# CITY OF SAN ANTONIO

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September 18, 2014

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**Mike Gallagher**
Councilman, District 10

SUBJECT: Audit Report of Inner-City Reinvestment Infill Policy

Mayor and Council Members:

We are pleased to send you the final report of the Inner-City Reinvestment Infill Policy. This audit began in January 2014 and concluded with an exit meeting with department management in July 2014. Management's verbatim response is included in Appendix B of the report. The Center City Development Office 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

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# CITY OF SAN ANTONIO

# OFFICE OF THE CITY AUDITOR

Audit of the Center City Development Office

Inner-City Reinvestment Infill Policy

Project No. AU14-013

September 18, 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 Inner-City Reinvestment Infill Policy (ICRIP). The audit objectives, conclusions, and recommendations follow:

**Is the Inner-City Reinvestment Infill Waiver Policy and program properly managed?**

Yes, the ICRIP Waiver policy and program is properly managed. Overall, waivers are being approved in line with policy guidelines. However, administrative processes can be improved to ensure they are effective in serving as internal controls. Specifically, we noted the following control deficiencies:

- A standard control to ensure that Projects reapply for waivers after a year does not exist. Twenty of the thirty-three (61%) projects reviewed did not have an expiration date applied to them in the ICRIP system.

- Three of the 25 projects that were selected for test work were not within the geographical area outlined for the ICRIP. Upon further review we noted that an additional 11 did not meet the ICRIP target area. The total amount of fees waived for the fourteen projects was $9,787. All were Habitat for Humanity projects.

- Inappropriate segregation of duties exist for the review and approval of ICRIP waiver applications.

- A review to ensure appropriate user access for the ICRIP System is not performed. In total there are 8 users that currently have administrative access. We noted 2 users (25%) with inappropriate administrative/edit access.

We recommend the Director of the Center City Development Office establish internal controls for the Inner City Reinvestment Infill Program in the following areas:

- Establish a monitoring process to provide assurance that the appropriate criteria is met to include, at a minimum, review of projects that are applying for additional waivers after the first year. Additionally, ensure that a system control is implemented that will identify projects that are nearing the one year expiration date.

- Ensure that duties are appropriately segregated by implementing a process that requires that projects are subject to a two-level review to include a primary reviewer and a secondary reviewer. The Online ICRIP system should reflect the names of reviewers and include approval dates for each review. Additionally, justification for special circumstances should be noted in the system.

- Implement a standard monitoring process of user access privileges to information and IT resources to ensure that users have the least privileges they need to fulfill their duties. Any discrepancies noted by the program's administrators should be communicated to system administrators for timely remediation.

Management's verbatim response is in Appendix B on page 6.

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## Background

The City of San Antonio promotes growth and development in the heart of the City, specifically in areas currently served by public infrastructure and transit, but underserved by residential and commercial real estate markets. In February 2010, the City established the Inner City Reinvestment Infill Policy (ICRIP) in order to promote growth and development in the city-center and targeted areas.

The intent of the ICRIP is to coordinate public incentives within targeted areas and to stimulate private investment. For this reason, the ICRIP program provides public incentives such as financial assistance and dedicated staff support for regulatory and procedural issues. The ICRIP facilitates development within the inner-city by promoting policy goals such as:

- Increasing new development on vacant lots
- Redeveloping underutilized buildings and sites
- Rehabilitating, upgrading, and reusing existing buildings
- Improving maintenance at existing building sites
- Increasing business recruitment and assistance

Projects certified to meet ICRIP criteria are eligible to have fees related to Development Services waived. The FY 2013 and 2014 adopted budgets included a $1 million transfer from the General Fund in order to reimburse Development Services for waived fees. In FY2013 and as of May 30, 2014, $1,498,203 and $1,440,002 in waivers were granted, respectively.

## Audit Scope and Methodology

The audit scope was FY2013. Our methodology included a review of ICRIP policies and procedures and related city administrative directives and city ordinances. Additionally, formal walkthroughs were performed with the Center City Development and Development Services departments and test work was performed by selecting a sample of projects that were approved for the ICRIP waivers.

We relied on computer-processed data from the ICRIP system, Hansen system, and MARR system. The ICRIP system is primarily used by the Center City Development Office to track project applications and waiver status (i.e. approved, denied, and expired). IT general controls related to the in-house developed system were reviewed and evaluated during fieldwork. The Hansen and MARR

systems are used by Development Services for the purpose of tracking waived fees for each approved project. Our reliance on Hansen and MARR were reporting-outputs utilized during the monthly budget meeting. We do not believe that the absence of testing general and application controls for Hansen and MARR had an effect on the results of the 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. Noncompliance with Policy and Procedures

Support to ensure that certain eligibility criteria is met does not exist.

Three of the twenty five projects randomly selected for test work were not within the geographical area outlined for the ICRIP. Per further review, it was identified that an additional eleven projects were approved although they were not within the ICRIP boundaries. The total amount of fees waived for the fourteen projects was $9,787 and all were Habitat for Humanity projects.

Currently, review and approval of waiver applications is limited to one person. Furthermore, the approver is not required to sign-off as approver in the system. The lack of an additional review as well as the non-existence of an audit trail increases the risk of waivers being issued for projects that do not meet the eligibility requirements.

### Recommendation

The Director of the Center City Development Office should:

Require that applications include a two-level review to include a primary reviewer and a secondary reviewer. Furthermore, ensure that the Online ICRIP system reflects the names of reviewers and include approval dates for each review. Additionally, special circumstances should be noted in the system.

## B. Inadequate Monitoring of Approved Projects

The ICRIP Waiver policy states that waivers are subject to expire on an annual basis. This forces the applicant to re-apply if additional waivers are wanted after the one-year mark.

A standard control does not exist to ensure that projects are reevaluated to validate that they still meet the criteria for additional waivers. We tested a sample of 33 projects for FY 2013 and noted that twenty did not have an expiration date set to them. Furthermore, there is no support that would provide evidence that the projects were reviewed or that they re-applied for additional waivers.

Implementation of a control would force the applicant to re-apply for a waiver. Additionally, it may assist in reducing the risk of issuing waivers to project types that no longer meet the specified criteria listed in the ICRIP Waiver policy.

**Recommendation**

The Director of the Center City Development Office should:

Establish a monitoring process to provide assurance that the appropriate criteria is met to include, at a minimum, review of projects that are applying for additional waivers after the first year. Additionally, ensure that a system control is implemented that will automatically expire waivers annually.

**C. Inappropriate System Access**

During our review of the ICRIP system, we identified two types of access granted to users: administrative (edit) and read-only. We reviewed user access for all users (78 with read-only access and 8 with administrative access). Per our review, we noted two individuals had inappropriate edit access to the system. One of the employees was a maintenance worker for the Aviation department. The other was an executive manager in ITSD.

The inappropriate access grants the ability to update proposed projects, including the approval of city waivers. The lack of appropriate access controls increases the risk of issuance of inappropriate incentive waivers.

**Recommendation**

The Director of the Center City Development Office should:

Implement a standard monitoring process of user access privileges to information and IT resources to ensure that users have the least privileges they need to fulfill their duties. Any discrepancies noted by the program's administrators should be communicated to system administrators for timely remediation.

# Appendix A – Staff Acknowledgement

Sandy Paiz, CFE, Audit Manager
Armando Renteria, CISA, Auditor in Charge

# Appendix B – Management Response

CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

July 29, 2014

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

RE: Management's Corrective Action Plan for AU14-013 Inner City Reinvestment Infill Policy Audit

Center City Development Office has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

| Recommendation | | | | | |
|---|---|---|---|---|---|
| # | Description | Audit Report Page | Accept, Decline | Responsible Person's Name/Title | Completion Date |
| 1 | **Noncompliance with Policy & Procedures**<br><br>The Director of the Center City Development Office should require that applications include a two-level review to include a primary reviewer and a secondary reviewer.<br><br>Furthermore, ensure that the Online ICRIP system reflects the names of reviewers and include approval dates for each review. Additionally, special circumstances should be noted in the system. | 3 | Accept | Ramiro Gonzales Special Projects Manager / Program Manager | 8/15/14 |

| Recommendation | | | | | |
|---|---|---|---|---|---|
| # | Description | Audit Report Page | Accept, Decline | Responsible Person's Name/Title | Completion Date |
| | **Action plan:**<br><br>Although a formal two-level review of all ICRIP fee waivers is not currently in place, all approved waivers are reported at bi-weekly staff meetings where they are reviewed for monitoring purposes and compliance with the program. As part of the FY2015 Annual Operating Budget, the Center City Development and Operations Department (CCDO) has submitted a request for a Contract Coordinator position. This position will provide the necessary support to more closely evaluate and monitor the increasing number of fee waiver requests received each year, as well as implement the recommended two-level review.<br><br>The system currently does capture the ID of each user approving and modifying each record in the system and also captures the approval and modifying date. If a two-level review is implemented though, changes to the system will be made to capture the approval history for both reviewers. | | | | |
| 2 | **Inadequate Monitoring of Approved Projects**<br><br>The Director of the Center City Development Office should establish a monitoring process to provide assurance that the appropriate criteria is met to include, at a minimum, review of projects that are applying for additional waivers after the first year. Additionally, ensure that a system control is implemented that will automatically expire waivers annually. | 3 | Accept | Ramiro Gonzales Special Projects Manager/ Program Manager | 8/15/14 |

| Recommendation | | | | | |
|---|---|---|---|---|---|
| # | Description | Audit Report Page | Accept, Decline | Responsible Person's Name/Title | Completion Date |
| | **Action plan:**<br><br>The system does, in fact, have controls that manage each waiver's expiration. All City fee waivers expire automatically after one year. In order to renew, an applicant must request so in writing and provide a status of their project to ensure that it still aligns with the original application and eligibility.<br><br>In the past year, a new expiration date field was added that explicitly denotes the expiration date of the waiver. However, only waivers approved since the introduction of this feature have entries in that field. All other waivers before this time expired either according to system rules based on the date of approval, or the Special Expiration Date feature which was replaced by the expiration date field.<br><br>Staff will work to ensure that all active waivers have a defined and explicit entry in the expiration date field. | | | | |
| 3 | **Inappropriate System Access**<br><br>The Director of the Center City Development Office should implement a standard monitoring process of user access privileges to information and IT resources to ensure that users have the least privileges they need to fulfill their duties. Any discrepancies noted by the program's administrators should be communicated to system administrators for timely remediation. | 4 | Accept | Ramiro Gonzales, Special Projects Manager/ Program Manager | 8/15/14 |
| | **Action plan:**<br><br>Our office requests changes to the ICRIP system security group as necessary through the ITSD. Although we have no ability to restrict changes to this group without our permission, we will implement regular monitoring to ensure that access to the system is restricted to authorized users. | | | | |

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

Sincerely,

Lori Houston
Director
Center City Development Office

8/15/14
Date

Carlos Contreras
Assistant City Manager
City Manager's Office

8/20/14
Date