



CITY OF SAN ANTONIO

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May 8, 2012

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Carlton Soules
Councilman, District 10

SUBJECT: Audit Report of Downtown Operations Department, River Walk Leases

Mayor and Council Members:

We are pleased to send you the follow-up audit report of the River Walk Leases. This audit began in March 2012 and concluded with an exit meeting with department management in April 2012. Management's verbatim response is included in **Appendix C** of the report. The Downtown Operations Department should be commended for its 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



Follow-up Audit of the Downtown Operations Department

River Walk Leases

Project No. AU12-018F02

May 8, 2012

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Downtown Operations (DTOPS) River Walk Leases audit report dated May 13, 2010. Our audit objective for this follow-up audit follows:

Are prior audit recommendations successfully implemented and working as intended?

We determined that DTOPS has implemented all four recommendations in the aforementioned report. The audit team reviewed management actions for all four audit recommendations made in the original report with results noted in **Table 1** below (see **Appendix A** on page 4 for a detailed summary):

Table 1: Recommendation Status Summary

Recommendation Status	Number of Recommendations
Implemented	4
In Process	0
Not Implemented	0
Total Recommendations Reviewed	4

DTOPS' management verbatim response is in **Appendix C** on page 6.

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Background

In May 2010, the Office of the City Auditor completed an audit of Downtown Operations (DTOPS) River Walk Leases. The objective of that audit was as follows:

Are River Walk leases appropriately complied with and documented?

The Office of the City Auditor issued a report that identified the need for increased controls surrounding insurance requirements and the timeliness of lease renewals.

Audit Scope and Methodology

The audit scope was limited to recommendations made in the original report. The audit methodology consisted of reviewing DTOPS policies and procedures related to the lease renewal process and reviewing lease contract files. Additionally, the audit team conducted interviews with appropriate management and employees.

The scope of our testing included River Walk leases and lessees' insurance certificates that had expired and/or renewed between May 13, 2010 and March 13, 2012. We identified 12 out of the 40 leases and insurance certificates managed by DTOPS that met our criteria for testing.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We performed our testing during March and April 2012.

Prior Recommendations and Audit Results

1. Appropriate Insurance Coverage

Downtown Operations should work with Risk Management to ensure that leases contain appropriate insurance coverage types and amounts needed to protect the City's interest.

Status: Implemented

All 12 leases reviewed contained the appropriate insurance coverage types and amounts written into the contract to protect the City's interest.

DTOPS implemented a process to collaborate with Risk Management to review each lease agreement to determine if the insurance coverage requirements and documentation were consistent with the risk exposure to the City. In instances where a particular insurance coverage (e.g., Liquor, Automotive, Plate Glass, etc.) was contractually required, but not relevant, a "Request for Reduction/Waiver form" was completed. This form documents that the insurance coverage requirement was appropriately reviewed before being waived or reduced.

2. Compliance with Insurance Requirements

Downtown Operations should ensure that each business complies with the insurance requirements of the lease.

Status: Implemented

We determined that all 12 leases reviewed had adequate insurance coverage. Also, all 12 insurance files reviewed had evidence of monitoring and review by both DTOPS and Risk Management.

3. Timeliness of Lease Renewals

Downtown Operations should begin the renewal process with sufficient lead-time to ensure timely execution of leases.

Status: Implemented

DTOPS has incorporated lead-time performance expectations in responsible staff's Employee Performance Development Process to ensure timely execution

of leases. These expectations include preparing a list of contracts that will expire in the upcoming fiscal year. This list provides formal documentation of DTOPS' planning schedule. Moreover, we did not identify any leases that had lapsed since the last audit.

4. Interim Rent for Expired Leases

Downtown Operations should agree upon and document interim rent when a new lease is not negotiated prior to expiration of the existing lease.

Status: Implemented

All 12 new or renewed leases reviewed contained a holdover clause with standard interim rates of 125% or 200% of the prior month's rent. However, there were no expired leases that required applying these rates.

Appendix A – Recommendation Status Summary

No.	Original Report Recommendation	Current Status
1	A.1 Downtown Operations should work with Risk Management to ensure that leases contain appropriate insurance coverage types and amounts needed to protect the City’s interest.	Implemented
2	A.2 Downtown Operations should ensure that each business complies with the insurance requirements of the lease	Implemented
3	A.3 Downtown Operations should begin the renewal process with sufficient lead-time to ensure timely execution of leases.	Implemented
4	A.4 Downtown Operations should agree upon and document interim rent when a new lease is not negotiated prior to expiration of the existing lease.	Implemented

Appendix B – Staff Acknowledgement

Brian K. Williams, MBA, CIA, CFE, CGAP, Audit Manager
Sylvia Esparza, CFE, Auditor in Charge
Arlena Sones, CPA, CIA, CGAP, Auditor

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78203-3966

April 23, 2012

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

RE: Management's Acknowledgement of the Downtown Operations Department, River Walk Leases Follow-Up Audit

Here are our comments to the subject report.

Fully Agree (provide detailed comments)

Downtown Operations Dept. continues to utilize Action Plan initiatives identified in River Walk Leases Audit Report, dated May 13, 2010.

Agree Except For (provide detailed comments)

Do Not Agree (provide detailed comments)

Sincerely,

Handwritten signature of Pat DiGiovanni in blue ink.

Pat DiGiovanni
Deputy City Manager
City Manager's Office

Handwritten signature of Jim Mery in blue ink, enclosed in a circular stamp.

Jim Mery
Interim Director
Downtown Operations Department