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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Center City Development and Operations Department

River Walk Leases

Project No. AU20-006

September 24, 2021

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

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Center City Development and Operations Department (CCDO), specifically River Walk leases. The audit objectives, conclusions, and recommendations follow:

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

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 for City-owned properties, including lease updates and amendments. Furthermore, CCDO confirms that improvement plans for leased properties are submitted and approved before the 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 by CCDO.

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 areas.

The CCDO Management Team agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 7.

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## Background

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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. **Table 1** below summarizes revenues for FY 2019 and FY 2020.

**Table 1 – River Walk Lease Revenues**

River Walk Lease Type	Lease Count <sup>1</sup>	FY 2019 Rental Revenues	FY 2020 Rental Revenues <sup>2</sup>
Interior Retail Space	6	\$247,184	\$173,005
Patio/Air Balcony Space	30	\$666,751	\$471,409
<b>Totals</b>	<b>35</b>	<b>\$913,935</b>	<b>\$644,414</b>

Source: SAP

Note 1: Lease Count; One property has interior retail space and patio space.

Note 2: Revenues; FY 2020 revenue was down approximately 30% due to COVID19 and a 5-month rent payment abatement period.

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.

In addition to collecting rent payments associated with the River Walk leases, CCDO monitors tenants' compliance with contractual requirements. Furthermore, when needed, CCDO works as a point of contact between the tenants and the other City departments (such as Development Service Department and the Office of Historic Preservation).

Lastly, to account for rent payment abatements applied due to COVID19, the audit scope was updated to include part of FY 2021. River Walk tenants were granted 100% rent payment abatements from August 2020 to December of 2020, totaling \$380,481.

## Audit Scope and Methodology

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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 River Walk lease agreements (ordinances), COSA Policy & Procedures Manual, and relevant City Administrative Directives to establish our test criteria.

Additionally, we interviewed Center City Development and Operations (CCDO) staff to review their processes and identify lease administration, lease monitoring, and revenue collection and monitoring controls.

As part of our testing procedures, we confirmed that current lease agreements were in place and the existence of lease summaries. Furthermore, we confirmed City approvals were received before construction or leaseholder improvements commenced. We also established that tenants obtained relevant permits, licenses, and adequate insurance coverage.

We also reviewed the adequacy of lease revenue by reviewing rent payments collected by CCDO. Finally, we evaluated user access for relevant CCDO employees in SAP.

We relied on computer-processed data in SAP to validate lease revenue. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included user access testing. 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 performance 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 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.

## Audit Results and Recommendations

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### A. Operational Requirements

We determined that Center City Development and Operations (CCDO) maintains current lease agreements for City-owned properties, including lease updates and amendments. Additionally, CCDO has procedures to ensure improvement plans are submitted and approved before the construction commences on leased properties. In addition, CCDO has procedures in place that ensures tenants obtain applicable health inspections, food establishment permits, elevator permits, and alcohol licenses. Finally, CCDO has monitoring procedures in place to ensure that required insurance coverage is adequate.

#### Recommendations

None

### B. Lease Monitoring

#### B.1 Lease Summaries

CCDO develops lease summaries to provide a high-level review of significant lease terms and conditions. The summaries are created using key lease agreement terms and are used for lease monitoring and administration purposes. We reviewed a sample of ten lease summaries and determined all summaries existed. However, when compared to the lease agreement, three summaries included inaccurate information or were missing information.

CCDO obtains lease summary information from ordinances, lease agreements, and market studies. However, CCDO does not have a procedure to verify that lease summaries are updated when lease agreements change. Inaccurate lease summaries may result in ineffective lease monitoring and may result in potential compliance issues.

#### B.2 Site Visits

We requested to review the site visits performed by CCDO during FY 2019 and FY 2020. CCDO staff stated that tenant site visits occur periodically and that written documentation is not maintained for site visits performed. CCDO provided supporting documents for one site visit conducted by staff during FY 2019. We could not verify if other site visits were conducted due to the lack of documentation.

Per the COSA Procurement Policy and Procedures Manual, contractor site visits should be performed and documented as a contract monitoring tool. The primary

purpose of contract monitoring is to ensure that the City and contracted tenants adhere to the terms and conditions of the contract. When issues are identified early through effective monitoring, corrective actions can improve contract performance.

CCDO does not have established procedures that require documentation of site visits. The lack of site visits and documentation may result in non-compliance with essential lease agreement requirements and unidentified maintenance issues.

### **Recommendations**

CCDO Director establishes procedures that require periodic review of lease summary accuracy with current lease agreements. Additionally, establish procedures to ensure staff performs periodic site visits, and documentation is retained.

### **C. Lease Revenue Collection**

Overall, CCDO's Contract Management Division does not have a formalized process to assess and bill late fees based on the terms of the lease agreements. CCDO has effective procedures that ensure the monthly rent payments are accurate and supported with appropriate documentation. We reviewed a sample of 40 payments totaling approximately \$87,416. We determined that rent payments are processed in accordance with lease agreement rates, and documentation supporting payments is maintained.

However, we identified that late fees were not assessed and collected for 6 tenants. We analyzed the accounts receivable aging report for June of 2021. The aging report identified 17 tenants with rent payments at least 60 days past due. The CCDO Director's office agreed to waive late fees during COVID-19 providing relief to 11 tenants. Subsequently, late fees were not applied to 6 tenants with delinquent rent payments, totaling approximately \$23,706.

Due to the lack of a process for assessing late fees the risk of future delinquent rent payments may increase.

### **Recommendation**

The CCDO Director establishes a process to assess and bill tenants for applicable late fees outlined in the lease agreements.

### **D. User Access**

CCDO has controls in place to ensure employees have appropriate user access. We reviewed five employees with access to SAP and determined all five had appropriate access according to the City's Administrative 7.8d. As a result of the small department size, some conflicting roles were noted. Compensating controls were identified and approved where conflicting roles existed.

**Recommendation**

None.

## **Appendix A – Staff Acknowledgement**

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Buddy Vargas, CIA, CFE, Audit Manager  
Kenneth Lyssy, CFE, Auditor in Charge  
Abigail Estevez, CPA, CIA, CISA, Auditor  
Yadira Valenzuela, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 10, 2021

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

RE: Management's Corrective Action Plan for the Audit of Center City Development and Operations  
River Walk Leases

Center City Development and Operations has reviewed the audit report and has developed the  
Corrective Action Plan below corresponding to the report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
B1	<p><b>Lease Summaries</b></p> <p>Establish procedures that require periodic review of lease summary accuracy with current lease agreements.</p>	3	Accept	John Prather, CCDO Administrator	12/31/21
<p><b>Action plan:</b> The Center City Development &amp; Operations (CCDO) Department has reviewed the audit recommendations and has taken actions to improve controls related to lease monitoring. CCDO staff will review existing lease summaries to ensure accuracy of the existing internal documents.</p> <p>CCDO will also create a Standard Operating Procedure that details Contract Coordinator responsibilities for creating and updating lease summaries.</p>					
B2	<p><b>Site Visits</b></p> <p>Establish procedures to ensure staff performs periodic site visits, and documentation is retained.</p>	3	Accept	John Prather, CCDO Administrator	12/31/21

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b> CCDO staff conducts periodic site visits of River Walk leased areas to ensure lessees are staying within patio space boundaries, and capital improvements, signage and furniture is approved as appropriate. CCDO will create a Standard Operating Procedure that details Contract Coordinator responsibilities for conducting and documenting site visits.</p>				
3	<p><b>Lease Revenue Collection</b> Establish a process to assess and bill tenants for applicable late fees outlined in the lease agreements.</p>	4	Accept	John Prather, CCDO Administrator	12/31/21
	<p><b>Action plan:</b> During the pandemic, many tenants were required to cease operations as well as reduce customer capacity. Downtown tourism also greatly decreased causing further reduced sales. Understanding the financial challenges many experienced during this unprecedented time, City Council approved abatements for River Walk tenants from April 2020 – December 2020. CCDO worked with tenants throughout this time to waive late fees through June 2021.</p> <p>In addition, CCDO often works with tenants with a strong payment history to waive a late fee on a case by case basis. Tenants who make partial rent payments also may be subject to waived late fees.</p> <p>CCDO will set up an automated billing process for late fees, in coordination with Finance staff. The department will also establish a written Standard Operating Procedure for waiving late fees with Director's Office approval.</p>				

We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,

  
 \_\_\_\_\_  
 John Jacks  
 Director  
 Center City Development and Operations

09/10/2021  
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 Date

  
 \_\_\_\_\_  
 Lori Houston  
 Assistant City Manager  
 City Manager's Office

9/10/2021  
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 Date