



CITY OF SAN ANTONIO

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November 29, 2018

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SUBJECT: Audit Report of the Office of Historic Preservation Vacant Building Program.

Mayor and Council Members:

We are pleased to send you the final report of the Audit of the Office of Historic Preservation Vacant Building Program. The Office of Historic Preservation submitted a separate memo discussing their action plans in addition to their management response in Appendix B of the report. The Office of Historic Preservation management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "Kevin W. Barthold".

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

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of the Office of Historic Preservation

Vacant Building Program

Project No. AU18-008

November 29, 2018

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Office of Historic Preservation (OHP), specifically the Vacant Building Program (program). The audit objectives, conclusions, and recommendations follow:

Determine if controls for the Vacant Building Program are adequate and effectively monitored.

The controls for the program are not adequate or effectively monitored. Program staff does not effectively identify potential vacant properties subject to the program. Vacant property registrations are not processed in accordance with program requirements. Additionally, timely follow-up inspections of standard of care requirements are not performed consistently. Finally, collections for outstanding registration fees are not adequately monitored.

We recommend that the Director of OHP develop:

- Formal documented procedures for the identification and vetting of potential vacant properties. In addition, establish internal controls for the approval or dismissal of newly identified properties.
- Formal documented procedures for the registration and collection of vacant properties. In addition, require supervisory approval for all fee waiver requests. Finally, establish accounts receivables and implement controls for the monitoring and collection of outstanding payments.
- Formal documented procedures for the review and inspection of vacant properties standard of care requirements. In addition, develop and implement monitoring controls to ensure standard of care requirements are met and violations are assessed accordingly.
- Formal documented procedures and internal controls to ensure that City funds are properly safeguarded from unauthorized access. In addition, develop and implement controls to ensure cash handling duties are properly segregated. Finally, ensure all personnel with cash handling responsibilities have successfully completed required cash handling training.

The Office of Historic Preservation 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 8.

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Background

The Office of Historic Preservation (OHP) is responsible for the historic preservation program of the City of San Antonio. The department also administers the Vacant Building Program (program) and provides resources such as consulting services for applicants regarding proposed rehabilitation, new construction, and other projects concerning historic properties.

In June of 2014, City Council adopted the Vacant Building Registration Pilot Program. The program was created through the Office of Historic Preservation's (OHP) collaboration with Development Services Department (DSD), Center City Development and Operations Department (CCDO), and Department of Planning and Community Development (DPCD). The program applies to the Central Business District, 30 Historic Districts, 8 Neighborhood Conservation Districts, 8 Tax Increment Reinvestment Zones, plus a ½ mile perimeter around each area. Additionally, the program applies to all Historic Landmarks, and a ½ mile perimeter around active military installations and defense base zones.

The goal of the program is to ensure that vacant buildings, within applicable boundaries, are maintained in good condition to a minimum standard of care to minimize the negative impacts that these buildings have on the health, safety, and welfare of the public.

The program consists of 4 staff members who are responsible for the identification, registration, and monitoring of vacant buildings within the 112 square miles of the program area. The staff also monitors registered properties to encourage the maintenance of standard of care requirements. In addition, code compliance is responsible for the identification of unsafe structures that may pose a public health and safety risk. Vacant property owners have 90 days to register from the date that written notice is issued accompanied with action plans to address identified standards of care requirements. Failure to register and address identified standard of care violations may result in a fine not to exceed \$500. The following table illustrates the fees associated with the Vacant Building Program.

Vacant Building Program Fees		
	Residential	Commercial
Registration	\$250	\$750
Inspection(\$.01 per sq. ft. with a minimum of \$50)	\$50	\$50
Late registration	\$150	\$150

Audit Scope and Methodology

The audit scope consisted of the vacant property registration process from fiscal year 2017 through May 24, 2018.

We interviewed Vacant Building Program (program) staff to review their processes and identify controls associated with the identification, registration, and monitoring of vacant properties.

We reviewed 25 newly identified properties to determine if properties were properly vetted for inclusion in the program. In addition, we examined 25 registered properties to determine if properties were properly registered, supported, and if fees were assessed accordingly. Additionally, we reviewed 28 fee waiver requests to determine if they were properly supported and approved.

We tested 25 registered vacant properties to determine if they were monitored and appropriately dismissed from inclusion in the program.

We reviewed the program's cash handling process to determine if controls were in place to ensure the proper safeguarding of fee collections. In addition, we reviewed the monitoring process for outstanding payments to determine if fees were appropriately tracked and accounted for.

We relied on computer-processed data in the Vapors System to identify and validate key date fields such as the notification and registration date. Additionally, we utilized the system to obtain and review vacant property support documentation. 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

A. Identification of Properties

The Vacant Building Program (program) has an inadequate process for the identification of potential vacant properties subject to inclusion in the program. We reviewed 17 potential vacant property notifications submitted by citizens through the program website. We identified 3 out of 17 notifications were not included in Vapors for further evaluation. In addition, we reviewed additional resources utilized by program staff for the identification of potential vacant properties such as the Building and Standards Board agenda; Office of Historic Preservation early warning report; and the Historic and Design Review agenda. However, due to a lack of documentation and evidence of review we were unable to determine if additional vacant properties were evaluated and identified for inclusion into the program.

We reviewed 35 newly identified properties included in Vapors and observed inconsistent property vetting, support documentation, and lack of management approval for the acceptance or dismissal of newly identified properties into the program.

The program lacks formal documented procedures and internal controls to provide reasonable assurance that potential vacant properties are identified and properly vetted for inclusion into the program.

Recommendation

The OHP Director develops formal documented procedures for the identification and vetting of potential vacant properties. In addition, establish internal controls for the approval or dismissal of newly identified properties.

B. Program Registration Process

Program staff does not process vacant property registrations in accordance with the Vacant Building Ordinance (ordinance) requirements. We reviewed 25 vacant property registration packets (packets) and determined that they were processed inaccurately, were not properly supported, and did not contain supervisory approval. We identified 17 of 25 properties were not assessed late fees for outstanding payments. We also reviewed 28 fee waiver applications and determined that applications did not contain required support or director approval. In addition, we observed program staff was able to assess and waive registration fees. Furthermore, program staff does not record accounts receivables and collects revenue on a cash basis. Due to unreliable data within Vapors and lack

of accounts receivable, we were unable to determine the number of outstanding vacant property registration fees.

According to the ordinance, vacant property owners are required to register with appropriate support documentation within 90 days of written notification. Failure to register by the deadline may result in the assessment of a \$150 late fee. Furthermore, any fee waiver requests must include required support documentation and approval by the director or their designee. Finally, according to Administrative Directive 8.4, accounts receivables should be established when services have been provided.

According to program staff, the priority of the program is to ensure properties meet the standard of care to increase potential utilization through establishing positive working relationships with property owners, and the assessment and collection of fees are secondary. In addition, the lack of formal documented procedures and internal controls for the registration and collection of vacant properties has contributed to incomplete registration packets, unauthorized fee waiver requests, and outstanding registration fees. Failure to properly register, collect, and account for vacant property registration fees can result in the loss of revenue due to the City.

The following table illustrates the revenue collected for fees associated with registered properties versus the costs incurred for administering the program. In FY 2017 & 2018, the program operated at a loss of \$441,061 and \$384,825 respectively as of August 24, 2018. The ordinance allows for four fee waiver requests and one exemption subject to the approval of the director.¹ According to the program website, 726 properties were reported in their active inventory as of July 9, 2018.

Vacant Building Revenue and Expenditures		
	FY 2017	FY 2018 (as of 8/24/2018)
Vacant Building Registration & Inspection Fees	\$18,917	\$21,918
Vacant Building Program Expenditures	(459,978)	(406,743)
Net Income (Loss)	\$(441,061)	\$(384,825)

¹ Vacant Property fee waivers include property devastation by catastrophe; indigent property owner; deceased or no longer legally competent property owner; and obtainment of building permit. Single family residential properties that meet the standard of care are exempt from the program. A registration extension may be granted if a property is listed for sale or lease for fair market value.

Recommendation

The OHP Director develops documented formal procedures for the registration and collection of vacant properties subject to the ordinance. In addition, require supervisory approval for all fee waiver requests. Finally, establish accounts receivables and implement controls for the monitoring and collection of outstanding payments.

C. Monitoring

Program staff does not consistently perform follow-up inspections of prior identified standard of care issues for registered properties. We reviewed the inspection process for 10 properties and determined supervisory approval of property owner corrective action plans was not obtained. In addition, program staff had not performed a follow-up inspection for 4 properties. One of 4 properties program staff relied upon evidence provided by the property owner to determine compliance.

According to the Vacant Property Ordinance, standard of care requirements and repairs are subject to the approval of the Director. Failure to maintain the property to the standard of care specified by the department is considered a violation of the ordinance and fees may be assessed.

The program does not have formal documented procedures or monitoring controls for the review and follow-up inspection of properties with standard of care requirements.

Recommendation

The OHP Director develops formal documented procedures for the review and inspection of vacant properties with standard of care requirements. In addition, develop and implement monitoring controls to ensure standard of care requirements are met and violations are assessed accordingly.

D. Cash Handling Process

The program does not have documented procedures or internal controls in place to ensure the proper safeguarding of Vacant Building Registration Fees. We reviewed the program's cash handling process and identified a lack of segregated duties. We observed staff members had the ability to perform both custody and record keeping functions.

We identified inappropriate physical access to the filing cabinet and lockbox where registration fees are stored. We observed that all 3 program case managers had access to the key and lockbox combination. In addition, the lockbox combination was not changed after the departure of a previous

employee. Finally, we identified 2 out of 3 case managers with cash handling responsibilities had not successfully completed required cash handling training. However, during the audit all case managers have successfully completed required cash handling training.

According to Administrative Directive 8.1 departments with cash handling responsibilities shall have documented procedures and controls for the safeguarding of City funds. In addition, ensure all staff with cash handling responsibilities has successfully completed required cash handling training. Failure to properly safeguard City funds can lead to unauthorized use and misappropriation.

Recommendation

The OHP Director develops formal documented procedures and internal controls to ensure that City funds are properly safeguarded from unauthorized access. In addition, develop and implement controls to ensure cash handling duties are properly segregated. Finally, ensure all personnel with cash handling responsibilities have successfully completed required cash handling training.

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Lawrence Garza, CFE, Auditor in Charge
Abigail Medina, CPA, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

October 3, 2018

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

RE: Management's Corrective Action Plan for Office of Historic Preservation Vacant Building Program

The Office of Historic Preservation has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	Identification of Properties The OHP Director develops formal documented procedures for the identification and vetting of potential vacant properties. In addition, establish internal controls for the approval or dismissal of newly identified properties.	3	Accept	Shanon Miller, Director	Completed October 2018

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: The audit found that documentation of procedures for identifying and vetting potential vacant properties was lacking. The Office of Historic Preservation has implemented corrective action. A few months before the effective date of the Vacant Building Program, an SOP was developed for program implementation. While the program is still relatively new to OHP, several years of execution of the program has allowed for an update and expansion of the SOP in order to strengthen overall controls, reflecting the experience of program staff and the findings from the audit. In the past, if a property was reviewed and determined to not be vacant, it was not included in the vacant properties database. The audit found this to be problematic because a property could not later be verified in the system that it had been previously vetted. In order to strengthen overall controls, OHP has updated the Vacant Building Program SOP to include new channels of information and procedures for: - o identifying vacant properties - o vetting vacant properties - o two-party review of a property record before a notice letter is sent - o two-party review of a property record before it is removed from the program inventory - o surveying the entire 112 square miles of the program area every six months The most common method of identifying vacant properties is as follows: Field staff identifies a potential vacant property noting the conditions of the building that indicate vacancy, such as no utility meters, plywood on windows and doors, or taped off mailbox. A written inspection and photographs are entered into the case management system named VAPORS (Vacant and Absentee Property Owner Registration System). The Senior Management Analyst assigned to that area reviews the inspection, and then conducts research to vet the property and determine vacancy. The SMA checks for an active SAWS account and any water usage, permit activity, tax status, and any recent changes in ownership. Following the vetting by the SMA, a determination of vacancy is made. The ordinance requires staff to wait 30 days after identification of the property, before a notice to register letter can be sent to the owner. Once the 30 days has passed, notice is mailed to the owner listed in BCAD. Additionally, as a result of collaboration between OHP & DSD, there were recent amendments to the San Antonio Property Maintenance Code to expand its application to partially-occupied properties within the Vacant Building Program footprint. Given this change, VBP staff developed a plan where any DSD Code Officer working in the VBP area will create a case for a suspected vacant property and leave contact information for the VBP staff at the site. VBP staff receives a report featuring those properties added by DSD Code Officers and vets those properties according to the program SOP. This will provide a new channel for identifying vacant properties for the program.				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
B	Program Registration Process The OHP Director develops documented formal procedures for the registration and collection of vacant properties subject to the ordinance. In addition, require supervisory approval for all fee waiver requests. Finally, establish accounts receivables and implement controls for the monitoring and collection of outstanding payments.	3	Accept	Shanon Miller, Director	Completed November 2018
Action plan: The audit found that VBP staff lacked documented procedures for collecting registration forms and supporting documentation from property owners. While the Office of Historic Preservation agrees with the findings, it is important to recognize that the main goal of the Vacant Building Program is getting compliance from property owners to repair and occupy their properties. VBP staff work to build relationships with property owners to encourage action from those owners—sometimes for the first time in decades. Given this, staff is happy to accept any information from a property owner that gets them closer to full compliance and we do not reject a registration application if it is incomplete (i.e., a missing floor plan or other supporting documentation) because some information is better than no information. OHP has conducted training with program staff to emphasize the importance of collecting full supporting documentation with registration forms. At the start of the original pilot program, OHP did not have a digital case management system of record in which could record receipt of registration forms and supporting documentation. The ITSD-built case management system that is now in use, VAPORS, took two full years to develop. It has only been at the full operational status since early 2018. This fully-operational case management system will allow staff to more diligently enter and track fee waivers and registration extensions. This is also a topic covered in recent training with VBP staff.					

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	OHP has updated, enhanced, and expanded the Vacant Building Program SOP that was created before the program effective date. Reflecting the audit findings, the SOP now includes additional procedures with respect to: - o supervisory review and approval of property owner fee waiver requests - o supervisory review and approval of property owner registration extension requests When a property owner has requested a fee waiver or a registration extension, they must provide a written request along with any supporting documentation (i.e., permits, MLS listings). Once all needed documentation has been received, the case manager will alert the program manager that there is a fee waiver or extension that needs approval. The program manager will review the request and based on the facts of the situation and the guidance from the ordinance, approve or deny the request and notate as such in VAPORS. With respect to accounts receivable, the new DFA assigned to assist OHP has been extremely helpful and proactive in improving processes and procedures. While the Vacant Building Program is one where compliance by property owners (not revenue) is the ultimate goal, OHP is working with the DFA to track outstanding registration and inspection fees. OHP Staff will provide Finance (Fiscal staff) the inventory listing for all vacant properties identified on a monthly basis. The listing will be inclusive of, but not limited to, the status of progress on each property, identify property owners who need to be billed and the amount to be billed, identify property owners who qualify for a fee waiver/discount, the justification, who it was approved by, and the case manager it was assigned to.				
C	Monitoring The OHP Director develops formal documented procedures for the review and inspection of vacant properties with standard of care requirements. In addition develop and implement monitoring controls to ensure standard of care requirements are met and violations are assessed accordingly.	5	Accept	Shanon Miller, Director	Completed October 2018

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: The audit found that VBP staff members do not consistently perform follow-up inspections of properties in its inventory and there was not supervisory approval of property owners' plans of action that are included in registration forms. Inspections are an important aspect of the program. Initially, the program had two approved code officer positions. However, it became clear that the positions are hard to fill with qualified staff with the skills necessary to work with property owners and effectively perform inspections. Despite staff issues, the pilot program was a huge success prompting City Council to triple the program area in size. The code officer position continues to be difficult to fill and to keep filled so staff is working with HR to appropriately in lieu the positions so that we can better implement the program. Inspections are high on the priority list once the positions are filled. If the positions cannot be filled by January 2019, OHP will consider hiring temporary staff to complete inspections. The Office of Historic Preservation does have procedures for review and inspection of vacant properties within maintenance standard of care requirements. These procedures are included within the expanded and updated Vacant Building Program SOP. To address the challenge of following up with property owners and conducting property inspections, and to create more efficient monitoring controls, VBP staff has implemented a new tier system to prioritize properties. The tier system involves ranking properties based on four objective criteria about each property and its status within the VBP. This allows each Senior Management Analyst/Case Manager to systematically follow up with property owners and complete inspections to verify progress towards renovating and occupying their properties and improve overall controls.				
D	Cash Handling Process The OHP Director develops formal documented procedures and internal controls to ensure that City funds are properly safeguarded from unauthorized access. In addition, develop and implement controls to ensure cash handling duties are properly segregated. Finally, ensure all personnel with cash handling responsibilities have successfully completed required cash handling training.	5	Accept	Shanon Miller, Director	Completed November 2018

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: The audit found that a lack of formalized procedures and segregation of duties with respect to cash handling. The total amount collected and the number of transactions impacted are as follows: Single Family – FY18 Revenue \$6,108 Number of Transactions – 25 Non-Single Family – FY18 Revenue \$11,550 Number of Transactions – 17 OHP agrees with the findings and has worked with Finance to update the VBP cash handling procedures. The Vacant Building Program currently has three inside staff working on the program, since the VB Redevelopment Officer has been tasked to CCDO on an interim basis since January 2018. The process will be improved to strengthen the segregation of duties such as: 1.) When payment has been received via mail, the OHP case manager will forward check to Fiscal staff in order to apply payment to the outstanding invoice. A check log will be updated as payments are received by Fiscal staff. 2.) If a walk-in property owner brings in payment, the case manager will direct the property owner to proceed to pay at the DSD cashier's located on the first floor of 1901 S Alamo. A receipt will be provided to the property owner by the cashiers. All Vacant Building Program staff members have completed cash handling training.				

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

Sincerely,



Shannon Shea Miller
Director
Office of Historic Preservation

11.9.18

Date



Roderick Sanchez
Assistant City Manager
City Manager's Office

11-9-18

Date

**CITY OF SAN ANTONIO
OFFICE OF HISTORIC PRESERVATION
INTERDEPARTMENTAL CORRESPONDENCE SHEET**

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

FROM: Shanon Shea Miller, Director, Office of Historic Preservation 

SUBJECT: Management Response to Vacant Building Program Audit

DATE: November 9, 2018

The Vacant Building Program was adopted by City Council as a pilot program in June 2014. The program went into effect in the original program areas on January 1, 2015. Due to early success of the program and proven results, City Council voted to make the program permanent and expanded the program area in June 2016. The expansion went into effect on January 1, 2017.

When the program was created with support from the real estate and development community, City Council gave staff clear direction that the intent was not to generate revenue but to work closely with property owners one-on-one to get properties back into productive use and into compliance with the standard of care.

Since the creation of the program, over 375 buildings are no longer subject to the program because they are no longer vacant or have come into compliance with the standard of care. Key successes, such as the Hedrick Building on St. Mary's and the Gillespie Ford Building on Houston, underscore the effectiveness of the program.

As a new program that grew quickly, we welcome the opportunity for this audit to look at the processes with fresh eyes and identify ways to improve the program implementation while maintaining the program's intent, which is to facilitate the reuse of vacant buildings by working with property owners. The items identified in the audit have been addressed and solutions have been implemented for each.

OHP appreciates the continued support of the audit team to ensure administrative changes to the program are beneficial to our staff and customers.