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**Public Improvement District 11
(Stockyards) Audit**

February 22, 2019



**City of Fort Worth
Department of Internal Audit**

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The Public Improvement District 11 (Stockyards) Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2018 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- determine whether City payments were for the reimbursement of eligible expenses; and,
- assess and verify PID11 cash balances.

Audit Scope

Our audit covered the period from October 1, 2015 through September 30, 2017. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

- Improved review of PID expenditures
- Competitively-bid procurements
- Written contracts for goods and services
- Proper tracking and disposition of seed money

Executive Summary

As a part of our FY2018 Annual Audit Plan, the Department of Internal Audit conducted an audit of Public Improvement District (PID) 11 (Stockyards). We concluded that the PID11 management company budgets for necessary expenditures, consistently requests reimbursements from the City of Fort Worth (CFW), and is utilizing funds for eligible expenditures that benefit the entire PID.

Some findings identified during our audit were also findings within our prior audits of PID6 and PID7. For example, payments were reimbursed by the City without sufficient support. The PID management company did not competitively bid procurements, and the disposition of \$15,000.00 in seed money was not adequately addressed. As with PID6 and PID7, Internal Audit could not substantiate whether the seed money was repaid due to elapsed time and the absence of documentation.

In addition to findings that were similar to PID6 and PID7, the Department of Internal Audit concluded that the PID management company contracted for services without written agreements. Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

Our audit recommendations are directed to the Financial Management Services Department (FMS), since FMS took over PID administration in FY2018. However, our audit results relate to operations under the guidance of the Performance and Budget Department and the Neighborhood Services Department.

We also identified weaknesses that were not considered reportable, but were considered significant enough to verbally communicate to management. For example, there were minor expenditure misclassifications. Business checks and bank fees were reported as website expenses. We also identified a discrepancy between the approved assessment budget and the amount entered into the City's general ledger.

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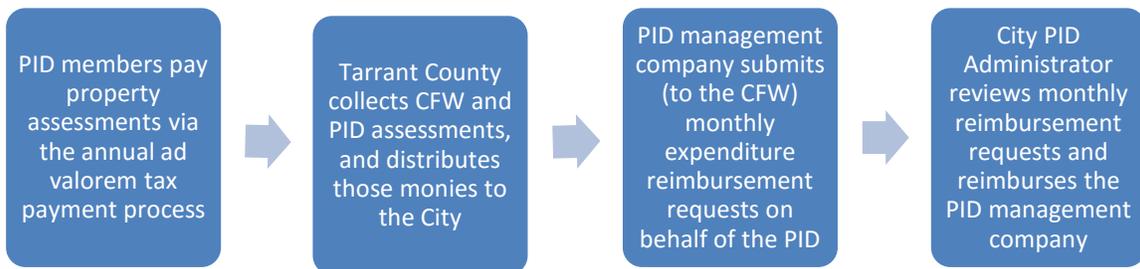


Background

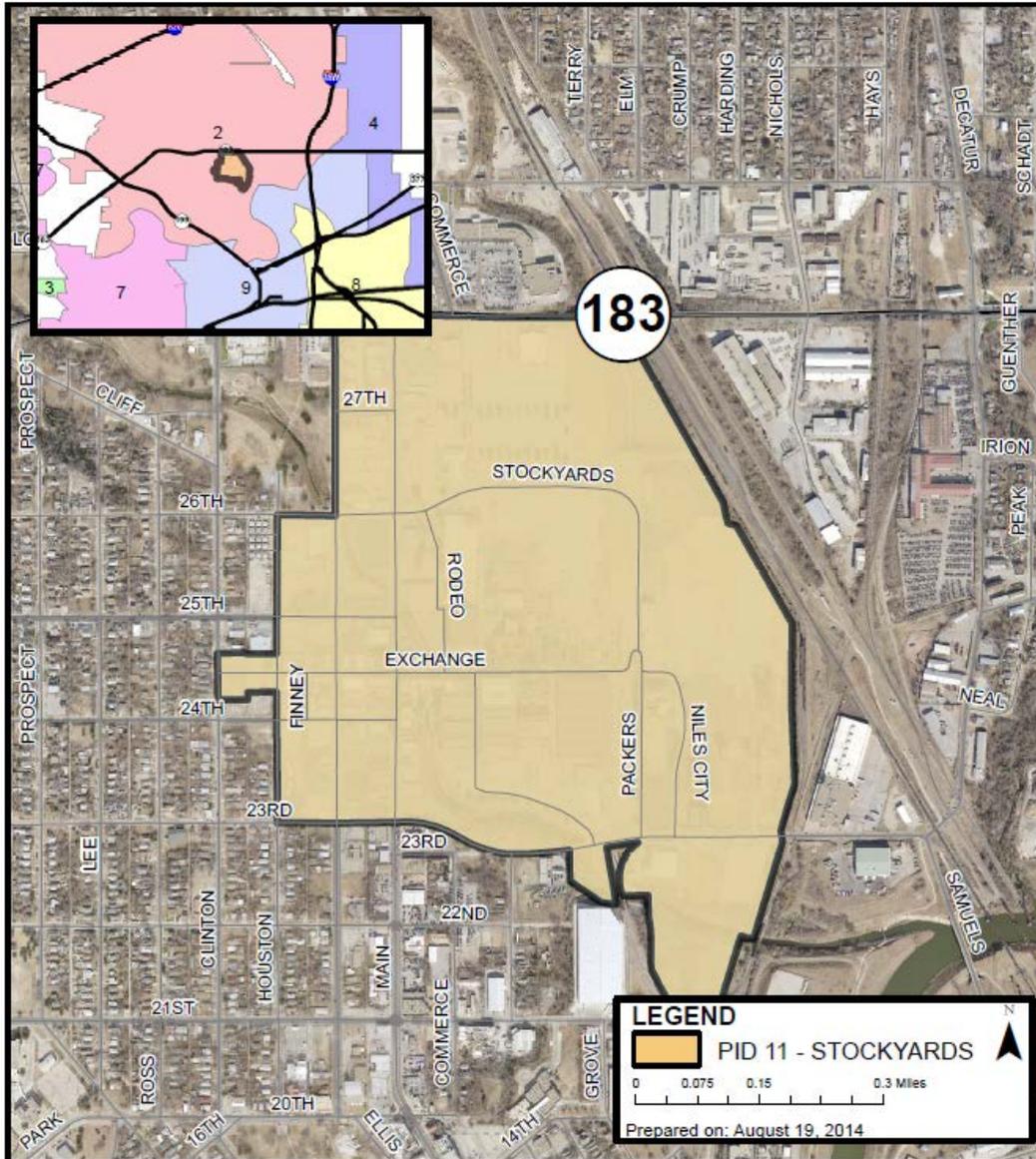
A Public Improvement District (PID), created under Chapter 372 of the Texas Local Government Code, is a defined geographical area established to provide specific types of improvements or maintenance benefitting that defined area. The Texas Local Government Code allows counties or municipalities to create residential and commercial improvement districts by ordinance.

PIDs are financed by tax assessments against all property owners of benefitted property within a defined district area. The City of Fort Worth (CFW) uses PID dollars to enhance, maintain and promote the area in a manner that exceeds standard services provided by the CFW. Owners of commercial properties within the boundaries of PID11 pay an assessment of \$0.12 per \$100.00 of the assessed value. These PID dollars must be spent on expenditures that benefit the entire district, as well as the City as a whole. The PID assessments may not be spent on expenses that only benefit select individual businesses within the district.

Tarrant County collects PID assessments in conjunction with property taxes paid by property owners, and deposits those monies into a CFW bank account. The CFW assigns PID revenue to a special revenue fund, and retains the revenue until the PID management company demonstrates it has expended monies on allowable expenditures. City policy provides guidance that helps ensure the City retains a reserve (fund balance) to cover expenditures, prior to the City receiving revenue to fund those expenditures.



PID11 was created on January 28, 2003 by City Council Resolution 2925. As noted in the following map, PID11 encompasses the historic stockyards in northwest Fort Worth (Council District 2). The purpose of the PID is to promote tourism, increase marketing, and support special events. The CFW authorized the Stockyards Preservation Foundation of Fort Worth to manage PID11. The Stockyards Preservation Foundation of Fort Worth is a 501(c) 3 organization whose mission is to preserve and share the story of the Stockyards.



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Source: City of Fort Worth Website

The PID11 budget is comprised of PID assessments, as previously noted, as well as advertising revenue generated from the website www.fortworthstockyards.org. The website, created and maintained by the PID management company, showcases local businesses, upcoming events, and history of the area. During the scope of this audit, the Fort Worth Policy and Guidelines for Public Improvement Districts did not require advertising revenue to be submitted to the City.

During October 2015, the CFW's PID administration function was moved from the Neighborhood Services Department to the Performance and Budget Department. While assigned to the Performance and Budget Department, four separate employees served as the City's PID Administrator, with the position also remaining vacant for several months.



In October 2017, the PID administration function was moved from the Performance and Budget Department to the Financial Management Services Department, where it currently resides.



Objectives

The objectives of this audit were to:

- determine whether City payments were for the reimbursement of eligible expenses; and,
- assess and verify PID cash balances.

Scope

Our audit covered the period from October 1, 2015 through September 30, 2017. Our audit also included a review of documents related to the disposition of seed money granted in FY2010.

We did not review TAD's property assessments. We also did not verify whether all property owners (within PID11) paid their assessment, nor did we verify that Tarrant County properly forwarded collected PID assessments to the CFW.

Our audit focused exclusively on City reimbursements to the PID management company using tax assessments, account interest and reserves. We did not audit internal functions of the PID management company, including invoicing of advertisers and revenue collection. These objectives were considered beyond the scope of this audit.

We also did not reexamine internal controls that were addressed in other recent PID audits, including inadequate City staffing and oversight. These have been previously noted in other audits, and changes to these processes are currently in progress.



Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed key CFW personnel responsible for PID administration;
- interviewed key personnel within the PID management company;
- reviewed PID management company bank statements, reimbursement documents, accounts payable check history reports, invoices and other key supporting documentation;
- verified PID management company's insurance coverage;
- compared CFW reimbursements to PID management company income statements;
- analyzed PID fund balances;
- compared budget-to-actual PID expenditures;
- reviewed administrative fees paid to the CFW for PID management oversight, and to the PID management company for administrative expenses incurred;
- reviewed pertinent authoritative pronouncements including: Chapters 252 and 372 of the Local Government Code, the CFW's Policy and Guidelines for Public Improvement Districts, City ordinances, contracts, and resolutions;
- compared City purchasing records from BuySpeed Online to the City's general ledger and reimbursement requests; and,
- evaluated internal controls related to PID management.

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 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

Based on our audit results, the City reimbursed the PID11 management company (Stockyards Preservation Foundation of Fort Worth) for PID11 expenses that benefitted the entire PID.

When reviewing individual expenditures, there was not sufficient support for 34 of 117 transactions (29%) reimbursed by the City. While Internal Audit was able to verify that all expense transactions were paid by the PID management company (based on bank statements), reimbursing expenditures without adequate support increases the likelihood of improper reimbursements.

We concluded that the PID management company did not competitively procure for services. For example, litter abatement was not competitively bid, although FY2016 litter abatement expenses exceeded the competitive bidding requirement threshold. Also, website content management services were not competitively bid, although they exceeded the competitive bidding requirement threshold for both fiscal years in our scope. Internal Audit was not provided with written contracts for either service.

The City made a \$15,000.00 payment to the PID11 management company in August of 2010. The payment was labeled “seed money” in the City’s general ledger and purchasing systems, but was referred to as petty cash with the PID management company’s records. Due to CFW staff turnover and the amount of elapsed time since this transaction, Internal Audit was unable to determine the terms of repayment.

It should be noted that three of the four aforementioned findings (e.g., reimbursing expenditures without adequate support, lack of competitive bidding and non-resolution of seed money) are also found in our Public Improvement District 7 (Heritage) Audit and our Public Improvement District 6 (Park Glen) Audit, which were released on November 2, 2018.

We also identified the following weaknesses that we considered important, but did not warrant a report finding.

- The FY2016 budget and mid-year budget adjustment (approved by the Mayor and City Council) included \$67,420.00 in assessments for reimbursement to the PID management company. However, the budgeted assessments were entered in the City’s general ledger as \$76,420.00. While the source of this discrepancy could have resulted from a transposition error, timing issue, etc., the cause was undetermined.
- Minor expenditures were misclassified. For example, business checks, bank fees and payroll taxes were classified as website expenditures. While these misclassifications were not material enough to warrant a report finding, additional oversight is recommended going forward.

Additionally, insurance expenses were not classified as administrative because they were included as a separate line item within the PID budget. Accordingly, the Mayor and Council approved insurance expenses as a separate, non-administrative line item. Clarification is recommended regarding whether insurance expense should be considered administrative in subsequent years.

- Internal Audit did note two very similar websites: www.fortworthstockyards.org, which is maintained by the PID management company, and www.fortworthstockyards.com, which is maintained by Fort Worth Stockyards Heritage Development. We concluded that the websites are different and have different content, promoting different businesses and events. However, the existence of such similar sites could result in confusion regarding which website is maintained by PID funds.



Overall Evaluation

High	Medium	Low
<u>Expenditures reimbursed without adequate support</u>		
<u>Not all procurements competitively bid</u>		
<u>Services procured without written contracts</u>		
	<u>Disposition of seed money not addressed</u>	



Detailed Audit Findings

1. The City reimbursed expenditures that were not adequately supported.

The City did not perform adequate review of documentation, and as a result, reimbursed the PID management company without requiring sufficient supporting documentation.

When reviewing individual expenditures, there was not sufficient support for 34 of 117 (29%) transactions reimbursed by the City.

- The majority of inadequately supported City reimbursements (24 or 70.6%) were for expenses related to the Website Content Manager. Copies of checks made payable to the Website Content Manager were provided to Internal Audit, along with reimbursement requests. Internal Audit validated the amounts reimbursed against bank statements, confirming that the monies were expended by the PID management company. However, there was no documentation (such as a contract or detailed invoice) to determine whether the amounts paid were in the correct amounts.
- Two (2) expenditures (5.9%) were for payroll taxes for the Website Content Manager. The PID management company provided no supporting documentation with the reimbursement request.
- Four (4) expenditures (11.8%) were related to litter abatement. Invoices sent to the City for reimbursement stated “per service agreement.” However, no signed service agreement was located, nor could we validate that the amount paid was correct.
- One (2.9%) expenditure was a request to sponsor a public event. The invoice did not state whether the requested funds were for a sponsorship, nor did it contain details about what the sponsorship entailed or supported.
- One (2.9%) expenditure was for a cell phone. However, the statement provided with the December 2015 reimbursement was for January 2016.
- Two (5.9%) expenditures were for email hosting services. However, no supporting documentation was provided with the reimbursement request.

The City of Fort Worth’s Policy and Guidelines for Public Improvement Districts states that the PID management company will periodically present an invoice to the City, along with a report of services rendered and documents evidencing payments made for PID services for the reporting period. Similarly, section 6.1 of the contract with the PID management company, requires that requests for reimbursement include documentation sufficiently demonstrating that any sums paid or incurred by the PID management company have been paid or are due. Reimbursing requests without adequate support increases the likelihood of improper payments.

Recommendation 1: *The Chief Financial Officer should require that staff validate expenditures against supporting invoices (on at least a sample basis) for accuracy and for sufficient support before reimbursing the PID management company.*

Auditee’s Response: Concur. As of October 1, 2017, the Department of Financial Management Services reviews all Service and Assessment Plans, Budgets, and invoices for services submitted by the PID management companies. Invoices submitted by PID managers are reviewed and questions about expenses are resolved with the management companies. In addition, management is negotiating a contract with an audit firm to include a test of expenditures.



Target Implementation Date: Review of expenditures completed and ongoing, contract with audit firm to be completed by April, 2019

Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

2. The PID management company did not competitively bid procurements.

Competitively bidding purchases is essential for good stewardship of public funds and ensuring the PID management company is receiving goods and services at a competitive rate, and receiving best value for taxpayer dollars. If bids are not obtained, the PID management company may not receive the best value for services.

According to the CFW’s Policy and Guidelines for Public Improvement Districts that were in place during the audit scope, any purchases of goods or services, or any purchase contract that is subject to annual renewal (and more than 4% of the total budget in any given year) requires three bid requests by qualified vendors. However, during our audit, we were unable to obtain documentation to support competitive bidding.

FY2016			
Service	Total Adjusted Budget	Total Spent With Vendor	Percent Budget Spent
Website Content Management	\$112,980.00	\$27,903.00	24.70%
Litter Abatement		\$10,200.00	9.03%

FY2017			
Service	Total Budget	Total Spent With Vendor	Percent Budget Spent
Website Content Management	\$84,291.00	\$30,000.00	35.59%

Source: M&C documents; PID reimbursement requests

- Payments to the Website Content Manager exceeded 20% of the total FY2016 and FY2017 budgets. The Website Content Manager became a contractor position in January 2016. Prior to January 2016, the Website Content Manager was considered an employee of the PID management company. Based on information obtained during the audit, the Website Content Manager was responsible for website maintenance.

The PID management company indicated that a job description, versus a contract, was created for the Website Content Manager. The PID management company indicated that an individual who was already involved in the Stockyards had the required skills and was willing to do the work at what the PID management company believed was a good rate. Therefore, the Website Content Manager was hired without competitively bidding website content management services.



- Litter abatement costs exceeded 8% of the total budget in FY2016. Litter abatement services were assumed by Fort Worth Heritage Development when the General Manager for Stockyards Station relocated in July 2016. The PID management company was unable to provide a signed contract with Stockyards Station, or provide evidence bids were obtained.

Recommendation 2: *The Chief Financial Officer should ensure that the monitoring of PID activity include a review for compliance with competitive bidding requirements, as set forth in the City's Policy and Guidelines for Public Improvement Districts.*

Auditee's Response: Concur. The Department of Financial Management Services conducted training for the PID management companies on competitive bidding requirements on Wednesday, March 21st at 2:00 p.m. in Room 290 of City Hall. All procurements by the PID management companies will be required to have a competitive process consistent with the City's policies and procedures.

Target Implementation Date: Complete

Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

3. The PID management company contracted for services without written agreements.

Written contracts are important for clarity and to provide standards for enforcement. A written contract protects both parties, and ensures the PID management company is meeting contract deliverables at the agreed upon price.

Section 2.1 of the contract with the PID management company states that the PID management company is responsible for overseeing the bidding and awarding of any third party contracts in accordance with the guidelines set forth in the Policy and Guidelines for Public Improvement Districts. According to Section III of those guidelines, the PID management company either performs or subcontracts the work to be performed in the District.

- The Website Content Manager's job description serves as a general guideline to establish deliverables. However, a contract, timesheets, or measurement of actual work performed do not exist to support the accuracy or legitimacy of payments.
- An unsigned "boilerplate"/contract was located for Stockyards Station to collect litter/trash. However, a signed contract was not provided. According to the PID management company Bookkeeper, when the General Manager of the Stockyards Station relocated, Fort Worth Heritage Development assumed litter collection and began invoicing for these services. A signed agreement was not created.

Recommendation 3: *The Chief Financial Officer should ensure that the PID management company enters into written contracts that include scope of services, dates of service, and deliverables.*

Auditee's Response: Concur. Each management company will be required to submit copies of all contracts to be kept on file with the Department of Financial Management Services. The contracts will be reviewed for complete information.

Target Implementation Date: Complete



Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

4. No documentation was available to support the intent or resolution of the \$15,000.00 seed money/advance given to the PID11 management company.

In August of 2010, the CFW paid \$15,000.00 to the PID11 management company. Although the payment was approved at the CFW's department level, Internal Audit saw no evidence that the payment/advance/seed money was presented to or approved by the Mayor and City Council.

The PID management company stated that the seed money was "trued up" when they did not request nor receive reimbursement for several months' expenditures. Internal Audit was able to verify that the City did not make payments to the PID management company between August 20, 2010 and December 29, 2010. However, neither the City nor the PID management company had any records indicating whether the City was informed of expenses not reimbursed in lieu of repayment. Due to lack of supporting documentation, we were not able to validate whether PID management company expenditures accounted for the seed money.

A number of problems with the City's issuance and tracking of seed money made it difficult to determine the status.

- A written agreement regarding terms and repayment of the seed money was not located.
- The PID Administrator within the Neighborhood Services Department created a tracking spreadsheet for seed money issued by the City, across all PIDs. However, the spreadsheet was not considered complete, as it did not indicate that PID11 funds had been advanced.
- The CFW did not establish an accounts receivable to evidence that a repayment of seed money was due. The PID management company recorded the seed money on a separate register and in an account within their accounting system, but not as a payable.
- There was no available documentation to determine if the PID management company notified the City of the amounts for which reimbursements were not requested.

The contract with the PID management company allows the City and its representatives to make inspections of documents, proceedings and activities for a period of three years from the date of final payment under the contract. The term of the contract in place when the seed money was granted was October 1, 2009 to September 30, 2010. The PID management company was, therefore, required to retain documentation regarding the seed money until 2013.

The City's record retention schedule requires that:

- accounts receivable documentation be retained for three years following the fiscal year end of the date of final payment; and,
- a record (e.g., seed money) may not be destroyed until the completion and resolution of all issues relating to the record.

The contract between the City and the PID management company is silent regarding seed money. The contract, therefore, does not require the PID management company to retain records until seed money is repaid, nor does it require a longer retention period if issues arise. Language within the contract, therefore, does not entirely align with the City's retention policy.



Recommendation 4A: *The Chief Financial Officer should ensure that if monetary advances are provided in the future, that the intent and expectations surrounding the advances are clearly stated, in writing, and properly reflected in the accounting records.*

Auditee's Response: Concur. Changes were incorporated in PID management agreements for fiscal year 2019 to address future advances to ensure compliance with Texas Local Government Code Chapter 2257.

Target Implementation Date: Complete

Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

Recommendation 4B: *The Chief Financial Officer should work with the PID management company to determine the status of the original seed money and reach an agreed resolution regarding the disposition.*

Auditee Response: Concur. The Department of Financial Management Services will work with the management companies to resolve and document the status of all seed money advances.

Target Implementation Date: June 1, 2019

Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

Recommendation 4C: *The Chief Financial Officer, in conjunction with the City Attorney, should revise the Management and Improvement Services contract wording for retention of records to:*

- *retain fiscal records based on final date of repayment, if the repayment date is beyond the end of the contract date; and,*
- *ensure record retention requirements are consistent with City requirements.*

Auditee Response: Concur. The Department of Financial Management Services, in coordination with the Legal Department and the City Secretary, will review the FY2020 Management Contract and include retention of records requirements that are consistent with City requirements.

Target Implementation Date: October 1, 2019

Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services

Recommendation 4D: *The Chief Financial Officer should consider records retention based on the end of the relationship with the PID management company, rather than a period based on the contract end date.*

Auditee Response: Concur. The Department of Financial Management Services, in coordination with the Legal Department and the City Secretary, will review the FY2020 Management Contract and include appropriate retention of records for certain long term issues (e.g., seed money), rather than a period based on the contract end date.

Target Implementation Date: October 1, 2019



Responsibility: Senior Contract Compliance Specialist - PIDs, Department of Financial Management Services



Acknowledgements

The Department of Internal Audit would like to thank the Financial Management Services Department and the Stockyards Preservation Foundation of Fort Worth for their cooperation and assistance during this audit.