

**AUDIT COUNCIL COMMITTEE MEETING  
MINUTES  
TUESDAY, APRIL 22, 2014  
10:00 AM  
MEDIA BRIEFING ROOM**

Committee Present:	Council Member Ivy Taylor, <i>District 2, Chair</i> Council Member Ray Lopez, <i>District 6</i> Council Member Ron Nirenberg, <i>District 8</i> Citizen Member Donald R. Crews Citizen Member Stephen S. Penley
Staff Present:	Sheryl Sculley, <i>City Manager</i> ; Erik Walsh, <i>Deputy City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Leticia Vacek, <i>City Clerk</i> ; Peter Zaroni, <i>Deputy City Manager</i> ; Troy Elliott, <i>Finance Director</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Hugh Miller, <i>Chief Technology Officer</i> ; John Dugan, <i>Director of Planning and Community Development</i> ; Michael Taylor, <i>Interim Asst. Director of Planning and Community Development</i> ; Nancy Sheppard, <i>Economic Development Manager</i> ; Jonathan Lane, <i>Economic Development Coordinator</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Mark Bigler, <i>Audit Manager</i> ; Buddy Vargas, <i>Audit Manager</i> ; Sandra Paiz, <i>Audit Manager</i> ; Lorenzo Garza, <i>Auditor</i> ; Patsy Boozer, <i>ITSD</i> ; Mary Perez, <i>City Manager's Office</i> ; Rebecca De La Garza, <i>City Manager's Office</i> ; Rebekah Jamison, <i>Office of the City Clerk</i>

**CALL TO ORDER**

Chairperson Ivy Taylor called the meeting to order.

**1. Approval of minutes from the March 25, 2014 Meeting**

Councilmember Nirenberg moved to approve the meeting minutes of March 25, 2014. Committee Member Crews seconded the motion. Motion carried unanimously.

**Final Reports to be discussed**

**2. Project No. AU13-013 – DPCD Audit of Tax Increment Financing Program**

Sandy Paiz reported that as part of the annual Audit Plan, an audit of the Department of Planning and Community Development (DPCD) was conducted.

Ms. Paiz added that the Tax Increment Financing (TIF) was a special funding tool used by the City to promote public and private investments areas where little to no private sector investment is currently taking place. A portion of collected taxes are contributed to a fund that is used to help revitalize a designated area called a Tax Increment Zone (TIRZ).

Ms. Paiz stated that once a TIRZ has been established the City enters into written Interlocal Agreements with all participating taxing entities to specify the conditions for payment of the tax increment into a Tax Increment Fund. The specific portion of the tax increment to be paid by each entity into the Tax Increment Fund and the Term of the Interlocal Agreement. Incremental real property taxes resulting from new construction public improvements and redevelopment efforts accrue into the TIF Fund. The funds are used to build and repair roads and infrastructure and rehabilitate historic facilities and existing vacant buildings. The TIF Programs are currently managed by the Planning & Community Development Department (DPCD).

Ms. Paiz reported that the objective of the audit was to determine the appropriate controls and governance structures were in place to properly manage the Tax Increment Financing Program.

Ms. Paiz stated that the appropriate governance structures were not in place to properly manage the TIF Program, Specifically:

- Executive Management has not assigned overall responsibility for ensuring the TIF Program is in line with the City's overall strategic and Operational Goals and Policies.
- Guidelines and criteria for governing the TIF Program are not being managed in accordance with the TIF Manual adopted in 2008 and the Texas Tax Code.

Ms. Paiz added that consequently, the following operational control deficiencies were identified:

- Finance Plans used to budget and anticipate future tax revenue collections have not been completely updated for the 23 Active TIRZ since inception.
- Policies are not in place regarding Tax Increment Reinvestment Zone (TIRZ) administrative processes and procedures. Specifically:
  - Taxing entities were overbilled in at least one of the TIRZ Districts.
  - Administrative fees have not been consistently deducted from the TIRZ accounts.
  - Disbursements are not supported with appropriate evidence indicating the originating invoice was reviewed and approved.

Ms. Paiz recommended that the Director of Planning and Community Development should:

- A. Institute a TIF Governance Committee comprised of multiple stakeholders with the authority to make decisions on behalf of the City 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; and Operational, i.e. City Staff that provide oversight and direction of the TIF Program.
- B. Ensure appropriate controls are in place to effectively utilize, administer, and monitor the overall TIF Program, to include:



- Updating TIF Manual and submitting to City Council for approval as required.
- Updating project and finance plans for all TIRZ.
- Updating controls over the collection of revenue, i.e. taxes and administrative fees and over the disbursement process.
- Creation of internal policies and procedures over the administration of the TIF Program.

Mr. Dugan reported that the TIF Program has been under his direction for 2 years and in the process of changing the management of Process Policies. He added that they have hired new staff, and were working on a Policy draft for solutions. Mr. Elliott added that the Finance Department Staff was dedicated, and the new staff was working is focused on improvements.

Councilmember Lopez asked of the TIRZ Board response. Mr. Dugan reported that their response was to approve the new projects in place, and require they meet once per year to provide oversight of their respective TIRZ Project.

Ms. Sculley added that there are 23 TIRZ Boards and 19 are active. They are usually developer induced and City initiated.

Mr. Dugan stated that currently they are working on a fairness check and balance system; and it should be ready in three months.

Committee Member Crews asked if it was more problems than it is worth. Mr. Dugan stated that for redevelopment purposes, the TIRZ Boards have been a success.

Mr. Gorzell stated that it is labor intensive to use the TIRZ Tool. He added that today, there is more use of technology and more finance planning while updating the plan and projecting the future.

Councilmember Nirenberg asked of the cost of managing the TIRZ. Mr. Gorzell stated that the administrative fee ranges up to \$50,000 maximum.

Councilmember Nirenberg asked of the quality of the contractors. Mrs. Sculley replied that the contractors need to meet certain city standards. Mr. Gorzell added that due diligence and inspection is part of the new process. Councilmember Nirenberg said that these are terrific tools to use in regards to governance.

Chairperson Taylor asked that if on the governance issue; was additional training necessary for the Board Members. Mr. Dugan stated that said information will be brought to the Infrastructure and Growth Council Committee in addition on how to properly manage the TIRZs.

Councilmember Nirenberg moved to accept Audit AU13-013 as presented. Committee Member Crews seconded the motion. Motion carried unanimously.

### 3. FY 2014 Audit Plan Status Update

Mr. Barthold reported that a total of 17 reports had been issued while two were in the Mayor's office for review.

#### **Executive Session**

**To Deliberate the Security Audit pertaining to the Information Technology Services Department Solaris Operation System, pursuant to Texas Government Code Section 55.076 (deliberation regarding security devices or security audits).**

Chairperson Taylor recessed the meeting into Executive Session at 10:29 am. Chairperson Taylor reconvened the meeting at 10:39 am and stated that no action had been taken in Executive Session.

#### **Consideration of items for future meetings**


##### **A. Discuss Future Meeting Date/Time**

It was noted that the next Audit Committee Meeting was scheduled for May 22, 2014.

#### **4. Adjourn**

There being no further discussion, Chairperson Taylor adjourned the meeting at 10:41 a.m.

ATTEST:

  
\_\_\_\_\_  
Leticia M. Vacek, TRMC/MMC  
City Clerk

  
\_\_\_\_\_  
Ivy R. Taylor, Chairperson