



City of San Antonio

Agenda Memorandum

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In Control: Audit and Accountability Committee

CITY OF SAN ANTONIO FINANCE DEPARTMENT Interdepartmental Correspondence

TO: Sheryl Sculley, City Manager

FROM: Ben Gorzell Jr., CPA, Chief Financial Officer, Finance Department

COPIES: Audit and Accountability Committee; Kevin Barthold, City Auditor

SUBJECT: Centro update

DATE: March 20, 2018

A Public Improvement District (PID) is a mechanism that permits the City of San Antonio ("City") to levy an assessment on property owners within specified boundaries. PID funds may then be used to provide services which are supplemental to those provided by the City. Supplemental services include items such as streetscaping, beautification, maintenance and ambassadors.

The Downtown PID was created in 1999. The City contracts with the Centro Public Improvement District to provide the supplemental services. The current contract has a ten year term beginning on October 1, 2013 with an expiration of September 30, 2023. Through this contract, the City reimburses Centro for the services provided within the PID upon receipt of supporting documentation for those services. Centro is a public-private partnership that was created in 2010 to assist in the redevelopment of San Antonio's downtown. It is a non-profit corporation governed by a separate Board of Directors and is not a component unit of the City of San Antonio for financial reporting purposes.

Last November, the Board of Centro uncovered that a former Centro staff member had embezzled funds from the organization and orchestrated a fraudulent audit report and presentation. Both the City and Centro engaged firms to conduct independent reviews. The City Manager directed that the City's Finance Department engage an external independent audit firm to conduct a review of the reimbursements made to Centro. The scope of that review was focused on assessing whether any fraud occurred within the PID and the eligibility of expenses reimbursed. It did not include reviewing Centro's other sources of funds and is noted as Agenda Item A. below. Centro also engaged outside counsel who hired an accounting firm to conduct an external forensic review of Centro. The scope of this engagement was much broader and not only included the PID reimbursements to Centro but all of its funding. It is noted as Agenda Item B. below.

A. Results of the Review of the Downtown Public Improvement District performed by KPMG LLP (KPMG).

Pursuant to the direction from the City Manager, the Finance Department engaged KPMG, an external independent audit firm to review the reimbursements made by the City to Centro San Antonio from the PID.

Under the City's agreement with Centro, the City has the right to audit the books and records of Centro as it relates to the PID. As a result of this discovery and pursuant to the terms of the contract with Centro, the City's Finance Department engaged KPMG to perform this work. The engagement has been completed by KPMG and the results of the audit will be presented to the Audit and Accountability City Council Subcommittee at this meeting.

B. A report on CENTRO SAN ANTONIO's external forensic review.

Centro San Antonio hired outside counsel to conduct a review of its losses as a result of embezzlement by a former employee. This review was conducted by RSM which was hired by outside counsel. As previously reported, the review showed a loss of \$291,000 from CENTRO's Non-PID funding. It did not identify any embezzlement from PID funds reimbursed by the City. This loss resulted in changes to CENTRO's internal controls, management and personal. Representatives of CENTRO will be present to provide an update to the committee.