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# **CITY OF SAN ANTONIO**

## **OFFICE OF THE CITY AUDITOR**



Audit of Center City Development and Operations Department

Property Management of La Villita and Market Square

Project No. AU16-005

June 13, 2017

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 an audit of the Center City Development and Operations (CCDO) Department, specifically the property management of La Villita and Market Square. The audit objective and conclusion follow:

### **Determine if leases at Market Square and La Villita are properly managed.**

Overall, CCDO has adequate controls in place for the effective management of property leases located at Market Square and La Villita. Controls are working as expected to ensure tenants' compliance with required operating hours and permitted and prohibited uses of the property as stated in the lease agreements. However, we did note the following areas where CCDO should improve administrative processes:

- Standard processes and controls for collection efforts do not exist to ensure compliance with related lease agreement terms and City Administrative Directives.
- Improper segregation of duties exist due to inappropriate access granted to users within the SAP application.

Center City Development and Operations Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 7.

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## Background

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The Center City Development and Operations Department (CCDO) was created in 2008 to facilitate and initiate the development and redevelopment of neighborhoods, businesses, and cultural resources within the Community Revitalization Action Group (CRAG) area. CCDO's Leasing and Asset Management Division is responsible for the operation and maintenance of city owned real estate and special event venues.

La Villita Historic Art Village is comprised of 22 city owned retail shops, art galleries and restaurants that are leased to tenants under revenue generating lease agreements. Additionally, the City has event venues such as Bolivar Hall and Arneson River Theatre, which are leased under short term rental agreements.

Market Square is comprised of 89 city owned shops within El Mercado and Farmers Market that are leased under retail shop agreements. Additionally, the City owns Market Square Plaza which is leased under patio license agreements to restaurants and shops at Market Square.

CCDO contract coordinators are responsible for managing new lease acquisitions and renewals of the real estate properties mentioned above. Their duties include invoicing tenants, receiving payments, and confirming tenants' compliance with contract terms such as required operating hours and permitted and prohibited uses of the property.

According to each lease agreement, the tenant pays the City rent revenue on a monthly basis. Revenue consists of rent based on square footage, common area maintenance fees, and utilities fees. The following table illustrates budgeted and actual revenue received in FY2016 and the proposed revenue for FY2017.

Lease Revenue for La Villita and Market Square	FY2016 Budget	FY2016 Actuals	FY2017 Budget
El Mercado Leases	\$ 638,176.00	\$ 596,123.53	\$ 539,097.00
Farmers Market Leases	731,816.00	736,520.61	750,074.00
Patio Space Leases (Market Square)	174,788.00	166,823.26	168,940.00
La Villita Leases	449,249.00	485,842.28	452,468.00
<b>Total Revenue</b>	<b>\$1,994,029.00</b>	<b>\$1,985,309.68</b>	<b>\$1,910,579.00</b>

Source: SAP

## Audit Scope and Methodology

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The audit scope included review of key terms identified in the lease agreements for properties at La Villita and Market Square, contract administration plans, tenant files, and city administrative directives. Our audit period was October 1, 2015 through September 30, 2016.

Our methodology consisted of conducting interviews and walkthroughs with key personnel from the CCDO Department. We also reviewed tenant invoices for monthly rent and utilities, and other key documents such as collateral and insurance documents to ensure compliance with lease agreements. We used the City Administrative Directives (AD) 8.1 Cash Handling, 8.4 Financial Management of Accounts Receivable, and 7.8d Access Control as criteria for our test work. We randomly selected 25 of the 128 lease agreements to perform our testing which comprised of 17 tenants at Market Square and 8 tenants at La Villita. For all 25 tenants, we reviewed all invoices for fiscal year 2016.

We relied on computer-processed data in SAP, the City's accounting system, to validate billings and payments for rental and utility fees. 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 in SAP had an effect on the results of our audit.

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

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### A. Non-compliance with lease agreement terms and City Administrative Directives related to collection efforts

1. CCDO is not consistently assessing late fees for outstanding accounts as outlined in the lease agreement terms.

Invoicing and late fee assessments are handled by the contract coordinators. Each month, they generate rent invoices and hand deliver to their designated tenants. Although the lease agreements state that a late fee should be assessed on the 11<sup>th</sup> calendar day of the month, CCDO's practice is to allow a grace period of 10-12 days, prior to a late fee invoice being generated.

We performed data analysis of 285 invoices from fiscal year 2016 and identified 276 invoices did not comply with the lease agreement terms which require invoices to be paid on the first day of the month. We also identified 56 invoices that were paid after the 10<sup>th</sup> calendar day grace period allowed by CCDO, but were not assessed a late fee.

Furthermore, for 6 months reviewed, we identified inconsistencies within the same month where some tenants were assessed a late fee while others were not.

The lease terms on the agreement state *rental, garbage and utility fees are to be paid promptly on the first day of each month. If payments are not received on or before the 10<sup>th</sup> day of the applicable calendar month, a late charge will be assessed on any payment received on the 11<sup>th</sup> day of the applicable calendar month or any day thereafter.*

2. CCDO is not appropriately handling and safeguarding payments collected from the tenants.

Per our walkthroughs and interviews with contract coordinators, we noted that collections of payments are sometimes performed by the contract coordinators while on site at the tenant's place of business. In these cases, there is no immediate endorsement or logging of checks, and no receipt provided to tenant.

Additionally, our review of the department's aging report identified standing credit amounts for several tenant accounts. This was a result of acceptance of overpayments/prepayments from tenants.

Administrative Directive 8.1 Cash Handling states *collections in the field are prohibited unless specifically authorized by the Director of Finance and checks shall be endorsed as they are received.* It also states *all checks shall be accepted only in*

*the amount of the sale or transaction. Checks may not be written for more than the amount due to the City.*

3. CCDO does not have consistent processes for handling accounts receivable collection efforts.

Currently, collection efforts are handled informally by the contract coordinators without oversight by department fiscal staff. Collection efforts are often conducted over the phone or in person with little or no documentation kept on file.

We reviewed outstanding accounts recorded on the department's September 30, 2016 Aging of Accounts Receivable Report. We identified 2 out of 10 (20%) sampled invoices over 30 days late did not have documented notices as support of collection efforts as required by AD 8.4. Per discussions with the contract coordinators, they periodically review the aging report; however, there is no documentation of the review. Additionally, clearing of customer accounts appearing on the aging report are not always addressed timely.

Departmental collection efforts are solely handled by the two contract coordinators with no involvement from department fiscal staff. Based on discussion with Finance personnel, this is not the normal process. In most cases, fiscal staff such as the Department Fiscal Administrator should work with operational staff to complete assigned fiscal tasks. Fiscal assistance could help with the timeliness issue and also acts as an internal control to ensure that duties are appropriately segregated.

While the amounts for the two identified items listed above were not material, we deemed the lack of documentation to be high risk due to the lack of fiscal personnel oversight of fiscal processes handled by the department.

*Administrative Directive 8.4 requires accounts receivable collection efforts be initiated immediately for past due accounts. Complete documentation depicting a good faith effort to collect monies due to the City is necessary. All documentation (phone logs, copies of correspondence, etc.) are to be maintained at the department location for further review when requested. It also states that departments shall have documented end of day, month-end and year-end period close procedures. Procedures will include review, analysis, and corrections of the accounts receivables reflected on the Aging of Accounts Receivable Report, Fund 99 and No Fund transactions. Lastly, it states collections shall be the responsibility of City Departments and overseen by Fiscal Managers.*

Lack of standard and consistent procedures for collection efforts increases the risk of non-collection of funds due to the City. Additionally, lack of fiscal staff support for the collections process poses a potential segregation of duties issue.

## **Recommendation**

The CCDO Director should establish standard procedures that are documented and communicated to ensure consistent processes that are in compliance with lease agreement terms and city administrative directives. Any waiver from the lease agreement terms and/or city administrative directives should be justified, approved by management and documented.

### **B. Segregation of duties issue due to inappropriate access**

Controls for user access are not in compliance with City's *Administrative Directive 7.8d Access Control*.

During the fieldwork phase of the audit, we noted that the job responsibilities for contract coordinators included processing the monthly rent invoices in SAP for all customers. Our review identified two contract coordinators that have additional user access in SAP that allow them the ability to post customer payments and clear customer accounts, creating a segregation of duties issue. Note: Inappropriate user access was removed in SAP during the wrap-up phase of the audit with no exception.

*AD 7.8d states where technically feasible and appropriate, access controls will enforce segregation of duties, and access permissions will use the principle of least privilege.*

Without properly segregated user access, users have the ability to perform financial transactions beyond the scope of their assigned job responsibilities.

## **Recommendation**

The CCDO Director should ensure a periodic review of user access is performed timely to verify employees' access is based on the principle of least privileges.



## **Appendix A – Staff Acknowledgement**

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Sandra Paiz, CFE, Audit Manager  
Holly Williams, CISA, CRISC, Auditor in Charge  
Patricia Perez, Auditor

## Appendix B – Management Response



# CITY OF SAN ANTONIO

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

April 18, 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 Department's Property Management of La Villita and Market Square**

The Center City Development and Operations Department (CCDO) has reviewed the audit report and has developed the Corrective Action Plan below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p><b>Non-compliance with lease agreement terms and City Administrative Directives related to collection efforts</b></p> <p>The CCDO Director should establish standard procedures that are documented and communicated to ensure consistent processes that are in compliance with lease agreement terms and city administrative directives. Any waiver from the lease agreement terms and/or city administrative directives should be justified, approved by management and documented.</p>	5	Accept	Bruce Martin	9/30/2017

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<b>Action plan:</b> CCDO will establish written procedures for collection process. Procedures will comply with lease agreement terms and be communicated to staff. Deviation from written procedures will be justified, approved by management, and documented in lease files.				
2	<b>Segregation of duties issue due to inappropriate access</b>  The CCDO Director should ensure a periodic review of user access is performed timely to verify employees' access is based on the principle of least privileges.	5	Accept	N/A	N/A
	<b>Action plan:</b> CCDO will continue to rely on Finance Department's Compliance & Resolution Division to conduct periodic reviews and recommend appropriate access.				

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 Department

6-2-17  
 Date

  
 Lori Houston  
 Assistant City Manager  
 City Manager's Office

6-2-17  
 Date