



CITY OF SAN ANTONIO

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March 16, 2017

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SUBJECT: Audit Report of the Center City Development and Operations Contract for Improvements and Services in the Downtown Public Improvement District

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Center City Development and Operations Contract for Improvements and Services in the Downtown Public Improvement District. This audit began in November 2015 and concluded with an exit meeting with department management in August 2016. Management's verbatim response is included in Appendix E of the report. The Center City Development and Operations management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

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

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Center City Development and Operations

Contract for Improvements and Services
in the Downtown Public Improvement District

Project No. AU16-002

March 16, 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) Department's contract with Centro Public Improvement District (Centro). The audit objective and conclusion follow:

Determine if the City of San Antonio and Centro are in compliance with key terms of the contract for improvements and/or services in the San Antonio Public Improvement District (PID) in the downtown area.

CCDO and Centro do not have effective monitoring controls in place to ensure compliance with key contractual terms outlined in the contract.

Control deficiencies were identified in the following areas:

- Improvements and services provided by Centro regarding the maintenance, landscaping, and public service representative (PSR) programs are not effectively monitored.
- Internal controls are not operating effectively and/or do not exist to ensure compliance with financial contract terms. Specifically, invoices submitted by Centro for reimbursement of expenses are not reviewed for reasonableness, appropriateness, and timeliness; accounting for PID program expenses is inconsistent; and the collection process for assessments and fees needs improvement.
- Insurance and bond support is not reviewed to determine if Centro and their respective contractors are adequately insured and bonded.
- Support to ensure that equipment used for the Public Improvement District is properly maintained and accounted for does not exist.

CCDO management agreed with our recommendations and have developed positive action plans. CCDO management's verbatim responses are included in Appendix E.

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Background

In 2000, Centro San Antonio Management Corporation launched Centro San Antonio – the Downtown Public Improvement District (PID) to provide services and improvements as a supplement to services provided by the City of San Antonio. Through the efforts of the PID, Centro San Antonio helps accommodate downtown’s growing residential population, enhance its office and retail market, and position downtown as a premier convention and visitor destination. In May 2013, City Council renewed the PID for a ten year term, beginning October 1, 2013 through September 30, 2023.

The City reimbursed Centro \$3,923,271 for management and service expenses incurred in FY2015¹. Centro has contracts in place with the following vendors to complete specific services in the form of Ambassadors, Maintenance, and Landscaping/Streetscaping programs that are outlined in their contract with the City:

Subcontractor’s Name	Services Provided	Amount Invoiced in FY15
Block by Block	Sidewalk maintenance, trash pick-up, graffiti abatement, and public service representatives	\$1,862,865
Benchmark Landscapes	Landscaping services	\$245,909
Texas Bird Services	Bird abatement services (grackle and pigeon)	\$109,038
Total		\$2,217,812

Source: FY15 Invoices submitted by Centro

Centro is responsible for submitting an annual Service and Assessment Plan that outlines the improvements and/or services to be provided within the PID boundaries in the ensuing fiscal year. (Refer to Appendix A for a map of the district boundaries.)

The PID is funded by property owners within the PID district. The City sends annual assessment notices and collects the levy on commercial and residential properties as well as municipally owned properties located within the PID. The assessment is based on the real property value as determined by the Bexar Appraisal District. For commercial properties, the levy is calculated using the assessed value and for residential homestead properties, the levy is calculated using the taxable value according to the San Antonio Independent School

¹ The contract includes terms for other services provided by Centro, such as a marketing program, business recruitment and retention program, and a capital projects program. However, our review focused on the maintenance, landscaping, and the public service representative programs.

District. In FY15, the commercial and residential levy rates were \$0.15 and \$0.09 per \$100 value, respectively.

In addition to the annual assessments noted above, the City receives funds through an Interlocal Agreement with VIA Metropolitan Transit. The following table provides the total amount of PID revenue received in FY15.

Public Improvement District – Revenue Collected for FY15	
Private Assessments	\$3,260,807
Penalty and Interest Payments	27,797
Delinquent Payments	8,944
City and CPS Energy Assessments	262,570
VIA – Interlocal Agreement	225,000
Total:	\$3,785,118

Source: SAP

Audit Scope and Methodology

The audit scope included review of key terms identified in the Contract for Improvements and/or Services in the San Antonio Public Improvement District in the Downtown Area and the Service and Assessment Plan for FY15.

Our methodology and testing criteria consisted of conducting interviews and walkthroughs with key personnel from the Center City Development and Operations Department and at the Centro Public Improvement District. We also reviewed invoices for related expenses, and other key documents such as vehicle leasing agreements, collateral and insurance documents, as well as equipment logs.

We relied on computer-processed data in SAP to validate PID revenue payments. Our reliance was based 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 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

A. Oversight of Services and Improvements Does Not Exist

A standard monitoring process to ensure that services outlined in Centro's Service Assessment Plan are conducted does not exist.

Quarterly reports from Centro could serve as a monitoring tool to track work activities; however, they are not received timely and are not reviewed by CCDO personnel. Additionally, the reports do not include detailed information that outlines the areas serviced to include all zones within the PID.

We attempted to reconcile the quarterly reports back to the activities listed on the Assessment Plan. However, we were unable to do so because the reports did not include enough detail of the work completed.

According to the contract, quarterly reports are due to the City on the 15th working day of the month after the end of the quarter and should detail all of Centro's significant work activities from the preceding quarter.

Without conducting a review of actual services and improvements performed, CCDO has no assurance that Centro completed work activities outlined in the Service and Assessment Plan for all zones/areas within the PID.

Recommendations

The CCDO Director should implement monitoring controls to ensure that all required improvements and/or services are completed by Centro. Standard processes should include (at a minimum):

- Request that Centro provide detailed quarterly reports by the 15th working day of the month after the end of the quarter. Report detail should be specific to PID activity and zone to ensure that all areas are being serviced.
- Perform a review of the quarterly reports in a timely manner to verify the accuracy and completeness of services rendered.

B. Inadequate Review of Payments made to Centro

Invoices submitted by Centro for reimbursement of expenses for maintenance, landscaping, and the public service representative programs are not reviewed for reasonableness, appropriateness, and timeliness.

Per the contract, the City reimburses Centro on a monthly basis for performance of the work provided. Additionally, the City may require submission of original or certified copies of invoices and/or cancelled checks to verify invoice expenses.

We conducted a review of the FY15 invoice packets submitted by Centro and noted the following issues for several expenses reviewed:

- Support was vague or missing from invoice packets.
- Several purchases were deemed questionable (i.e. valid PID expenses).
- Invoice submissions were untimely.

These expenses totaled \$172,179 (4%) of the \$3.9M paid to Centro in FY15. The table below illustrates our results per category.

Category	Total # of Expenses Paid	Dollar Amount of Expenses Paid
Lack of Sufficient Support Documentation	26	\$144,270
Questionable Purchases	158	23,626
Expenses not Submitted Timely	10	4,283
Total	194	\$172,179

Refer to Appendix C for expenses identified per category.

Inadequate review of expenses increases the likelihood that the City is paying for improvements and/or services that were not actually performed by Centro and/or are not specific to the PID.

Recommendations

The CCDO Director should:

- Implement a formal review process to ensure that expenses are supported, appropriate, and received timely.
- Create a listing of allowable expenses that fiscal personnel can refer to as a guide when reviewing invoices submitted for reimbursement. Once a listing of allowable expenses are identified and approved by management, they should be communicated to Centro.
- Review the FY15 expenses that were not supported, deemed questionable and not received timely. If it is determined that the expenses are not valid, request reimbursement from Centro.

C. Inconsistent Reporting and Accounting of PID Program Expenses

CCDO is not recording actual expenses billed to the specific PID Programs in SAP according to accounting standards.

Funds are allocated on an annual basis to the various PID programs and the budgeted amounts are approved by City Council.

We conducted a reconciliation between the actual expenses billed noted on the Invoice Packets from Centro to actual expenses recorded in SAP and identified the differences illustrated in the following table:

Program	FY15 Program Budget	Actual Expenses Invoiced	Amount Recorded in SAP	Difference
Management and Administration	\$641,000	\$741,268	\$641,000	\$(100,268)
District Operations	206,000	155,100	155,100	-
Maintenance	1,312,000	1,305,923	1,305,923	-
Landscaping/Streetscaping	265,000	246,809	246,809	-
Public Service Representatives	773,000	733,010	733,010	-
Business Retention & Recruitment Program	200,000	5,591	55,182	49,591
Capital Projects	350,000	105,057	205,326	100,268
Branding and Marketing	400,000	449,591	400,000	(49,591)
Planning	200,000	151,754	151,754	-
Contingency	100,000	4,167	4,167	-
Program Reserve	25,000	25,000	25,000	-
<i>Total FY15 Budget</i>	<i>\$4,472,000</i>	<i>\$3,923,271</i>	<i>\$3,923,271</i>	<i>-</i>

Source: FY15 Centro Invoice Packets and SAP

Our reconciliation revealed that when expenses exceeded the approved program budgets, CCDO staff made manual adjustments (as noted on the monthly invoice packets) to move amounts to different programs that were under budget. Consequently, amounts recorded in SAP are not representative of the actual amount billed as indicated by the differences noted in the table above.

In summary, Management & Administration and Branding & Marketing expenses were understated by \$100,268 and \$49,591, respectively. Capital Projects and Business Retention & Recruiting expenses were overstated by \$100,268 and \$49,591, respectively.

We also identified documentation in which Centro stated a number of expenses that were adjusted between programs that are not consistent with what CCDO reported. Support for these adjustments was not provided by Centro nor requested by CCDO staff. Additionally, Centro's adjustments resulted in a possible overpayment by the City of \$44,357, as indicated in the table below.

Actual Expenses Invoiced	Invoiced Expenses after Centro's Adjustments	Possible Amount Overpaid by the City to Centro
\$3,923,271	\$3,878,914	\$44,357

Without monitoring program adjustments and obtaining appropriate approvals, there is a risk of overspending from one program and limiting the available funds from other respective programs. Furthermore, manual adjustments may be an indication that expenses were not properly estimated or funds are being misused and overpayments can go unnoticed. Accurate accounting of expenses is also necessary to improve future budget projections.

Recommendation

The CCDO Director should:

- Establish standard procedures to ensure adequate monitoring and recording of expenses. Furthermore, supported justification and approval for program expense adjustments should be approved by management, prior to recording in SAP.
- If applicable, request reimbursement from Centro for overpayment of expenses.

D. Collections Process for Assessments and Fees Needs Improvement

Currently, PID assessment collection efforts are handled by three different departments/divisions. CCDO's Contract Division administers the annual assessment for the Foundation of Cultural Arts and CCDO's department fiscal administrator administers the quarterly fee from VIA. The bulk of the assessments are handled by the Finance Department.

Our review of the collection efforts for assessments and fees identified the following issues:

- CCDO did not invoice nor collect the Foundations of Cultural Arts' FY15 assessment totaling \$16,994.
- CCDO did not invoice VIA timely for their quarterly fee (invoices ranged from 44 to 136 days late). As a result, the fourth quarter payment due in July 2015 was not remitted to the City until February 2016.

While the City is responsible for paying the annual assessments for exempt municipal properties such as City Hall, Municipal Plaza and the Central Library, the lease agreement in place with the Foundation of Cultural Arts stipulates that the foundation is responsible for paying the annual assessment.

Additionally, the Interlocal Agreement with VIA states that VIA will pay the City an annual fee of \$225,000 per fiscal year (\$56,250 per quarter) for services conducted by Centro. Services include providing bus route information and maintenance of bus stops and shelters located within the PID boundaries.

Lack of monitoring of assessments and fees increases the risk of non-collection of funds due to the City.

Recommendation

The CCDO Director should establish standard collection procedures to ensure that PID funds are invoiced and collected timely. Additionally, consider centralizing collection efforts into one department.

E. CCDO Staff is Not Verifying Insurance Requirements

CCDO is not monitoring insurance and bond requirements specified in the contract.

We obtained the certificates of insurance and bond documents directly from Centro and identified the following issues:

- The fidelity bond has a \$100,000 limit of insurance per occurrence. However, the bond is required to be not less than the maximum total of Centro's expected combined request for reimbursement for any given fiscal year. Based on the approved budget for FY15, Centro expected reimbursement of \$4.7M. Therefore, the bond coverage is insufficient.
- Although the bond is current, the bond support does not contain the required provision stating that a cancellation or expiration notice is sent to the City at least 60 days prior to the effective date of cancellation or expiration.
- CCDO is not ensuring compliance with the City requirement that subcontractors should obtain the same insurance coverage as the Contractor (i.e. Centro.) We reviewed insurance coverage for the three primary subcontractors and we were not able to determine appropriate insurance coverage for Texas Bird Services. Note: this was not a contract requirement; however, it is a requirement of the Risk Management department's standard operating procedures.

Without verifying that Centro and their respective subcontractors are adequately insured and bonded, there is an increased exposure to the City for financial liability in the event of misconduct, neglect, and/or unforeseen circumstances.

Recommendations

The CCDO Director should:

- Coordinate insurance and bond coverage for sufficiency with Risk Management.
- Ensure that all insurance and bond documents meet the requirements outlined in the contract by conducting an annual review of the insurance and bond support for Centro.
- Consider an amendment to the contract requiring subcontractors to obtain the same insurance as Centro.

F. Inadequate Monitoring of Purchased and Leased Equipment

Controls do not exist to ensure that equipment purchased or leased with PID funds is properly accounted for, licensed, and inspected.

According to the contract, an annual inventory is required to be performed by Centro and provided to the City. Additionally, no equipment purchased with PID funds from assessments with a fair market value in excess of \$2,500 may be disposed of without prior written approval from the City. Other requirements are also in place requiring Centro to notify the City if equipment is lost, stolen, missing, damaged, or destroyed.

The contract additionally states that the City retains ownership of all equipment/property purchased with funds received through the City, and shall, at the City's option, revert to the City at the end of the contract. Equipment that has reverted to Centro through a city paid lease agreement with the option to buy will be considered the same as though the equipment was purchased outright with City funds.

Based on test work conducted, we noted the following:

- CCDO does not receive and review records from Centro (i.e. inventories, inspection/license reports, and maintenance logs) of vehicles and cleaning equipment.
- Equipment maintenance and repairs are not always documented by Centro and/or Block by Block (BBB). We were unable to reconcile 12 out of the 20 (60%) maintenance and repair receipts to the respective work orders.

- CCDO has not established guidelines for Centro to properly dispose of equipment with a fair market value greater than \$2,500. Based on conversation with Centro, we identified five trucks stored at a commercial garage that are no longer in service due to the age of the vehicles. The cost to store these vehicles was approximately \$4,500 in FY15.

Without monitoring the equipment purchased with PID funds, CCDO does not have assurance that equipment is properly accounted for. Additionally, equipment that is not properly licensed and inspected increases the likelihood of faulty equipment not being identified which may result in higher repair costs and potential safety risks to employees and the general public.

Recommendations

The CCDO Director should:

- Perform an annual inventory of all equipment purchased or leased with PID funds to determine if equipment is accounted for. Discrepancies should be investigated to determine if equipment was properly disposed of and missing items (if applicable) were reported to the City.
- Verify that all equipment is properly inspected and licensed on a regular basis.
- Ensure that Centro and the subcontractors notify CCDO of all third party agreements in place that use PID funds to cover expenses.
- Implement a standard process of documenting work orders for equipment maintenance and repairs. The work orders should be detailed to the work performed and the equipment serviced. In addition, the work orders should be attached to the equipment maintenance and repair invoices as support.
- Obsolete equipment should be reviewed and possibly sold to avoid paying unnecessary storage fees. To ensure compliance with the contract, provide guidance to Centro on how to properly dispose of equipment with a fair market value over \$2,500 to include obtaining prior City approval.

Appendix B – Program Services Reviewed

Program:	Services:
Maintenance Program	<ul style="list-style-type: none">• Sidewalk Maintenance – sweep, vacuum, remove litter, and power wash• Clean street furniture• Trash pickup• Graffiti abatement• Grackle and pigeon relocation
Landscaping	<ul style="list-style-type: none">• Install and maintain planters located on the light poles, stair rails, and in large pot clusters throughout the District• Water, fertilize, prune, replace plants, treat wounds, control diseases, and control insects
Public Service Representatives (PSR)	<ul style="list-style-type: none">• Provide directions and bus schedules• Render assistance when necessary• Observe and report undesirable conditions

Appendix C – Summary of Expenses Reviewed

Category	Vendor	Amount	Description of Expense	Auditor's Comments
Lack of Sufficient Support Documentation	Benchmark Landscapes	\$93,417	Landscaping Services	Invoices did not contain a detailed description of work completed for the month.
	Benchmark Landscapes	\$23,166	Landscaping Services	Expense is included on Centro's invoice summary; however, the actual invoice was missing from the invoice packet (August 2015).
	Delta Airlines	\$565	Airfare for Block By Block's (BBB) Operations Manager to attend a BBB management meeting	Documentation in the invoice packet was a printout of an email confirmation. It did not include a list of passengers or description and purpose of the event, as minimally required by COSA AD 8.32.
	Washing Equipment of Texas	\$2,365	Maintenance and repairs on BBB-owned power washing equipment	Invoices did not indicate the equipment item that was repaired.
	AutoZone	\$45	Unable to determine	Expense is included on Block By Block's invoice summary; however, the actual receipt was missing from the invoice packet (February 2015).
	HEB	\$7,948	HEB Gift cards	Purchase order from Centro PID did not include a receipt or invoice from HEB for the purchase. Note: Auditors were able to obtain support to verify the transaction was valid.
	HEB	\$592	Various food and supplies	Receipts lacked a date of purchase on faxed copies.
	Other	\$16,172	Various purchases	Invoices lacked sufficient supporting documentation and/or were missing from the invoice packet.
TOTAL		\$144,270		
Questionable Purchases	Gift Cards	\$300	Various HEB and restaurant gift cards.	Gift cards purchased did not appear to be necessary or required to complete the improvements and services outlined in the Service and Assessment Plan. Receipts did not indicate the recipient of the gift cards.
	AutoZone	\$213	Auto Parts	The receipt indicated that a loyalty card was used on this purchase; however, the loyalty member is not a Block By Block employee.
	Various Restaurants	\$5,073	Food	Meal expenses appear excessive for status meetings held several days a week by Block by Block Management. Meals were paid for utilizing PID funds and attendees included management from Centro and CCDO.
	Palm Restaurant	\$100	Items purchased unknown	Credit card receipt showed a purchased of \$0.01 with a tip of \$100. No indication of purpose for the purchase on the receipt or items purchased.
	Blanco Café	\$27	Food	Note on the meal receipt stated "Wed Meeting"; however, the receipt was produced on a Tuesday.
	Other	\$17,913	Various purchases	Purchases such as flowers, holiday cards, trophies, and employee birthday pay that are questionable as to the benefit to the PID.
	TOTAL	\$23,626		
Expenses not Submitted Timely	Grace By Design	\$649	Polo Shirts	An invoice from 2013 was included in the October 2014 invoice packet.
	Washing Equipment of Texas	\$2,533	Maintenance and repairs on BBB-owned power washing equipment	Invoices (3) from August 2014 and (1) September 2014 were included in the November 2014 invoice packet.
	Other	\$1,101	Various supplies	Invoices were submitted in a different month than the actual purchase.
TOTAL		\$4,283		
GRAND TOTAL		\$172,179		

Appendix D – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Christopher Moreno, CFE, Auditor in Charge
Amy Barnes, CFE, CGAP, Auditor

Appendix E – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

February 14, 2017

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

RE: Management's Corrective Action Plan for the Audit of Center City Development and Operations

The Center City Development and Operations (CCDO) Department 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>Oversight of Services and Improvements Does Not Exist. The CCDO Director should implement monitoring controls to ensure that all required improvements and/or services are completed by Centro. Standard processes should include (at a minimum):</p> <ul style="list-style-type: none"> Request that Centro provide detailed quarterly reports by the 15th working day of the month after the end of the quarter. Report detail should be specific to PID activity and zone to ensure that all areas are being serviced. Perform a review of the quarterly reports in a timely manner to verify the accuracy and completeness of services rendered. 	4	Accept	Lincoln St George Downtown Operations Manager	October 1, 2016

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Current Process:</u></p> <ul style="list-style-type: none"> • Oversight of services and improvements does exist, and monitoring controls are currently in place to verify required improvements and services are performed. • Centro PID has several reporting tools to track performance of subcontractors that provide core services within the PID. These reporting tools are used to prepare the quarterly report, which CCDO staff thoroughly reviews each quarter. Centro has informed CCDO staff that they do not receive all of the necessary reports from their subcontractors until the 10th working day of the month, which results in delays in providing quarterly reports to CCDO. • Centro's Director of the PID Operations conducts periodic random field surveys to review the quality of work. He also meets monthly with the subcontractors' management teams to review performance and request corrective action if necessary. CCDO staff also meets weekly with Centro staff to review progress on services and improvements. <p><u>Action plan:</u></p> <ul style="list-style-type: none"> • CCDO will request that Centro provide detailed quarterly reports by the 15th working day of the month after the end of the quarter. CCDO will request that report detail be specific to PID activity and zone to ensure that all areas are being serviced. CCDO will document when the report is received and review any concerns with meeting the contract deadline of the 15th day of the month. CCDO may consider a contract amendment to revise the due date based on the feasibility of preparing accurate information in a timely manner. • CCDO staff will continue to meet weekly with Centro staff to review progress on services. CCDO and Centro PID staff have developed weekly reports that will be reviewed with subcontractors at a weekly meeting. Following the review, each party will be asked to sign off on the report. Information from these reports will roll up into monthly and quarterly reports. To assist with verifying the accuracy and completeness of services rendered, Centro and CCDO will schedule quarterly meetings to conduct a detailed review of the reports. • In addition, CCDO recently hired a full-time Contract Officer to provide monitoring and compliance oversight on various Parking and Lease agreements. The Contract Officer is now also providing monitoring and compliance oversight of the PID contract and will ensure that the quarterly reports are submitted to CCDO in a timely manner and verify services rendered meet contractual minimums. 				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	<p>Inadequate Review of Payments made to Centro.</p> <p>The CCDO Director should:</p> <ul style="list-style-type: none"> Implement a formal review process to ensure that expenses are supported, appropriate, and received timely. Create a listing of allowable expenses that fiscal personnel can refer to as a guide when reviewing invoices submitted for reimbursement. Once a listing of allowable expenses are identified and approved by management, they should be communicated to Centro. Review the FY15 expenses that were not supported, deemed questionable and not received timely. If it is determined that the expenses are not valid, request reimbursement from Centro. 	5	Accept	Regina Peaches, DFA	<p>Checklist, Complete</p> <p>Allowable List of Expenses, Jan 2017</p>

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Current process:</u> CCDO Fiscal currently reviews and processes monthly invoices in accordance with Administrative Directive 8.3 concerning Vendor Payment Processing to ensure the payment requests are supported with documentation and the invoice cover or summary sheets have the appropriate vendor info (name, date, invoice number, program information, date(s) of service and signature approvals). Additional controls will be established to enhance the current review process.</p> <p><u>Action plan:</u></p> <ul style="list-style-type: none"> CCDO will create an internal checklist to ensure invoices are reviewed by Operations and Fiscal prior to being processed for payment. Upon receipt, invoices will be date stamped. The Operations Manager or Designee will review the monthly invoice to verify that expenses are reasonable and appropriate for the work performed, and sign-off on the checklist after review. The Fiscal Administrator or Fiscal Designee will review the monthly invoice in accordance with Administrative Directive 8.3. Once complete, the Fiscal Designee will sign-off on the checklist, and submit the invoice for payment processing. CCDO will work with Centro PID and the PID Board to establish a list of allowable expenses, in accordance with Chapter 372, Subchapter A of the Local Government Code. Once approved by Management, this list will be provided to COSA staff and Centro PID staff, to ensure uniformity and consistency in processing monthly invoices. In review of the FY15 expenses and the additional supporting documentation provided by Centro PID the week of May 26, 2016, CCDO has determined that all of the expenses are valid, and there is no refund due to COSA. To help ensure future expenses are valid and supported by sufficient documentation, CCDO will use the established internal checklist review process for all invoices received from Centro PID. There were 10 expenses totaling \$4,283 noted as "not submitted timely". The support for these expenses was received by Centro PID after the close of the fiscal year, and submitted to COSA for reimbursement after the year-end close. CCDO staff will work with Centro PID staff to determine a reasonable timeline for submission of invoices after the close of the fiscal year (9/30). 				
3	<p>Inconsistent Reporting and Accounting of PID Program Expenses. The CCDO Director should:</p> <ul style="list-style-type: none"> Establish standard procedures to ensure adequate monitoring and recording of expenses. Furthermore, supported justification and approval for program expense adjustments should be approved by management, prior to recording in SAP. If applicable, request reimbursement from Centro for overpayment of expenses. 	7	Accept	Regina Peaches, DFA	Ongoing

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Current process:</u> CCDO Fiscal currently reviews and processes monthly invoices in accordance with Administrative Directive 8.3 concerning Vendor Payment Processing to ensure that expenses are reviewed and appropriately accounted for on the invoice documentation and in the SAP accounting system.</p> <p><u>Action plan:</u></p> <ul style="list-style-type: none"> Using an established internal checklist review process, CCDO staff will enhance the review and recording of monthly invoices, according to Administrative Directive 8.3 and the PID Agreement. Per the PID Agreement, any program adjustments in excess of 10% will require prior written approval of COSA Management. CCDO will work with Centro PID on any program change that exceeds 10%, to ensure the appropriate approvals are on file, prior to processing monthly payments. Program adjustments shall not exceed 25% of the annual program budget. The Audit Team noted a \$45k discrepancy as a result of program adjustments, however, all FY15 expenses and supporting documents have been reviewed and are determined to be valid. Funds were properly accounted for at the end of the year and no refund is due to COSA as a result of program changes. To help ensure future expenses and program changes are valid and supported by sufficient documentation, CCDO staff will use the established internal checklist review process for all invoices received from Centro PID. CCDO staff will request additional support for program changes or any noted discrepancies prior to processing the invoices for payment, and work with Centro PID to resolve any outstanding issues. 				
4	<p>Collections Process for Assessments and Fees Needs Improvement. The CCDO Director should establish standard collection procedures to ensure that PID funds are invoiced and collected timely. Additionally, consider centralizing collection efforts into one department.</p>	8	Accept	Regina Peaches, DFA	Checklist, Complete
	<p><u>Action plan:</u></p> <ul style="list-style-type: none"> PID Fund contributions from VIA, CPS and the Foundation for Cultural Arts in SA will be managed by CCDO. CCDO Fiscal staff will establish a checklist of these collections due to the PID Fund annually (including entity, amount, and billing and payment cycles). CCDO Fiscal staff will follow-up on accounts receivables issues related to these contributions. 				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
5	<p>CCDO Staff is Not Verifying Insurance Requirements. The CCDO Director should:</p> <ul style="list-style-type: none"> • Coordinate insurance and bond coverage for sufficiency with Risk Management. • Ensure that all insurance and bond documents meet the requirements outlined in the contract by conducting an annual review of the insurance and bond support for Centro. • Consider an amendment to the contract requiring subcontractors to obtain the same insurance as Centro. 	9	Accept	Lincoln St. George, Downtown Operations Manager	November 1, 2016
	<p>Action plan:</p> <ul style="list-style-type: none"> • Although insurance requirements were not previously verified, CCDO confirmed with Risk Management that Centro's insurance is sufficient and meets the contractual requirements. Centro updated their bond coverage to meet contractual requirements, effective October 1, 2016. • CCDO will conduct an annual review of insurance and bond support for Centro. The Contract Officer will assist with this effort. • Risk Management confirmed the department's standard operating procedures require subcontractors to carry the same categories of insurance coverage as the prime contractor. CCDO confirmed with Risk Management that Centro's subcontractors have sufficient insurance coverage. CCDO will also conduct an annual review of insurance coverage for subcontractors. CCDO will consider an amendment to the contract in FY17 requiring subcontractors to obtain the same insurance as Centro. 				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
6	<p>Inadequate Monitoring of Purchased and Leased Equipment. The CCDO Director should:</p> <ul style="list-style-type: none"> • Perform an annual inventory of all equipment purchased or leased with PID funds to determine if equipment is accounted for. Discrepancies should be investigated to determine if equipment was properly disposed of and missing items (if applicable) were reported to the City. • Verify that all equipment is properly inspected and licensed on a regular basis. • Ensure that Centro and the subcontractors notify CCDO of all third party agreements in place that use PID funds to cover expenses. • Implement a standard process of documenting work orders for equipment maintenance and repairs. The work orders should be detailed to the work performed and the equipment serviced. In addition, the work orders should be attached to the equipment maintenance and repair invoices as support. • Obsolete equipment should be reviewed and possibly sold to avoid paying unnecessary storage fees. To ensure compliance with the contract, provide guidance to Centro on how to properly dispose of equipment with a fair market value over \$2,500 to include obtaining prior City approval. 	10	Accept	Lincoln St. George, Downtown Operations Manager	October 1, 2016

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <ul style="list-style-type: none"> • CCDO will perform an annual inventory of all equipment purchased or leased with PID funds. Discrepancies will be investigated to determine if equipment was properly disposed of and missing items (if applicable) are reported to the City. The inventory will be conducted by October 31st each year. • As part of the annual inventory process, CCDO will verify that all equipment is properly inspected and licensed on a regular basis. CCDO and Centro PID staffs have created monthly truck and equipment reports that will be reviewed by both parties and sub-contractors. Back up reports will be maintained, along with copies of all work orders and repair invoices. • CCDO will ensure that Centro and the subcontractors notify CCDO of all third party agreements in place that use PID funds to cover expenses. Maintenance of leased vehicles will be handled through the selected vendor's fleet repair program and that vendor's authorized repair shops. Under the program, all repairs will be reviewed by an SAE certified mechanic to ensure that all diagnostics and recommended repairs are accurate and warranted. • Centro PID has implemented a standard process of documenting work orders for equipment maintenance and repairs. The work orders will be detailed to the work performed and the equipment serviced. In addition, the work orders will be included with the equipment maintenance and repair invoices as support. As part of the annual inventory process, CCDO will verify the equipment maintenance and repair process is being implemented. • CCDO and Centro PID have reviewed obsolete equipment and are currently following the City's Fleet disposition process to properly dispose of the equipment. To ensure compliance with the contract, CCDO will recommend Centro follow this same process to properly dispose of obsolete equipment with a fair market value over \$2,500 to include obtaining prior City approval. 				

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

2-17-17
 Date


 Lori Houston
 Assistant City Manager
 City Manager's Office

2/15/17
 Date