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**Public Improvement District 14
(Trinity Bluff) Audit**

November 8, 2019



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

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The PID14 (Trinity Bluff) Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2019 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- verify the accuracy of City reimbursements to the PID management company;
- verify that revenue received by the PID management company is appropriately accounted for by the City; and,
- evaluate cash reserves/fund balances for appropriateness.

Audit Scope

Our audit covered the period from October 1, 2016 through September 30, 2018. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

Approval for shared cost methodology

Proper tracking and recording of seed money

Executive Summary

As a part of our FY2019 Annual Audit Plan, the Department of Internal Audit conducted an audit of Public Improvement District (PID) 14 (Trinity Bluff). We concluded that the PID14 management company budgets for necessary expenditures, contracts for necessary services to meet the PID's needs, and consistently requests reimbursements from the City of Fort Worth on a monthly basis.

The methodology used to allocate costs shared between the PID and other separate entities of the PID management company was not approved by the City. Furthermore, the PID contract is silent regarding proper treatment of shared expenses.

The disposition of \$11,000.00 in "seed money" advanced to the PID management company was expensed by the City, and not recorded in the City's financial system as a receivable. The "seed money" was correctly recorded in the PID management company financial statements as a liability.

Some findings identified during this audit were repeat findings from prior internal audits of other PIDs. These repeat findings were, therefore, not included in this audit 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 Financial Management Services Department.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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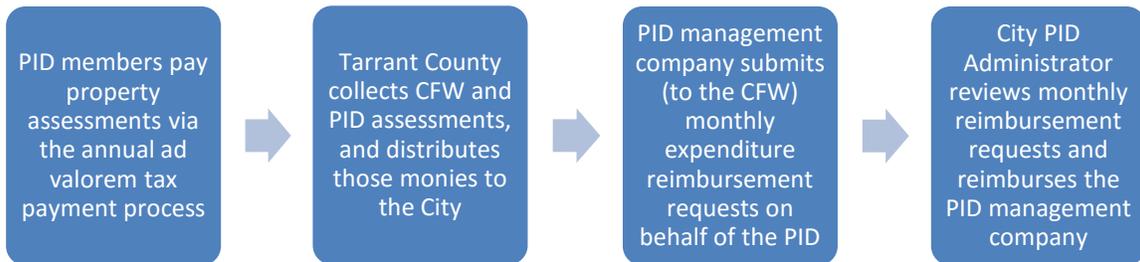


Background

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.

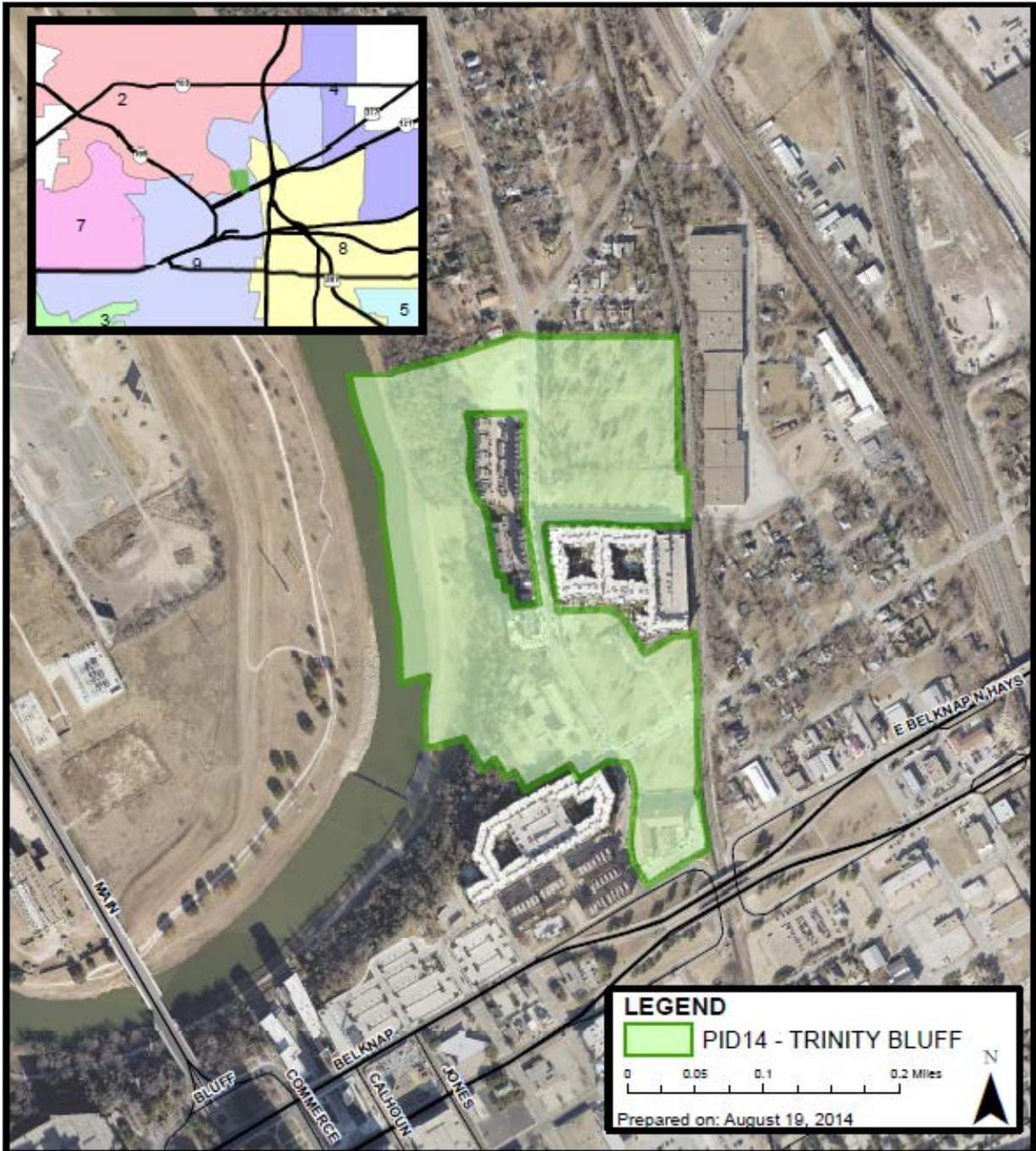
PIDs are financed by assessments against all property owners of benefitted property within a defined district area. The City of Fort Worth (CFW) uses PID dollars to enhance, maintain and promote the area in a manner that exceeds standard services provided by the CFW. Owners of properties within the boundaries of PID14 pay an assessment of \$0.10 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 individuals 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.



PID14 was established in June 2009 for a 20-year term, expiring on September 30, 2029. PID14 is located within the shaded area on the following map.

Trinity Bluff Public Improvement District (PID14)



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Source: City of Fort Worth Website



The purpose of the PID is to supplement the existing level of City improvements and services, and to constitute an added benefit beyond what is normally provided to taxpayers. Since the creation of PID14, the CFW has authorized Downtown Fort Worth, Inc. to manage the PID. This same company also manages PID1 (Downtown).

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 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:

- verify the accuracy of City reimbursements to the PID management company;
- verify that revenue received by the PID management company is appropriately accounted for by the City; and,
- evaluate cash reserves/fund balances for appropriateness.

Scope

Our audit covered the period from October 1, 2016 through September 30, 2018. Activity beyond this period was reviewed as deemed necessary.

We did not review the Tarrant Appraisal District's property assessments. We also did not verify whether all property owners (within PID14) paid their assessment, nor did we verify that Tarrant County properly forwarded collected PID assessments to the CFW. These objectives were considered beyond the scope of this audit.

We did not reexamine internal controls addressed in recent PID audits, including inadequate City oversight. Also excluded from reexamination was an evaluation of compliance with competitive bidding requirements. Internal Audit excluded these areas as they have been identified as control weaknesses in recent PID audits, and once management's action plans are implemented, the control gaps should be adequately addressed.

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;
- compared CFW reimbursements to PID management company income statements;
- analyzed PID fund balances;
- compared budget-to-actual PID expenditures;
- 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;
- reviewed financial records and other documentation supporting seed money paid to the PID management company by the CFW;



- evaluated the appropriateness of expenditures allocated between the PID and the PID management company's other entities (e.g., PID1 Downtown);
- evaluated the appropriateness of administrative fees paid to the CFW for PID management oversight;
- assessed management fees paid to the PID management company for administration of the PID; 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, PID14 operated from a budget that allowed for expenditures that maintained and enhanced the Trinity Bluff PID. We concluded that reimbursements to the PID management company were accurate. Also, payments to the PID management company were appropriately accounted for by the City, with the exception of \$11,000.00 in “seed money”.

We concluded that the methodology used to allocate costs shared between the PID management company and other separate entities of the PID management company was not approved by the City. The data necessary to verify the basis for allocating \$23,360.00 of budgeted Ambassador Program expenses to PID14 was not available. Furthermore, the City’s PID management contract is silent regarding proper treatment of shared expenses.

Internal Audit determined that the City’s general ledger does not include a receivable balance for \$11,000.00 in funds advanced to the PID management company as “seed money”. Nor does the general ledger show the “seed money” being used as reimbursement for prior expenditures. The PID management company’s audited financial statements included the \$11,000.00 advanced as a liability.

Based on our audit results, the PID management company paid for uniforms worn by landscape contractor employees, although uniforms are typically provided by employers. The City’s contract was silent regarding providing uniforms to vendors. We also noted that the available fund balance at the beginning of FY2018 was \$71,116.00, or 115% of the FY2017 assessments. An increase in FY2018 spending reduced the fund balance to an appropriate level. As a result, no finding was warranted. We did, however, conclude that monitoring of the fund balance (relative to assessments) should continue going forward.



Overall Evaluation

High	Medium	Low
	<u>Cost allocation methodology for shared costs not approved by the City</u>	
	<u>Inadequate controls surrounding the advancement of PID funds</u>	



Detailed Audit Findings

1. The cost allocation methodology was not reviewed and approved by the City.

PID14 shares various company resources with Downtown Fort Worth Inc.'s (DFWI) other entities, including the PID1 (Downtown). DFWI has developed a methodology to allocate some of the expenditures associated with these shared resources among its entities.

DFWI allocated some of their overhead/management expenditures to PID14 as follows:

- 10% of the PID Manager's salary and pension. Pension was based on the PID Manager's time dedicated to PID14;
- 1% of the PID management company employees' (with PID14 responsibilities) insurance benefits was based on time dedicated to PID14; and,
- 1% of warehouse expenses (e.g., rent, electricity, water, permits, waste pickup, etc.) was based on warehouse space usage.

PID14 also shares several non-overhead expenditures with PID1. Non-overhead expenditures reviewed included the Ambassador Program and landscaping crew uniforms. Those expenditures were allocated to PID14 as follows:

- The Ambassador Program contract was allocated at a specific dollar amount, and was not based on a percentage of the overall expense. The amount allocated was \$23,360.00/year (\$1,946.67/month), which represented 3.9% of the overall contract; and,
- 6% of uniform expenses for contractor landscaping staff, based on area of coverage.

While the methodology used for allocating these shared expenditures appears reasonable, due to historical data not being retained, we were unable to validate the appropriateness of the Ambassador Program expense allocation. Testing of the sampled expenditures revealed that the PID management company consistently allocated expenditures according to their current methodology.

The contract between the CFW and the PID management company is silent regarding the sharing of expenses, and the expected allocation. However, sharing of expenses should be both fair and consistent. Without an approved allocation methodology, the CFW has no assurance that PID14 property owners did not pay more than their share of allocated expenditures.

Recommendation 1A: *The Chief Financial Officer should identify costs that should be shared, and then approve an appropriate allocation methodology.*

Auditee's Response: Concur: The PID Administrator will work with each PID management company to ensure the methodology for the allocation of shared costs is appropriate, approved and documented by the City.

Target Implementation Date: March 31, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services



Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 1B: *The Chief Financial Officer, in conjunction with the City Attorney's Office, should update the future annual PID contract to reflect the agreed upon allocation methodology.*

Auditee's Response: Concur. Financial Management Services will work with the City Attorney's Office to ensure that the approved methodology for the allocation of shared costs is documented in future annual PID contracts (starting in FY2021 or 10/01/20).

Target Implementation Date: October 1, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 1C: *The Chief Financial Officer should update the PID Policy to include a requirement to review cost allocation methodologies for shared PID costs.*

Auditee's Response: Concur. Financial Management Services will update the PID policy to include a requirement to review the cost allocation methodologies for shared PID costs. In addition, the PID Administrator will work with each PID management company to ensure the methodology for the allocation of shared costs is appropriate, approved and documented by the City.

Target Implementation Date: March 31, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

2. Controls surrounding the advancement of PID funds were inadequate.

In February 2016, the CFW advanced the PID management company \$11,000.00 described in City records as "seed money." The City distributed this money to the PID management company to cover reimbursable expenses the PID management company incurred on behalf of PID 14. The City provided \$11,000.00, which was a projection (by the City's PID Administrator) equivalent to approximately two months' worth of budgeted expenditures.

Documentation supporting the City's \$11,000.00 disbursement consisted of an invoice for "Seed Money 2016" and emails between Budget Department personnel (which was the City department responsible for administering PIDs) and the City Attorney's Office.



According to conversations with the PID management company and our review of their audited financial statements, these advanced funds had to be repaid or used for reimbursable PID expenditures. The PID management company recorded the \$11,000.00 as “deferred revenue” in their financial statements and disclosed that the funds received from the City would not be recognized as revenue until expended in the performance of the contracted services.

Internal Audit verified that these payments were made to the PID management company. However, the City recorded the advance as an expenditure. By not recording the advance as a receivable within the general ledger, combined with staffing changes within the City’s PID administration function, City staff might not be aware that repayment is due to the CFW.

Additionally, due to the amount of time that had lapsed, and turnover in the departments responsible for managing PID14, Internal Audit was unable to determine why the advance was not recorded as a receivable in the City’s financial system. Section V. of the City’s Financial Management Policy Statements requires proper recording of transactions to ensure that financial reports are reliable.

Recommendation 2A: *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: Financial Management Services will update the PID policy to include a section regarding advances, which will state as a general rule the City will not provide monetary advances. The policy will allow flexibility to provide advances in extreme circumstances. The following are the two types of exceptions that will be addressed in the policy:

1. Seed Money Advance: Potentially provided only during initial PID setup or when a new PID management company takes over an existing PID. If due to extreme circumstances, an advance is requested (on assessments received by the City) and approved by the CFO, the exception will be documented in writing and signed by the PID management company, as well as, the City’s CFO. The written document will include: the reason for the exception, how the advance will be reflected in the accounting records, and when the funds will be paid back to the City. Please note: Mayor and Council will approve the exemption and monetary advance of Seed Money.
2. Short-term Advance (less than one month): In extreme circumstances, the City can provide an advancement prior to the normal end of month reimbursement cycle. Essentially, the City is direct paying a vendor invoice (through the PID management company). An advancement would only be given on PID funds already held at the City. The policy will address the documentation requirements and internal controls around a short-term advancement. Please note: The Assistant Finance Director / Controller can approve short-term advances.

Target Implementation Date: March 31, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 2B: *The Chief Financial Officer should work with the PID management company*



to determine the status of the seed money and reach an agreed resolution regarding the disposition.

Auditee Response: Concur. Financial Management Services will work with each PID management company to determine the status of seed money provided and will document the agreed upon resolution regarding the disposition for all PIDs. The documented understanding will be signed by the PID management company and the City's CFO.

Target Date: March 31, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 2C: *The Chief Financial Officer should determine the proper type of authority that is required for advancing PID funds to the management company.*

Auditee Response: Concur. As stated in recommendation 2A, Financial Management Services will update the PID policy to include Mayor and Council approval is necessary to advance Seed Money to PID management companies. Short-term (duration of less than one month) will be approved by the Assistant Director / Controller. As noted earlier, this would be only on an exception basis due to extreme circumstances (e.g., a new PID management takes over an established PID and the advancement is necessary for cash flow purposes).

Target Date: March 31, 2020

Responsibility: Crystal Hinojosa, PID Administrator, Financial Management Services
Tony Rousseau, Assistant Director, Financial Management Services

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn



Acknowledgements

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