes unallowable expenditures and, 2) tracking assets that meet the definition of capitalized assets even though they may not meet the monetary capitalization threshold.</p>				
2	<p>Oversight of HPARC</p> <p>The CCDO director should ensure that:</p> <ul style="list-style-type: none"> Periodic on-site monitoring visits are conducted to test compliance with significant contract terms, ensure the accuracy of reports provided to the City, test the efficacy of internal controls, and ensure HPARC is meeting its goals. The contract monitor has direct access to HPARC personnel for gathering information related to HPARC's compliance with contractual terms. 	5	Accept	Bruce Martin	9/30/2017

Appendix B – CCDO Management Response (cont.)

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: 2a. CCDO will create standard operating procedures for on-site monitoring visits. CCDO contract coordinator will conduct semi-annual visits; test contract compliance, confirm availability of reports concluding with CCDO summary report. 2b. CCDO contract coordinator has direct access to HPARC personnel.				

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


Sincerely,



John Jacks
Interim Director
Center City Development and Operations

2-14-17

Date



Lori Houston
Assistant City Manager
City Manager's Office

2/14/17

Date