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

**Economic Development Department**  
AUDIT OF PROSPER WEST CONTRACT  
PROJECT NO. AU23-011  
SEPTEMBER 26, 2023

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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 Economic Development Department (EDD), specifically the contract with Prosper West San Antonio (PWSA). The audit objectives, conclusions, and recommendations follow:

**Determine if parties are in compliance with the economic development agreement between the City and Prosper West.**

EDD is not monitoring key provisions of the economic development agreement between the City and PWSA, and PWSA is not in compliance with key areas of the agreement.

The activity of the Economic Development Incentive Funds (EDIF), which are loans and grants available to businesses, is not being reported to EDD accurately. There was one grant that was issued to an ineligible business. In addition, not all EDIF provided to Prosper West are being distributed, and remaining funds are not being returned to the City as required. Also, there is a lack of document support for the use of EDIF that were issued to businesses.

PWSA has not met the required 50% match of funds. An ineligible submission for the 50% match of general funds by PWSA was initially approved by EDD, but the approval was subsequently withdrawn. Also, general funds provided have been used for unallowable expenses.

PWSA is not accounting for City funding per the contract. Additionally, PWSA is not meeting the contractual requirement regarding the submission of audited financial statements. Finally, PWSA is not in compliance with contractual insurance requirements.

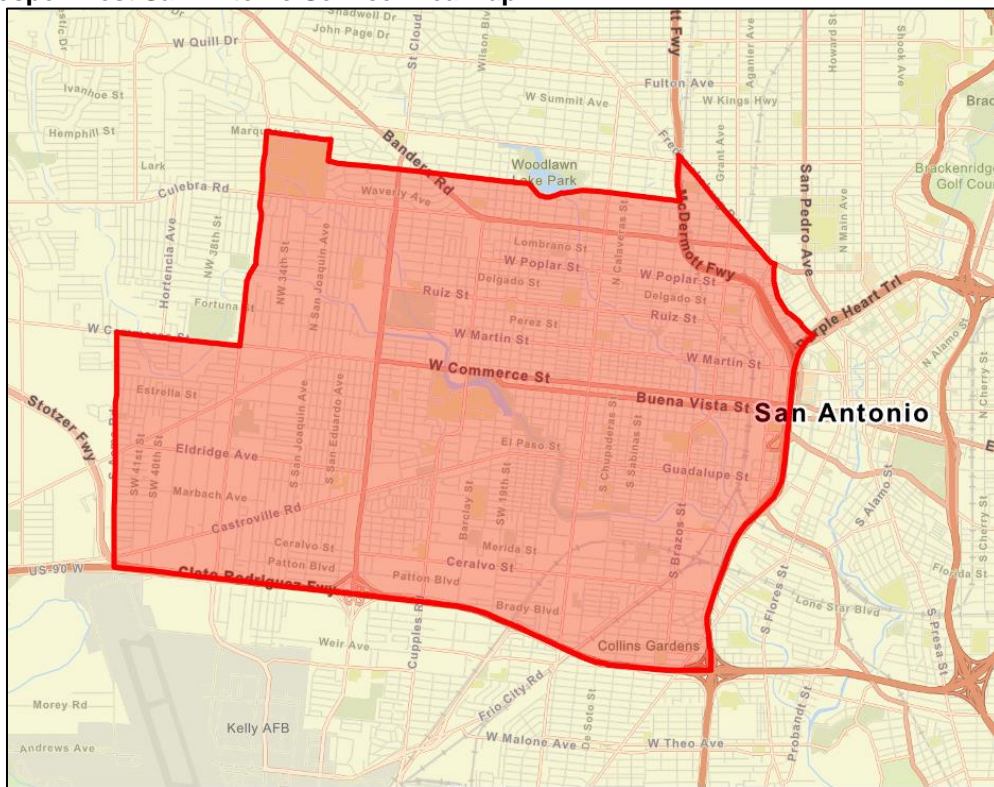
We provided recommendations to management to strengthen controls and resolve identified issues. EDD Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 10.

# Background

The mission of the Economic Development Department (EDD) is to foster economic growth through collaboration and innovation for the continued prosperity of our community. Within EDD, the Small Business Division facilitates small business development and growth through various programs and services. This division works closely with various partners, such as Prosper West San Antonio (PWSA), to support small businesses.

PWSA is a nonprofit community organization and is comprised of a coalition of community members working together to make San Antonio's Westside a more prosperous place for families and small businesses. PWSA currently serves a 15-square mile target area and works to maximize existing assets, remove barriers to opportunities, and close system gaps in small business and workforce.

**Exhibit 1 – Prosper West San Antonio Service Area Map**



Source: <https://prosperwestsa.org/>

The current annual economic development agreement between the City of San Antonio (COSA) and PWSA is in effect until October 31, 2023. This agreement authorizes COSA to grant funds to PWSA to promote local economic development and to stimulate business and commercial activity.

To accomplish this, PWSA provides consultative services directly to small businesses and acts as a liaison by connecting small businesses to outside providers for various types of assistance. In addition, PWSA is involved in numerous events supporting small businesses, such as workshops, resource fairs, and job fairs. Lastly, a Small Business Loans and Grants Program has been established by PWSA to provide access to capital to small businesses.

Under this agreement, EDD provides PWSA with two different fundings. The first funding is a total of \$258,668 in General Funds to be utilized by PWSA for operational support in their goal to foster economic and community development in their target area, the Westside. The second funding is a total of \$100,000 in Economic Development Incentive Funds (EDIF) to be utilized by PWSA for providing financial assistance to small businesses through the Small Business Loan and Grant Program. All funding provided to PWSA is to be spent by the end of the contract, and any remaining funds are to be returned to EDD.

In 2020, EDD was designated as the department responsible for the management and monitoring of this agreement. PWSA provides Summary of Quarterly Activity reports to EDD with details of the small businesses assisted, loans and grants issued (EDIF), and events hosted. PWSA also provides financial updates every quarter to EDD detailing the expenditures of the General Funds. Additionally, EDD holds meetings with PWSA monthly to discuss the status of the contract.



# Audit Scope and Methodology

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The audit scope covered the Economic Development Department (EDD) and Prosper West San Antonio's (PWSA) contract compliance from FY 2022 through March 2023 and included all reports, financial documents, grant and loan agreements, certificates of insurance, invoices, disbursements, and expenses associated with the agreement between the City and PWSA.

To gain an understanding of contract compliance and EDD's monitoring efforts, we interviewed EDD personnel and conducted walkthroughs of key contractual terms, including the overview of the contract, disbursements of funds, expenses, and monitoring tasks. The economic development agreement between the City and PWSA was the primary criteria for this audit. We assessed internal controls relevant to the audit objective. This included a review of the FY 2022 and 2023 economic development agreements and the Business Growth Loan & Grant guidelines.

We reviewed supporting documentation for the loans and grants issued to small businesses by PWSA to verify the Business Growth Loan & Grant guidelines had been followed and to verify all Economic Development Incentive Funds (EDIF) had been issued by the end of the contract, which is September 30, 2022. Additionally, we reviewed supporting documentation to verify PWSA was matching 50% of the General Funds disbursed by the City. We also reviewed expenses to determine their allowability and to verify all General Funds had been utilized by the end of the contract. Furthermore, we reviewed certificates of insurance to verify PWSA had obtained the proper insurance type, coverage, and limit. Lastly, we reviewed minutes from the monthly meetings held between EDD and PWSA to determine if EDD was monitoring the overall status of the contract.

We relied on computer-processed data in SAP to validate the existence and accuracy of invoices and corresponding payments. 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 Recommendations

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## A. Lack of Monitoring Procedures

EDD has not established adequate monitoring procedures to ensure both parties are in compliance with the contractual terms of the Funding Agreement (Contract) between the City of San Antonio and PWSA. As a result, the following were identified as areas that did not meet contractual requirements.

### **Economic Development Incentive Funds (EDIF)**

PWSA is not accurately reporting the quantities of loans and grants funded in the Summary of Quarterly Activity reports provided to EDD. Also, PWSA issued a grant to an ineligible small business. In addition, PWSA did not issue all \$100,000 in EDIF by the end of the FY 2022 contract, and the remaining EDIF were not returned to EDD as contractually required. Lastly, the audit team was unable to determine if the awarded loans/grants were used appropriately by the small businesses due to a lack of supporting documentation by PWSA.

We reviewed the Summary of Quarterly Activity report for the 4<sup>th</sup> quarter of FY 2022 and determined the loan and grant information to be inaccurate. PWSA reported 15 loans/grants were issued, and we determined four loans/grants were issued. We also determined one of the four grants was approved for a business with annual gross revenue of \$1.8 million, which exceeded the threshold set by the guidelines. We also determined that \$46,500 of the \$100,000 in EDIF were approved and spent before the end of the contract, and the remaining \$53,500 was not returned to EDD. Furthermore, we reviewed supporting documentation for the usage of the \$46,500 in EDIF issued and determined that only \$5,992 was adequately supported by documentation showing appropriate use.

The Business Growth Grant Guidelines require a small business to earn less than \$250,000 in annual gross revenue to qualify for a grant and outline the appropriate uses for the loan/grant funding. The contract requires 100% of EDIF to be approved and spent by the end of the contract term and requires any remaining EDIF to be returned by PWSA to EDD.

### **General Funds Matching & Expenses**

EDD approved a grant submission from PWSA for the 50% match of General Funds for FY 2023 that was later determined to not meet the scope of services required by the contract. Subsequently, PWSA has not met the 50% match of General Funds for FY 2023. In addition, the City has funded expenses deemed unallowable by the contract.

We reviewed supporting documentation for the 50% match of General Funds submitted by PWSA, which was a grant awarded by the Department of Housing and Urban Development (HUD). EDD approved this submission and disbursed the final \$29,334 of General Funds to PWSA. We determined the purpose of the HUD grant did not meet the scope of services outlined in the contract. As a result, this submission should not have been approved by EDD, and the final disbursement of General Funds should not have been funded to PWSA. In addition, we reviewed 25 expenses totaling \$29,402 from FY 2022 and FY 2023 and determined that two expenses totaling \$316.67 were unallowable, and one expense for \$412.37 could not be verified for allowability due to a lack of detail on the supporting documentation.

The contract states PWSA shall match 50% of the City's General Fund contribution, and the purpose of this funding is to support the Prosper West mission to foster economic and community development. This includes small business outreach, technical assistance efforts, operations, and the retention and attraction of small businesses.

### **Accounting Requirements**

The EDIF and General Funds provided by the City to PWSA through this contract are not accounted for in a separate bank account as contractually required. Also, audited annual financial statements have not been obtained from PWSA and reviewed by EDD.

We reviewed bank statements from PWSA and determined that other sources of funding are present in the same bank account. In addition, we attempted to review audited annual financial statements for FY 2021 and FY 2022, however PWSA was not able to provide them.

The contract states that PWSA shall establish an account with a commercial bank to account for the EDIF and General Funds provided by the City, and PWSA shall not commingle these funds with any other funds. PWSA is also required to furnish EDD with audited financial statements, prepared by an independent auditor, within 120 days of the close of the fiscal year.

### **Insurance Coverage**

PWSA did not obtain the proper insurance coverage type and limit throughout FY 2022 and FY 2023 as contractually required. We reviewed the certificate of insurance for FY 2022 and determined it did not list "Contractual Liability" as a type of coverage to the appropriate limit for the length of the contract. We also reviewed the certificate of insurance for FY 2023 and determined it did not list "Crime Coverage/Employee Dishonesty Liability" as a type of coverage to the appropriate limit for the length of the contract.



The Funding Agreement states that PWSA shall obtain and maintain in full force and effect for the duration of this agreement insurance coverage in the specific types listed in the agreement and for an amount not less than the amount listed in the agreement.

### **Recommendations**

EDD Director establishes a contract administration plan and conduct periodic monitoring procedures to ensure the City and PWSA are in compliance with the contractual terms of the Funding Agreement. Also, take corrective action as needed to resolve current issues identified.

# Appendix A – Staff Acknowledgement

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Buddy Vargas, CPA, CIA, CFE, Audit Manager

Michael Gutierrez, Auditor in Charge

Loretta Faxlanger, Auditor

Michelle Lopez, CPA, Auditor

# Appendix B – Management Response



September 21, 2023

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

RE: Management’s Corrective Action Plan for Audit of EDD Contract with Prosper West San Antonio

The Economic Development Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendation.

#	Description	Recommendation			
		Audit Report Page	Accept, Decline	Responsible Person’s Name/Title	Completion Date
A	<b>Lack of Monitoring Procedures</b> EDD Director establishes a contract administration plan and conduct periodic monitoring procedures to ensure the City and PWSA are in compliance with the contractual terms of the Funding Agreement. Also, take corrective action as needed to resolve current issues identified.	6	Accept	Brenda Hicks-Sorensen, Director	FY 2022 and FY2023 Corrective Action – October 15, 2023  FY 2024 Agreement – October 1, 2023  EDD CAP for FY 2024 Contract – October 16, 2023  PWSA CAP – November 1, 2023  Training plan developed – December 31, 2023

**Action Plan:**

The Economic Development Department (EDD) appreciates the City Auditor’s Office review of the Prosper West San Antonio (PWSA) contract. EDD agrees with the assessment and recognizes opportunity to improve compliance monitoring on EDD’s behalf and improve accountability on the behalf of PWSA. Lessons learned from the Prosper West audit will inform improvements to other EDD agreements. EDD has recently reorganized staff positions to fill a vacant Economic Development Manager position with an experienced individual to focus on compliance management that will assist all departmental teams with reviewing existing contracts, developing contract administration plans, and implementing best practices for compliance.

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EDD will establish a comprehensive Contract Administration Plan (CAP) to effectively oversee and monitor the various sections of the economic development agreement between the City and PWSA. The CAP will outline specific procedures, responsibilities, and timelines for tracking, measuring, and ensuring compliance with all contractual terms. This plan will be designed to provide a structured framework for ongoing oversight, evaluation, and reporting of activities related to the agreement which will include quarterly site visits for review of accounting and reporting details.

As a new contract term approaches, EDD will include specific language to assist with compliance and accountability including, but not limited to, parameters for unused funds to date and matching requirements. EDD will apply lessons learned to all other partnership agreements.

EDD has met with PWSA's President & CEO, Interim Board Chair, and Vice Chair to discuss opportunities for improvement and expectations for future agreements. We are working with PWSA leadership to establish an internal CAP for management purposes, implement stronger internal controls, review program policies to ensure they meet the needs of the community and are adhered to, and work to identify specific training opportunities for the board and staff.

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

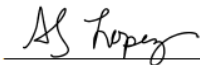
Sincerely,



Brenda Hicks-Sorensen, Director  
Economic Development Department

September 21, 2023

Date



Alejandra Lopez  
Assistant City Manager  
City Manager's Office

9/21/2023

Date

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