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

**NEIGHBORHOOD AND HOUSING SERVICES
DEPARTMENT**
AUDIT OF TAX INCREMENT REINVESTMENT
ZONES
PROJECT NO. AU23-028
OCTOBER 3, 2023

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CITY AUDITOR



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Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Neighborhood & Housing Services Department (NHSD), specifically Tax Increment Reinvestment Zones (TIRZ). The audit objectives, conclusions, and recommendations follow:

Determine if TIRZ are properly managed including governance, revenues, and expenditure authorizations.

TIRZ are properly managed including governance, revenues, and expenditure authorizations. NHSD has controls in place that ensure TIRZ project reimbursements are properly supported and accurate. In addition, NHSD has adequate controls that ensure administrative and designation fee collections are paid timely. NHSD also has controls in place that ensure projects are accurately tracked and recorded. Additionally, NHSD has effective controls that ensure tax increments per zone are correctly allocated.

However, the audit team identified areas in which controls could be improved over document retention for project application approvals as well as improved controls for monitoring compliance for TIRZ projects, specifically insurance, bonds, and reporting requirements.

We provided recommendations to management to strengthen controls and resolve identified issues. NHSD Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix C on page 9.

Background

NHSD, through the Tax Increment Financing (TIF) program, encourages development in areas where traditional market mechanisms or other city incentives are not provided. The TIF program was established in 1998 and helps support development projects intended to promote economic stimulus to surrounding areas by creating TIRZ. These zones are formed along with a financial plan using the amount of existing tax collections originating from inside their boundaries. TIRZ will offer developers and other businesses interested in moving to a zone an incentive to do so. The additional tax revenues collected by the new development is the “tax increment”. The tax increment can then be reinvested for additional new development for the life of the zone.

The TIRZ can reimburse costs that are outlined in Texas Tax Code Chapter 311. Some of the reimbursable costs are, but not limited to:

- Public sidewalks
- Nature trails
- Repair and improvement of streets, sidewalks, and curbs
- Preservation of building façades
- Landscaping

As of 2022, COSA has 24 active zones. The TIRZ are managed by the TIF division in NHSD. The division works closely with Finance’s Financial Management division which develop the financial plans, monitor the tax increments, determine if funds exist for new projects, and review reimbursement requests. Additionally, they work with the City Attorney’s Office that reviews applications. As of March 2023, there are 239 total projects in the 24 zones with approximately \$900M in assigned TIRZ funds. For a map of the current TIRZ boundaries for the 24 active zones, see **Figure 1 in Appendix A**.

Audit Scope and Methodology

The audit scope included the governance of TIRZ over application process and approval, funding, allowable expenses, and compliance for fiscal years 2020 through 2022.

We interviewed NHSD and Fiscal personnel and conducted walkthroughs of relevant processes. We also developed process flows and conducted reviews of the TIRZ financial data, including financial plans. Additionally, we reviewed pertinent documentation related to the governance of the TIRZ such as reporting to the State Comptroller's office and SAP reports. The TIF Program Policy (2015) and Texas Tax Code Chapter 311 Tax Increment Financing Act were our primary criteria for this audit.

As part of our testing procedures, we reviewed Zone and Project applications to verify the inclusion of supporting documentation and appropriate approvals. Additionally, we reviewed the Contract Progress Payment Requests (CPPRs) for the projects' reimbursement request process and verified they had adequate controls. We reviewed documentation for compliance in monitoring insurance, bonds, prevailing wages, and quarterly status reports. Also, we confirmed reporting to the State Comptroller was accurate and timely. We also reviewed the financial plans to verify projects were accurate and adequately supported and to verify tax increment was correctly allocated.

We relied on computer-processed data in SAP to review and confirm reimbursement payments, tax increments, and fee collection. 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 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 Recommendation

Overall, NHSD is properly managing funds and authorizing expenses for TIRZ to meet core mission objectives.

Adequate controls exist to review and verify reimbursement of TIRZ projects through CPPRs. We reviewed a sample of 23 reimbursements for approximately \$5.7M for appropriate supporting documentation and payment accuracy. The reimbursements were supported and in compliance with The Texas Tax Code Chapter 311 and payments were accurate in SAP. We also determined funds are appropriately tracked for projects in the financial plans. We reviewed a sample of 31 projects from 10 zones and verified they are accurately tracked in the respective financial plans and accurately recorded in SAP.

We also reviewed and determined required fees are paid in a timely manner. We reviewed administrative fees for 17 zones, as well as designation fees of 6 zones and determined all were paid in a timely manner. Additionally, we reviewed the actual tax increments. We tested 23 zones and verified the tax increments are within their designated funding source accounts and are allocated correctly.

However, the audit team identified areas of an administrative nature in which controls could be improved.

A. Application Support

NHSD does not retain proper documentation support for the application submission by the developer for project approvals. We reviewed a sample of 4 zones and 20 projects. All 4 zones were properly documented and had all required support for zone application approval. Of the 20 projects reviewed, we determined 9 did not have all required supporting documentation for approval.

The TIF Policy addresses the applicant must include the project's contribution to ongoing revitalization in the surrounding area as part of their supporting documentation. Additionally, as part of NHSD's TIRZ funding application approval process, a series of support documents are required to be submitted with the developer's application to include all relevant information, such as financial statements, project pro formas, project summary, and site plans, among others.

NHSD does not have procedures and controls for proper application approval. The lack of proper supporting documentation for project applications could affect the TIRZ project and its future funding.

Recommendations

NHSD director establish procedures and controls to ensure projects have all necessary supporting documentation for application approvals.

B. Project Contract Requirements

Projects were not in compliance with the insurance, bonds, and reporting requirements of the contract. We reviewed a sample of 20 projects. Of the 20 projects, 6 did not have the insurance certificates to support adequate coverage, 3 did not have the required bonds, and 8 projects did not have updated and consistent quarterly status reports which include the project's progress timeline.

Per the developer agreements of each project, the developer must maintain compliance elements and provide them to NHSD for monitoring that include adequate insurance coverage, performance and payment bonds, and quarterly status reports on updates to construction progress.

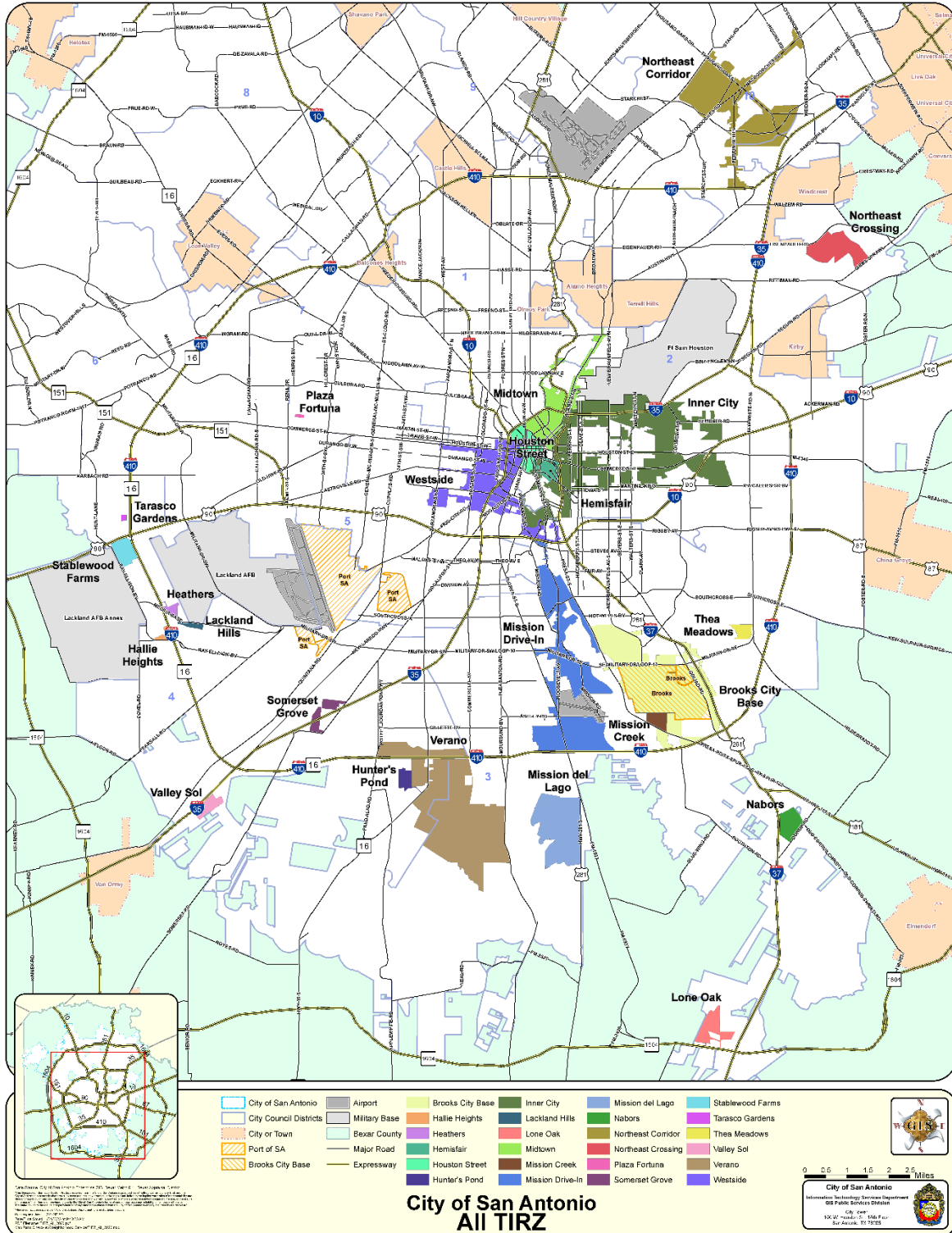
NHSD does not adequately monitor contracts for adequate insurance, bonds, and quarterly status reports. The City's liability risk may increase if contractual requirements of insurance, bonds, and quarterly status reports are not met.

Recommendations

NHSD director establish contract monitoring procedures to ensure insurance, bonds, and reporting requirements are in adherence to the contract.

Appendix A – Supplementary Information

Figure 1 – Map of All TIRZ



Appendix B – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager

Yadira Valenzuela, Auditor in Charge

Megan Dodd, Auditor

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 14, 2023

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

RE: Management's Corrective Action Plan for Audit of Neighborhood and Housing Services
Department Tax Increment Reinvestment Zones

The Neighborhood and Housing Services Department 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
A	Application Support NHSD director establish procedures and controls to ensure projects have all necessary supporting documentation for application approvals.	5	Accept	Ian Benavidez, Deputy Director	December 2023
	Action plan: NHSD has updated the Tax Increment Finance (TIF) Funding Application and the Application for the creation of new Reinvestment Zones to clarify the required documents. NHSD is creating a checklist of required documents to be completed by TIF staff upon receipt of the Application and any supplemental submissions from the Applicant. TIF staff are working with ITSD to explore long-term technology solutions for document retention.				
B	Project Contract Requirements NHSD director establish contract monitoring procedures to ensure insurance, bonds, and reporting requirements are in adherence to the contract.	6	Accept	Ian Benavidez, Deputy Director	April 2024



Audit of Neighborhood & Housing Services Department
Tax Increment Reinvestment Zones

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>NHSD has created a new database to track monitoring and compliance requirements in contracts. TIF staff will have biweekly meetings with Finance to review compliance requirements for ongoing projects. NHSD requested two additional staff in the FY2024 Budget to verify compliance of Tax Increment Reinvestment Zone contract provisions. These new positions were approved as part of the FY2024 Adopted Budget and will conduct ongoing contract compliance reviews and overall project monitoring.</p>				

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

Sincerely,



Veronica Garcia
Director
Neighborhood and Housing Services

09/21/2023

Date



Lori Houston
Assistant City Manager
City Manager's Office

09/21/2023

Date