
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Center City Development and Operations Department

Centro San Antonio Contract

Project No. AU19-C01

April 5, 2021

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 Department (CCDO), specifically the management of the Centro SA Contract. The audit objectives, conclusions, and recommendations follow:

Determine if the Centro SA Contract for downtown services is adequately managed.

The Centro SA Contract for downtown services is adequately managed. An assigned contract officer utilizes a Contract Administration Plan to ensure both Centro and the City comply with key contractual requirements. Additionally, CCDO's Downtown Operations Manager performs physical inspections of the Public Improvement District (PID) and attends weekly status meetings with Centro SA to discuss work performed and any issues encountered.

However, there are opportunities to improve equipment management, invoice review, and PID revenue reconciliations. Currently, controls do not exist to ensure proper equipment management. In addition, unallowable expenses were reimbursed to a subcontractor. Lastly, reconciliations were not performed to ensure PID revenue was accurately reported in SAP.

We made recommendations to improve these areas and CCDO and Finance management developed positive action plans to address these issues. CCDO and Finance management's verbatim response is in Appendix C on page 10.

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Background

Overview

In 1999, the Downtown Public Improvement District (PID) was established by City Council. The PID is a means through which property owners in the District (refer to **Appendix A** for program boundaries) can self-fund additional improvements and services to enhance the appearance and safety of downtown San Antonio.

Sources of Revenue

The primary source of revenue for the PID are the special assessments levied on property owners that reside within the PID. Rates applicable for FY 2019 were \$.15 per \$100 valuation on commercial real estate and \$.09 per \$100 of value on residential condominiums. In addition to special assessments levied, contributions are made from other entities to fund improvements and services in the PID. Refer to *Table 1* for all FY 2019 revenue sources pertaining to the PID.

Table 1 – FY 2019 Revenue Collected

Revenue Source	Revenue Collected
Special Assessments	\$4,437,134
Public Assessments from the City	\$272,949
Public Assessments from CPS	\$16,950
VIA Metropolitan Transit Contribution	\$294,000
Children's Hospital of San Antonio Contribution	\$122,400
Bexar County Contribution	\$30,000
Texas General Land Office Contribution	\$25,780
Majestic & Empire Theatres Contribution	\$18,360
Totals	\$5,217,573

Source: SAP

Contractor

To carry out improvements and services, the City of San Antonio (City) entered into an agreement with Centro Public Improvement District (Centro), a non-profit Texas corporation. Services and improvements provided by Centro include maintenance, beautification and landscaping, hospitality ambassador services, outreach and security services, marketing and promotion of the PID, community events and programs, economic development activities, project management, capital projects, and special projects services. Additionally, Centro is responsible for preparing an annual *Service & Assessment Plan* detailing services to be provided for the fiscal year, producing *Quarterly Reports* outlining work performed in the previous quarter, and engaging subcontractors to ensure adequate services are performed throughout the PID.

Contractor Reimbursements

During FY 2019, the City reimbursed the contractor approximately \$4,554,336 for management and service expenses incurred. Refer *Table 2* below for a breakdown by cost category:

Table 2 – FY 2019 Contractor Reimbursements

Cost Category	Amount Reimbursed
Core Services – Maintenance, Landscaping, Hospitality Ambassador Services, etc.	\$3,047,858
Other Services – Marketing & Promotion, Community Events & Programs, Project Management, etc.	\$1,341,023
Capital Projects	\$98,353
Other Projects	\$42,102
Program Reserve	\$25,000
Totals	\$4,554,336

Source: SAP

Monitoring Efforts

CCDO is responsible for overseeing the contract. CCDO has developed a contract administration plan (CAP) to monitor key contractual requirements. An assigned contract officer utilizes this CAP to ensure both Centro and the City comply with key contractual requirements. Additionally, CCDO's Downtown Operations Manager performs physical inspections of the PID and attends weekly status meetings with Centro SA (and their primary subcontractor, Block by Block) to discuss work performed and any issues encountered.

Additionally, Finance is responsible for monitoring and reporting the PID special assessments.

Audit Scope and Methodology

The audit scope included contract monitoring efforts, contractor reimbursements, and PID revenue collections for FY 2019.

To establish our testing criteria, we reviewed the current Centro SA Contract and the FY 2019 Service and Assessment Plan. Additionally, we interviewed CCDO and Finance staff to review their processes and identify controls related to contract monitoring, reimbursement processing, and PID revenue collections.

As part of our testing procedures we confirmed contractor monitoring efforts by CCDO were occurring by reviewing approval of the annual Service and Assessment Plans, confirming quarterly service reports were compiled timely, weekly status meetings were occurring, background checks were being performed, and employees were being trained.

Additionally, we reviewed equipment management controls regarding physical safeguards, inventory, and equipment disposal.

Furthermore, we reviewed a sample of invoices to confirm reimbursed expenses were adequately supported and allowable. We also performed data analysis over PID special assessments to determine whether they were levied correctly, and collections were accurately reported.

In accordance with generally accepted government auditing standards, we assessed and documented the significance of internal control to the extent necessary to address audit objectives. From our assessment, we identified the following internal control components and principles as significant within the context of this audit.

Control Component	Control Principle
Control Environment	Commitment to competence (training) Assignment of authority and responsibility
Control Activities	Authorizations and approvals Verifications Physical controls
Information and Communication	Quality of information
Monitoring	Ongoing monitoring

We relied on computer-processed data in the SAP to validate reimbursements made to Centro SA. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included determining if the reimbursed expenses were allowable, properly

supported, and accurately reported in SAP. 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 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

A. Contract Monitoring

CCDO has an adequate monitoring process in place to ensure contractual compliance. CCDO has developed a Contract Administration Plan to monitor key contractual terms for compliance. In addition, CCDO attends weekly status meetings with Centro SA (and their primary subcontractor, Block by Block) to discuss work performed and any issues encountered. We determined that key provisions, such as services performed, and the submission of required communications were in compliance with the contract.

Recommendations

None

B. Equipment Management

Controls do not exist to ensure proper equipment management. The audit team was unable to confirm the accuracy and completeness of the inventory listing. Examples of assets that should be included in the inventory listing are power washing trailers, vehicles, and sidewalk sweepers.

We reviewed the FY 2019 inventory listing and performed an inventory and determined:

- 29/29 assets on the original inventory listing did not include all required components per the contract (e.g. purchase amount, equipment location, procurement source, etc.),
- The original inventory listing contained 2/29 assets that had not been purchased/leased with PID funds.
- The original inventory listing did not include all purchases/leases made with PID funds. A corrected listing subsequently identified 10 additional assets that were not on the original inventory list.
- The audit team identified 3 assets that did not have matching serial numbers (between the original inventory listing and the asset itself).
- Out-of-service equipment had not been evaluated for potential disposal.

Per the Centro SA contract, equipment records should include a complete description and performance of an annual review by CCDO. Furthermore, as a best practice, the accuracy and completeness of the information provided to CCDO should be confirmed.

Without proper equipment controls in place, there is an increased risk for loss or theft of City-owned equipment.

As of March 2020, CCDO had compiled an updated inventory listing, created a Standard Operating Procedure over equipment management, and had begun evaluating out-of-service equipment for disposal.

Recommendation

The CCDO Director should establish controls over equipment management from inception through disposal such as:

- Obtaining and reviewing the PID equipment listing for completeness and accuracy per contract requirements,
- Performing an inventory of equipment to confirm existence and PID ownership, and
- Evaluating whether any equipment needs to be disposed of.

C. Invoice Review

Centro SA submitted unallowable expenses for reimbursement.

CCDO adequately reviews contractor submitted expenses for proper supporting documentation and allowability. However, improvements can be made to reviews for subcontractor expenses, which are currently subject to review only by the contractor (Centro SA). We reviewed 12 invoices and determined 2/12 invoices had unallowable expenses. One of the subcontractors submitted unallowable expenses such as out-of-town gas charges, late fees, and non-PID labor charges for reimbursement. As most of the unallowable expenses were out-of-town gas charges, the audit team sampled an additional 4 months' worth of gas charges. No additional unallowable expenses were identified as the result of the increased sample.

Due to inadequate subcontractor oversight, unallowable expenses were reimbursed by the City. While the amount of unallowable expenses was not significant, as a best practice, subcontractor expenses should be subject to review by CCDO fiscal staff.

Recommendation

The CCDO Director should ensure:

- Subcontractor expense documentation is reviewed (on a sample basis at a minimum) to confirm expense allowability and
- CCDO Management provide adequate guidance to the contractor and subcontractors regarding expense allowability.

D. PID Revenue Reconciliations

Finance did not perform reconciliations during FY 2019 to ensure PID revenue was accurately reported in SAP. We performed data analysis on 831 PID property accounts to compare assessments due to those collected. However, we were unable to determine whether 61/831 (7%) of the accounts were accurately reported in SAP. Upon further testing and inquiries, the audit team determined potential differences existed due to lack of a reconciliation process between the original system of record (CTAX) and the City's financial reporting system (SAP).

Due to a lack of control execution, the PID fund could potentially be misstated in SAP. Per the Standard Operating Procedures for the Public Improvement District, a report should be produced to reconcile the number of payments and amounts received.

Recommendation

The Deputy Chief Financial Officer should review the FY 2019 CTAX property accounts and the SAP PID fund to determine whether adjustments should be made.



Appendix B – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager

Abigail Estevez, CPA, CIA, CISA, Auditor in Charge

Elizabeth Reyes, Auditor

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78263-3968

March 18, 2021

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

RE: Management's Corrective Action Plan for Centro SA Contract

Center City Development & Operations Department has reviewed the audit and has developed the Corrective Action Plan below corresponding to the report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	B. Equipment Management: The CCDO Director should establish controls over equipment management from inception through disposal such as: • Obtaining and reviewing the PID equipment listing for completeness and accuracy per contract requirements, • Performing an inventory of equipment to confirm existence and PID ownership, and • Evaluating whether any equipment needs to be disposed of.	6	Accept	John Jacks Director	March 2021

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan: The Center City Development & Operations (CCDO) Department has reviewed the audit recommendations and has taken actions to improve controls related to equipment management. CCDO staff coordinated with Centro to update the inventory list to meet all contractual requirements, and CCDO coordinated with Compliance and Resolution to review Centro's inventory list and ensure it complies with the contract.</p> <p>Effective April 15, 2020, CCDO implemented a Standard Operating Procedure for Centro Inventory Verification, which provides guidance to CCDO staff when conducting the annual inventory of equipment and ensures that all items over \$2,500 acquired with Downtown PID funds during the contract period are adequately tracked. CCDO will also coordinate with Compliance and Resolution to determine if additional improvements can be incorporated into the Inventory Verification procedures.</p> <p>In October 2020, CCDO staff verified that obsolete equipment had been disposed of properly. CCDO will continue to coordinate with Centro to ensure that equipment is evaluated for disposal on an annual basis, and that City approvals are obtained prior to disposal for items over \$2,500.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	<p>C. Invoice Review:</p> <p>The CCDO Director should ensure:</p> <ul style="list-style-type: none"> • Subcontractor expense documentation is reviewed (on a sample basis at a minimum) to confirm expense allowability and • CCDO Management provide adequate guidance to the contractor and subcontractors regarding expense allowability. 	6	Accept	John Jacks Director	May 2021
	<p>Action plan: To implement recommendations, in FY 2021, CCDO began requesting select sample subcontractor documentations from Centro. This allows staff to review and confirm expense allowability, where applicable. Invoice review procedures have been drafted and will be sent to Compliance and Resolution for input. CCDO is in the process of conducting additional due diligence to review 3 additional months of invoices both before and after the covered audit period to ensure no unallowable charges for subcontractors are identified.</p> <p>CCDO staff also communicated with Centro to discuss expense allowability. CCDO met with Centro, including their new Finance Director, to review the fiscal section of the contract and advised of the sampling. In December 2020, the City's Procurement division provided training to Centro staff to facilitate a better understanding of the procurement requirements outlined in the Contract. CCDO had additional discussions with Centro Board chair and management to provide further guidance regarding expense allowability and adequate documentation.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	D. PID Revenue Reconciliations The Deputy Chief Financial Officer should review the FY 2019 CTAX property accounts and the SAP PID fund to determine whether adjustments should be made.	6	Accept	Troy Elliott, Deputy Chief Financial Officer	November 2020
	Action plan: The Finance Department has performed a reconciliation of CTAX reports with the FY 2019 PID collections to determine adjustments needed in SAP. Also, a reconciliation was performed in FY 2020 in anticipation of the transition to the Bexar County Tax Assessor-Collector's Office for PID billing and collection services beginning with FY 2021. On June 25, 2020, City Council through Ordinance No. 2020-06-25-0451 approved the contract for collection of the San Antonio Downtown Public Improvement District Assessments commencing July 1, 2020. Procedures for recording PID collections have been modified due to this change.				

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

Sincerely,


 John Jacks
 Director
 Center City Development & Operations

03/22/2021
 Date


 Troy Elliott
 Deputy Chief Financial Officer
 Finance Department

3/23/2021
 Date


 Lori Houston
 Assistant City Manager
 City Manager's Office

3/23/2021
 Date


 Ben Gorzell, Jr. CPA
 Chief Financial Officer
 City Manager's Office

3/23/2021
 Date