

AUDIT COMMITTEE SUMMARY

Audit of Center City Development and Operations Department
Riverwalk Leases
Report Issued September 24, 2021

Audit Objective

Determine if leases for River Walk properties are current and properly managed.

Background

The Center City Development and Operations Department (CCDO) oversees downtown operations, including managing leases of City-owned property along the River Walk. Currently, CCDO's Contracts Division manages 35 River Walk leases. Of the 35 leases, 29 are for patio and/or air (i.e., balcony) space, five are for interior retail space, and one lease is for both patio and interior retail space.

Overall, rental rates (payments) are fixed, and annual changes are outlined in the lease agreement. However, rent payment rates are subject to change based on a periodic market analysis performed by a consultant. When the rent payment rates change, CCDO notifies the tenant in writing. Additionally, the lease agreement outlines this process.

Scope and Methodology

The audit scope was fiscal year 2018 through the second quarter of fiscal year 2021. The audit scope included lease administration, monitoring efforts, and revenue collection. We reviewed for current lease agreements and the existence of lease summaries. We confirmed City approvals were received before construction or leaseholder improvements commenced. We also reviewed for contractual compliance with relevant permits, licenses, and adequate insurance coverage. We tested the adequacy of lease revenue. Finally, we evaluated user access.

Conclusions

Overall, leases for River Walk properties are current and appropriately managed in accordance with policies. CCDO has effective procedures in place that maintain current lease agreements including lease updates and amendments. Furthermore, CCDO confirms that improvement plans for leased properties are submitted and approved before construction commences. In addition, CCDO has processes in place to ensure tenants obtain applicable permits, licenses, and insurance coverage to conduct business as required per the lease agreements. Lastly, appropriate system user access is maintained.

However, we observed administrative opportunities that required improvement. Formal documentation can be improved surrounding lease monitoring. Also, activities regarding assessing and billing of late fees on past due rent payments can be improved.

We made recommendations to improve these opportunities. Management agreed with the recommendations and developed positive corrective action plans.

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