September 17, 2014

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Councilman, District 8

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Councilman, District 9

Mike Gallagher
Councilman, District 10

SUBJECT: Audit Report of EastPoint and Real Estate Services Edwards Aquifer Protection Program

Mayor and Council Members:

We are pleased to send you the final report of the Audit of EastPoint and Real Estate Services Edwards Aquifer Protection Program. This audit began in March 2014 and concluded with an exit meeting with department management in August 2014. Management’s verbatim response is included in Appendix B of the report. The Office of EastPoint and Real Estate Services management and staff should be commended for their 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
Distribution:
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Peter Zanoni, Deputy City Manager
Ben Gorzell, Chief Financial Officer
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Donald Crews, Audit Committee Member
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Audit of the Office of EastPoint and Real Estate Services

Edwards Aquifer Protection Program

Project No. AU14-007

September 17, 2014

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 Office of EastPoint and Real Estate Services, specifically the Edwards Aquifer Protection Program. The audit objective and conclusion follow:

Are sales tax funds received for the Edwards Aquifer Protection Program utilized in accordance with City ordinances?

Yes, sales tax funds received for the Edwards Aquifer Protection Program are utilized in accordance with City ordinances. The funds have been used to acquire conservation easements on qualifying properties in the Edwards Aquifer recharge and contributing zones at amounts that are reasonable for both the City and landowners. Additionally, annual monitoring is performed to ensure landowners comply with easement agreements. We make no recommendations to the Office of EastPoint and Real Estate Services; consequently, no management responses are required.

Management’s acknowledgement of these results is in Appendix B on page 5.
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Background

The Edwards Aquifer provides San Antonio with its primary source of water vital to the livelihood of a growing population and an expanding economy. It stretches across thousands of acres over several counties in South Central Texas. An effective way to protect the aquifer is to conserve the sensitive and irreplaceable land located over its recharge and contributing zones.

To obtain property rights of land over sensitive zones of the Edwards Aquifer through fee simple purchases and conservation easements, voters approved Proposition 1 in May 2005. It authorized a 1/8th-of-a-cent sales tax up to $90 million to protect the Edwards Aquifer. This program narrowed the original scope approved in 2000, to include watershed protection only, but expanded the geographic limit to include areas outside of Bexar County. Outside counties are important because 53% of the recharge zone is in Medina and Uvalde counties, compared to 10% in Bexar County.

In November 2010, voters approved the continuation of the 2005 sales tax up to $90 million. This initiative, also called Proposition 1, authorizes the City of San Antonio to continue the watershed protection and preservation projects initiated in 2000 and continued in 2005.

To achieve program objectives, City Council approved the creation of two advisory groups and one implementation team. The name and purpose of each follows:

- Conservation Advisory Board – Advisory board to provide input and advice to City Council regarding the acquisition, stewardship, and monitoring of property rights of land over the Edwards Aquifer.
- Scientific Evaluation Team – Advisory team to assist the Conservation Advisory Board with outlining and prioritizing areas for land acquisition through the creation of a GIS spatial model.
- Land Acquisition Team – Non-profit land trusts that assist with real estate identification, negotiation, due diligence, and acquisition.

The City also has an interlocal agreement with the Edwards Aquifer Authority. This Agreement delegates program responsibilities to the Edwards Aquifer Authority to evaluate potential acquisitions and provide conservation easement monitoring services.
Audit Scope and Methodology

The audit scope included all 17 properties that were acquired with funding from Proposition 1 (2010) through April 2014. When testing the annual monitoring process, the audit scope covered properties acquired under Proposition 1 (2010) and prior propositions. Our methodology included a review of the following:

- The City’s Procurement Policy and Procedures Manual
- City Ordinance 2011-04-07-0278 for the approval of the sales tax for the Edwards Aquifer Protection Program
- City Ordinance 2012-02-02-0071 for the approval of the contracts with the Land Acquisition Team
- City Ordinance 2008-03-06-0169 for the approval of the interlocal agreement with the Edwards Aquifer Authority
- City Ordinance 2012-08-02-0543 for the approval of the tax notes for the Edwards Aquifer Protection Program
- City ordinances, inspection reports, and other support documentation specific to the 17 properties

We relied on computer-processed data from SAP, the City’s financial system, to verify that sales tax collections, tax notes, and program expenses were accurate and appropriate. Our reliance was based on performing direct tests on the data rather than evaluating the system’s general and application controls. 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 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.
Audit Results and Recommendations

A. Program Acquisitions and Conservation Easement Monitoring

The 17 conservation easements acquired under Proposition 1 (2010) through April 2014 were located within the Edwards Aquifer recharge and contributing zones. Due diligence processes that include appraisals, environmental assessments, surveys, and baseline reports were coordinated by the Land Acquisition Team. The invoices for these services are appropriately approved by Office of EastPoint and Real Estate Services management. We noted minor improvement opportunities which were communicated during the audit. Specifically, we discussed that the office consider obtaining conflict of interest forms from the vendors performing the services listed above, as well as maintaining records to show that the Land Acquisition Team requested bids from at least three potential respondents.

For all of the conservation easements, certified appraisals were obtained and reasonable offers were made to the property owners. The purchases were approved by the Conservation Advisory Board and City Council. Furthermore, all properties are adequately monitored on an annual basis to ensure landowners comply with easement agreements.

Finally, the sales tax is consistently collected by the City. The amounts collected for the program are in compliance with the ordinance. Also, tax notes of $17,635,000, which are used to purchase the conservation easements, were approved by City Council and accurately scheduled for repayment.

Recommendation

No recommendations.
Appendix A – Staff Acknowledgement

Sandy Paiz, CFE, Audit Manager
Rebecca Moulder, CIA, Auditor in Charge
Appendix B – Management Acknowledgement

August 24, 2014

Kevin W. Barthold, CPA, C\IA\ CISA
City Auditor
San Antonio, Texas

RE: Management’s Corrective Action Plan for the Audit of the Office of EastPoint and Real Estate Services Edwards Aquifer Protection Program

The Office of EastPoint and Real Estate Services has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Office of EastPoint and Real Estate Services:

☑ Fully Agrees (provide detailed comments)

☐ Does Not Agree (provide detailed comments)

Sincerely,

[Signature]
Mike Ettorre
Director
Office of EastPoint and Real Estate Services

[Signature]
Peter Zanoni
Deputy City Manager
City Manager’s Office

Date
8-28-14

Date
8-28-14