



CITY OF SAN ANTONIO

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October 19, 2007

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SUBJECT: Planning and Community Development Department Audit Report

We are pleased to send you the audit report of the Planning and Community Development Department. This audit began in March 2007 and concluded with an exit meeting with the department management in August 2007. Their response is included in Appendix A of the report and indicates partial acceptance of four recommendations made in the audit report.

The Planning and Community Development Department should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this material with you individually at your convenience.

Respectfully submitted,

Pete M. Gonzales, Jr., CPA, CFE
City Auditor

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR
Pete M. Gonzales, Jr., CPA, CFE

Audit of the Planning and Community Development
Department

Project No. AU07-006

Issue Date: October 19, 2007

EXECUTIVE SUMMARY

Project No. AU07-006

October 19, 2007

Audit of Planning and Community Development Department

Results in Brief	Recommendations
<p>We performed an audit of the Planning and Community Development Department. Key audit objectives and conclusions follow:</p> <ul style="list-style-type: none">• Are annexation processes compliant with Texas Local Government Code requirements and are annexed properties placed on the City's tax roles in a timely manner? <p>Yes. Annexations are in compliance with legislative directives and annexed properties are placed on the City's tax roles in a timely manner.</p> <ul style="list-style-type: none">• Is the Historic Preservation Tax Incentive Program appropriately administered? <p>Generally, yes, although the City's Unified Development Code Historic Preservation Tax Incentive Program should be revised to clearly delineate the City's intent for the beneficiaries of tax incentives for residential single-family housing and condominium properties.</p> <p>We commend Management's effort to start documenting administrative procedures prior to the start of this audit.</p>	<p>Key recommendations of this report are for the Planning and Community Development Department (Planning Department) to:</p> <ul style="list-style-type: none">• Address ambiguity concerning beneficiaries of tax incentives within the Unified Development Code. The Planning Department should initiate a revision to the Unified Development Code to clearly define the City's Historic Preservation Tax Incentive Program.• Improve procurement internal controls by segregating responsibility for data entry, approval, and receipting of goods to individual SAP R/3 enterprise computer system users. Additionally, monthly review of managerial cost statements such as the Department Fund Management Statement should occur to ensure all purchases are appropriate. <p>Management's response can be seen in Appendix A.</p>

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INTRODUCTION

PLANNING AND COMMUNITY DEVELOPMENT DEPARTMENT

The Planning and Community Development Department (Planning Department) is one of the smaller City departments with a staff of 49 and a general fund budget of \$3.3 million for fiscal year 2007.

BACKGROUND

The Planning Department has two Assistant Directors and comprises six divisions:

- Office of the Director
- Comprehensive and Transportation
- Geographic Information Systems
- Community Development
- Neighborhoods and Urban Design
- Historic Preservation and Design Review

The Office of the Director comprises administrative staff that perform purchasing, payroll, and other support duties of the Department.

The Comprehensive and Transportation Division provides for annexations and major thoroughfare planning. The City has recently annexed several areas along major thoroughfares. An item of interest is that the extra-territorial jurisdiction of the City extends beyond Bexar County into five of the seven surrounding counties.

The Geographic Information Systems Division provides maps, demographic information, graphs, tables, census data, and many other types of statistical data to the Mayor and City Council, the City Manager, the Planning Department, and other City departments and external entities.

The newly created Community Development Division assumes some of the responsibilities of the recently de-funded San Antonio Development Agency.

The Neighborhoods and Urban Design Division implements the goals of the City Master Plan by partnering with the 374 neighborhood associations to produce Neighborhood Plans and Community Plans. The Neighborhood Improvement Challenge Program consists of the Neighborhood Learning Fund, the Neighborhood Tree Fund, and the Neighborhood Project Fund. The Division produces directories and maps of neighborhood associations.

The Historic Preservation and Design Review Division provides staffing support for the Historic and Design Review Commission. This Division reviews projects affecting the 1300 local historic landmark properties as well as other properties

within the City's 22 historic districts. This division administers the Historic Preservation Tax Incentive Program offered to property owners.

OBJECTIVES AND CONCLUSIONS

Are annexation processes compliant with Texas Local Government Code requirements and are annexed properties placed on the City's tax roles in a timely manner?

Yes. Annexations are in compliance with legislative directives and annexed properties are placed on the City's tax roles in a timely manner. The City annexed six areas encompassing 15,026 acres between October 2004 and December 2006. As of January 1, 2007, these areas were divided into 3,248 properties. We substantiated all 223 property additions to the City tax rolls within the prescribed period for the Helotes Park Terrace / Park at French Creek and QVC annexation areas. For the four remaining annexation areas, we substantiated 34 property additions to the City tax rolls.

Is the Historic Preservation Tax Incentive Program appropriately administered?

Generally, yes, although the City's Unified Development Code should be revised to clearly define the City's Historic Preservation Tax Incentive Program and eligible participants.

OBSERVATIONS AND RECOMMENDATIONS

A – Historic Preservation Tax Incentive Program Monitoring

OBSERVATION

The City's Unified Development Code (Code) Historic Preservation Tax Incentive Program (Program) does not clearly define eligible participants. This has resulted in Historic Preservation ad valorem tax exemptions being granted to the initial purchaser of condominium units who are different than the entity that applied for and initiated the final certification for the Program. These properties equate to an estimated \$189,000 in tax relief over the 6.3 year average life of the tax incentive.

BACKGROUND

The City provides incentives to encourage preservation and the rehabilitation of historic buildings, and for owner-occupied residences within new historic districts. These incentives can improve surrounding property values, and attract significant reinvestment in a community. In FY2006, 64 out of 72 properties received ad valorem tax relief in the form of a Historic Preservation tax exemption. These properties equate to \$268 thousand annually or an estimated \$1.7 million in tax relief for the 6.3 year average life of the tax incentive. Studies provided by the Planning Department indicate that on average, Program tax incentives are recovered within 4.6 years of the completion of the tax incentive period through enhanced property value. The enhanced property value is a result of the Program.

The Code is approved by the Mayor and City Council based on recommendations submitted by the Director of the Development Services Department. The rules and procedures for the Program were codified in the City's Code on May 3, 2001. When the current Program was adopted the Code did not distinguish between rehabilitation for residential single family housing and condominium properties.

The Code designates the Historic Design and Review Commission (Commission) as the agent to certify eligibility for Historic Preservation ad valorem tax exemptions and the City Tax Assessor-Collector as the final approving authority for this tax exemption. The Historic Preservation and Design Review Division is charged with follow-up to verify that the work was actually completed. The City Tax Assessor-Collector is responsible for approving and provisioning the initial tax exemption for the property owner.

The Texas Property Tax Code requires the Bexar Appraisal District to distribute an Application for Historic or Archeological Site Property Tax Exemption form annually. This application must be completed and received by the Bexar

Appraisal District before May 1st of each year to allow the property to continue to qualify for the exemption.

DISCUSSION

The Code Tax Incentives for Condominiums is Ambiguous

During our review of the Program we observed ambiguity in the Code concerning how the Program should be applied to the development of residential condominium properties.

Several condominium properties have applied for the Historic Preservation tax exemption with the understanding that after the work was completed by the original owner and sold to the new owner, the new owner would be eligible for this tax exemption. As of May 30, 2007, the Commission approved 39 of 53 condominium unit resale properties for this tax exemption. This practice allows the developer to monetize the tax exemptions upon the sale of individual units. The property has been substantially rehabilitated and the developer has been partially rewarded for his investment. This equates to approximately \$32,000 in tax relief for 2007 and approximately \$189,000 over the 6.3 year average life of the tax incentive for one condominium project.

The Code *Section 35-618 Tax Exemption Qualifications (g) Eligibility (2)* states “An owner of a substantially rehabilitated historic residential property can choose between utilizing the three tax exemptions ... if after rehabilitation the property still qualifies as ‘residential’.” The three tax exemption options for residential properties include:

1. Ad valorem tax assessed value for a period of ten years equal to the assessed value prior to preservation,
2. No assessed value for ad valorem taxation for a period of five years, or
3. Zero assessed ad valorem taxes for the property for ten years if a property is designated for low-income rental tenants.

The Code *Section 35-618 Tax Exemption Qualifications (e) Verification of Completion* states “Upon completion of the restoration and rehabilitation, the certified applicant shall submit a sworn statement of completion acknowledging that the historically significant site in need of tax relief to encourage preservation has been substantially rehabilitated or restored as certified by the historic and design review commission.”

The Code *Section 35-618 Tax Exemption Qualifications (b) Applicability (2)* states “The deed, grant, sale, bequest, devise or otherwise transfer of ownership in property.....shall cause the exemption provided herein to terminate on the last day of the tax year on which such transfer occurs.”

The Office of the City Attorney explained that the Code specifically states that this exemption does not run with the land, but rather stays with the owner at the time the property is certified for the tax exemption. The Code provisions

regarding the tax exemption do not require the Certified Applicant to be the owner at the time of certification. The owner at the time of certification may not transfer the exemption. For example, the exemption or an expectancy of an exemption would terminate upon the sale or other transfer of ownership of the property after certification. Further, the exemption would not terminate until the end of the tax year. In this case, the exemption did not vest until after the initial sale of the condominium unit and a transfer of the tax exemption has not occurred. Accordingly, the tax exemption is valid until such time as the owner at the time of certification sells or transfers the property.

While the Code does not state that the Certified Applicant has to be the owner at the time of certification, it also does not state that there is an option for someone other than the Certified Applicant to have the advantage of the tax exemption.

The City's Historic Preservation Local Tax Incentive Brochure Frequently Asked Tax Exemption Questions states: *"If the property is sold, are the tax exemptions transferable? No. The exemptions were designed to reward those who invested their time and money in a rehabilitation project. They are not intended to encourage the 'flipping' of historic properties or the resulting inflated rates of appreciation for historic housing."* This statement appears to imply the beneficiary of the tax exemption is the same entity as the Certified Applicant. The City has not been consistent with its message when it discourages the "flipping" of rehabilitated historic single family housing but allows condominium developers to sell units with tax exemptions included in the sales package.

The Code does not clearly define the eligible participants of the Program as it relates to developers that rehabilitate residential properties and monetize the value of ad valorem tax incentives through the initial sale of rehabilitated properties.

Monitoring Bexar Appraisal Tax Exemption Provisioning

- The Bexar Appraisal District granted Historic Preservation tax exemptions for 8 of 13 annual exemption applications that were submitted after the April 30th deadline. Late submissions ranged between 1 and 81 calendar days.

Texas Property Tax Code 2006 Edition, Chapter 11 Taxable Property and Exemptions, Section 11.43 Application for Exemption (d), states; "To receive an exemption the eligibility for which is determined by the claimant's qualifications on January 1 of the tax year, a person required to claim an exemption must file a completed exemption application form before May 1 and must furnish the information required by the form. ... For good cause shown the Chief Appraiser may extend the deadline for filing an exemption application by written order for a single period not to exceed 60 days."

- Correspondence from the City to the Bexar Appraisal District to provide initial approval for this tax exemption has not been standardized. For 4 of the 65 exemptions verified during our audit, we observed correspondence not on City official letterhead, correspondence missing an authorizing signature, and spreadsheet listings without official correspondence or an authorizing signature.
- Of the 50 Bexar Appraisal District tax exemption calculations verified, 3 calculations contained errors ranging between \$109 and \$362 in City tax valuation. Additionally, 1 of the 72 eligible properties was scheduled to receive the tax exemption after the property had exceeded the 10 year maximum term. When brought to the attention of the Bexar Appraisal District, the property tax exemption was dropped immediately and a request to recoup \$1,490 for 2006 City taxes was issued.

RECOMMENDATION(S)

We recommend the Planning and Community Development Department Management:

1. Address Ambiguity Concerning Beneficiaries of Tax Incentives within the Unified Development Code

The Planning Department should initiate a revision to the Unified Development Code to clearly define the City's Historic Preservation Tax Incentive Program and eligible participants.

2. Cancel Tax Incentives Granted for 1331 South Flores Street

If City Council amends the Unified Development Code to clarify the eligible participants, then the Planning Department should initiate the cancellation of Historic Preservation tax incentives for the 39 condominium properties at 1331 South Flores Street for tax year 2007.

3. Improve Oversight of Historic Preservation Incentive Program

Planning Department Management should improve the written procedures for administering the Program by including tasks for monitoring the work performed by the Bexar Appraisal District. Additionally, this procedure should delineate oversight responsibilities, include a checklist to help ensure case files are complete, and provide for reconciliation of Bexar Appraisal District tax exemption calculations with the City's approved record of properties.

B – Procurement Internal Controls, Segregation of Duties

OBSERVATION

Planning Department SAP R/3 enterprise computer system users have incompatible procurement security roles. Planning Department Management has historically approved incompatible role assignments because of a general lack of understanding of potential risks involved in concentrating procurement security roles. Incompatible assignment of computer security roles increases the likelihood of data entry errors being undetected and provides opportunity for inappropriate purchases to occur.

BACKGROUND

The Planning Department in FY 2006 purchased approximately \$361 thousand in goods or services. These purchases were made using purchase orders and non-purchase order invoices. The City's SAP R/3 enterprise computer system was used to facilitate the management and financial recording of these purchases.

The City's system of internal controls for the purchase of material and service include control mechanisms such as documented competitive bidding and contracting procedures, user training, segregation of duties, and diligent managerial cost statement reviews.

The enterprise computer system is designed with distinct roles of responsibility for material and service procurement that facilitate appropriate segregation of duties. The security roles are designed to separate the functions of procurement by:

- **Data Entry** - The creation and revision of purchase requisitions, invitations for bids, contracts, and purchase orders. Also includes the creation and revision of non-purchase order invoices.
- **Approval** - Approval indicates that there is a City service requirement for the purchase, the accounting entry is correct, and the information entered is correct. All purchase requisitions, contracts and non-purchase order invoices require on-line approval in the enterprise computer system. Purchase orders created from purchase requisitions require approval. However, purchase orders referencing an annual contract do not require additional approval.
- **Goods Receipt** – Goods receipt attests that the materials or services ordered were actually received as management intended.
- **Invoice Receipt** – Purchase order invoice information is entered by the Finance Department's Accounts Payable function. If the purchase order, goods receipt and invoice receipt information match within approved

tolerance, then the invoice is cleared for payment. Non-purchase order invoice information is entered and approved within individual departments.

The Information Technology Services Department is responsible for maintenance of the vendor and material master database in the enterprise computer system.

DISCUSSION

During our review of procurement security roles we ascertained Planning Department Management had approved incompatible user role assignments for five employees. Each of the employees had role assignments giving them the ability to originate and/or alter purchase requisitions or purchase orders and the ability to receipt goods. One employee had the ability to create, change, and approve purchase orders and non-purchase order invoices. Additionally, this person could receipt goods purchased by purchase orders. We did not observe data entry errors or anything suggesting inappropriate purchases have occurred.

The ability for departments to purchase goods from annual contracts without approval in the SAP R/3 enterprise computer system heightens the need for segregation of procurement responsibilities.

RECOMMENDATION

Planning Department Management should improve procurement internal controls by segregating responsibility for data entry, approval, and receipting of goods to individual SAP R/3 enterprise computer system users. Additionally, monthly review of managerial cost statements, such as the Department Fund Management Statement, should occur to ensure errors or fraudulent purchases are detected in a timely manner.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from April to July 2007 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. Our audit included tests of management controls that we considered necessary under the circumstances.

SCOPE AND METHODOLOGY

The audit period included transactions from October 2004 to December 2006. We interviewed management and staff of the Planning Department, and representatives of the Finance Department and the Bexar Appraisal District. We reviewed annexation records and selected properties in all six of the recently annexed areas for testing. The entire population of 223 properties annexed in the Helotes Park Terrace and the Park at French Creek subdivisions, and QVC annexation areas were tested to determine if all were placed on the City's tax rolls. For the four remaining annexation areas, we substantiated 34 property additions to the City tax rolls.

We reviewed Historic Design and Review Commission minutes and case files, and tested all properties with the Historic Preservation Tax Incentive. The Office of the City Attorney helped clarify issues concerning the City's Unified Development Code.

We reviewed administrative processes including the user roles for various enterprise computer system transactions. A cash count was performed for the Department's petty cash fund. Testing criteria included the Department's policy and procedures, the City's Unified Development Code, and various State laws.

STAFF ACKNOWLEDGEMENT

Arlena Sones, CPA, CIA, CGAP
Christopher Williams, CGAP

APPENDIX A – Management Response



CITY OF SAN ANTONIO

P. O. BOX 839966
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City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Planning and Community Development Department

City Management and the Planning and Community Development Department have reviewed the audit report and have developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation						
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date	
A	<p>1. Address Ambiguity Concerning Beneficiaries of Tax Incentives within the Unified Development Code.</p> <p>The Planning Department should initiate a revision to the Unified Development Code to clearly define the City's Historic Preservation Tax Incentive Program and eligible participants.</p> <p>Action plan:</p> <p>The code does not state that the certified applicant must be the same owner at the time of verification and the only applicant eligible for the tax exemption. The department recommends an amendment to the Unified Development Code to clearly state that only the owner may be a certified applicant that makes an application for the historic structure renovation or rehabilitation, and that must be the same applicant and owner at the completion of the renovation or rehabilitation to qualify as the person who receives the exemption during the verification process.</p>	6				
A	<p>2. Cancel Tax Incentives Granted for 1331 South Flores Street.</p> <p>If City Council amends the Unified Development Code to clarify the eligible participants, then the Planning Department should initiate the cancellation of Historic Preservation tax incentives for the 39 condominium properties at 1331 South Flores Street for tax year 2007.</p>	6				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
<p>Action plan:</p> <p>The department recommends City Council amend the code to clarify eligible participants. The department recommends tax exemptions approved for previous applicants in compliance with the existing code not be revoked. As it relates to the condominium properties at 1331 South Flores Street, the exemptions did not vest until after the initial sale of the condominium unit and a transfer of the tax exemption has not occurred. Accordingly, the tax exemption is valid until such time as the owner at the time of certification sells or transfers the property.</p>					
A	<p>3. Improve Oversight of Historic Preservation Incentive Program</p> <p>Planning Department Management should improve the written procedures for administering the Program by including tasks for monitoring the work performed by the Bexar Appraisal District. Additionally, this procedure should delineate oversight responsibilities, include a checklist to help ensure case files are complete, and provide for reconciliation of Bexar Appraisal District tax exemption calculations with the City's approved record of properties.</p>	6			
<p>Action plan:</p> <p>At the end of the calendar year, the department will send a certified letter to Bexar Appraisal District requesting current ownership for properties that receive tax exemptions under this program. The Department will verify ownership to determine if the property was sold or transferred to a new owner that was not granted the tax exemption during the verification process.</p> <p>Upon confirmation of this list, the department will notify Bexar Appraisal District of cancellations of tax exemptions due to expiration of the tax exemption period or change of ownership, if not cancelled by Bexar Appraisal District.</p> <p>The Historic Preservation Officer will be responsible for oversight of this program. Staff will ensure that case files are complete and reconciled.</p>					

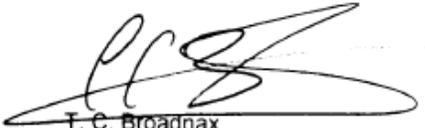
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B	<p>The Planning Department Management should improve procurement internal controls by segregating responsibility for data entry, approval, and receipting of goods to individual SAP R/3 enterprise computer system users. Additionally, monthly review of managerial cost statements, such as the Department Fund Management Statement, should occur to ensure errors or fraudulent purchases are detected in a timely manner.</p> <p>Action plan:</p> <p>Due to the small size of the department, the Department has five staff assigned with all procurement responsibilities, an Administrative Assistant I assigned with requisitioning and receiving goods; a Department Systems Specialist assigned with requisitioning computer hardware and software exclusively; a Sr. Administrative Assistant assigned with creating purchase orders and approving non-purchase orders; the Department Director with Level 2 approval for purchase requisitions over \$25,000; and the Special Projects Manager assigned with approving Purchase Requisitions over and under \$25,000, Purchase Orders and monitoring of all activities.</p> <p>Due to the retirement of the Sr. Administrative Assistant in September 2006, the department assigned data entry for purchase orders and approvals for non-purchase orders to the Administrative Assistant I, due to her level of knowledge and understanding of the SAP process, until the Sr. Administrative Assistant was filled and trained in SAP. Following the completion of the training, the roles were reevaluated and assigned accordingly and submitted to the Purchasing Department as part of the citywide role assessment in July 2007 in order to segregate the responsibilities between data entry, approval and receipting of goods. The roles were reassigned on October 3, 2007.</p> <p>Monthly reviews of all personnel and contractual expenditures, procurement of supplies, and revenues are conducted by the Special Projects Manager and reviewed with the Department Director.</p>	8			

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

Sincerely,



Emil Moncivais
Director, Planning and Community Development



T. C. Broadnax
Assistant City Manager

Mission Statement

The Office of the City Auditor will champion an atmosphere of continuous improvement, integrity, honesty, accountability, and mutual trust through independent appraisal of City programs, activities, and functions.



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