CITY OF CORPUS CHRISTI
City Auditor's Office

February 8, 2022

Honorable Mayor and Council Members:

SUBJECT: AU18-F06 Development Services, Funding for Developer Agreements Follow-Up Report

We have completed the follow-up report of AU18-F06 Development Services, Funding for Developer Agreements. The follow-up report will be presented and discussed in the next scheduled Council Audit Committee meeting. Development Services should be commended for its cooperation and assistance during this follow-up.

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

Respectfully submitted,

Kimberly L. Houston
Interim City Auditor

Distribution:

Peter Zanoni, City Manager
Steve Viera, Assistant City Manager
Al Raymond, Director, Development Services
Miles Risley, City Attorney
Rebecca Huerta, City Secretary
DeAnna McQueen, Director, Communications and Intergovernmental Affairs

AU18-F06 Development Services Funding for Developer Agreements Follow-Up Report

City Auditor's Office
Kimberly L. Houston
Interim City Auditor

February 8, 2022

Executive Summary

As part of our annual audit plan, we conducted a follow-up of the AU16-002 Development Services, Funding for Developer Agreements audit dated April 9, 2018. The objective of the original audit was to determine if developer trust funds are appropriated as directed by City Council and if developers are reimbursed according to contract.

The original audit made 19 recommendations for improvement over seven (7) areas to City and department management. The seven (7) areas included: City Council presentations, Unified Development Code clarity, review of trust fund financial activities, contract terms and developer compliance, records management over agreements, general application controls for Infor – Hansen, and withholding retainage in absence of contract terms.

Management accepted the recommendations from the original audit and agreed to make appropriate process changes.

In March 2021, management indicated 18 of 19 recommendations have been implemented with one (1) still in progress.

Auditors reviewed information submitted and found 17 have been implemented or partially implemented.

A complete list of recommendations and current statuses can be seen on pages 1-3. Additional information on recommendations can be found in Appendix A.

Management agrees with the conclusions of this report and their responses can be found in Appendix B. We would like to commend staff from Development Services, Legal, and Information Technology for their assistance during this process.

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AU18-F06 Development Services
Funding for Developer Agreements Follow-up Report

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
A. City Council Presentations			
1	Were provisions in the Unified Development Code (UDC) reviewed as it relates to refunding lot and acreage fees, paying interest, and interest rates?	Implemented	Implemented
	Was City Council engaged for input and direction on alternative options and practices that promote minimizing the need to refund and pay interest on lot and acreage fees?		
2	Were policies and procedures developed and documented to ensure documents in City Council presentations are consistent and complete? Did presentations for refund requests include developer eligibility and interest calculations?	Implemented	Implemented
3	Was assistance from the City Secretary's Office sought out to obtain guidance on the best method to load records into the Legistar system?	Implemented	Implemented
4	Are Financial Policies complied with to ensure all refund requests include proof of original payment and evidence lot/acreage fees were paid?	Implemented	Implemented
B. Unified Development Code Clarity			
1	Was UDC language revised or replaced with content that is easily readable, understandable, and interpretable? Were these options presented to City Council accompanied by a request for direction?	Implemented	Implemented
2	Was a technical writer utilized to update or rewrite the UDC?	Implemented	Implemented
C. Biennial Review of Trust Funds			
1	Did management comply with the UDC and present to City Council, every two years, a review of the Utility Trust Funds that includes: an evaluation of the sufficiency of the fund balance, adequacy of the fees and charges, and terms surrounding application and payment of reimbursement agreements?	Implemented	Implemented

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
D. Contractual Terms and Compliance			
1	Was oversight over contracts increased to ensure construction deadlines are being met or adequately documented in agreement records the reason why compliance did not occur?	*Implemented*	*Implemented*
	Where applicable, were extension applications and fees accepted or exception granted by the Planning Commission?		
2	Were developers paid timely?	*Implemented*	*Implemented*
3	Was contract language regarding release of financial security instruments revised to ensure more equitable treatment of developers?	*Implemented*	*Implemented*
4	Did management revise contract language to allow for the transferability of financial security submitted by original developer to the party who ultimately constructs the public improvement or cease the practice?	*Implemented*	*Implemented*
	For existing deferment agreements, was legal assistance sought on determining if transferring committed funds to another party can be accomplished through alternative means, such as supplement agreements?		
E. Developer Records Management			
1	Were policies and procedures developed and documented to address records management for developer records that included provisions for standardizing forms, incorporating methods to systematically organize them for easy retrieval, and adopting a naming convention to identify the record?	*Implemented*	*Partially Implemented*
2	Did management meet with Engineering Services to obtain ideas on how to better manage agreements and adopt similar policies and procedures for standardizing forms?	*Implemented*	*Implemented*
3	Did management meet with Finance Services' Contract and Procurement division to obtain an overview of their contract management system for consideration of incorporating it as a contract management tool?	*Implemented*	*Implemented*

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
F. Other Matters			
F.01 General Application Controls - Infor Hansen/CDR			
1	Were internal controls strengthened over the Infor-Hansen system by developing procedures for adding and removing user access?	*Implemented*	*Implemented*
2	Do procedures include language that incorporates user group definitions that highlight significant functions that user groups can perform and assist in identifying incompatible duties in the system?	*Partially Implemented*	*Partially Implemented*
3	Is user access segregated to prevent users from performing transactions that are incompatible? Where segregation is not possible, did management implement measures to monitor user transactions where incompatible roles conflict?	*Implemented*	*Not Implemented*
4	Is activity for users with administrative rights access monitored?	*Implemented*	*Not Implemented*
F.02 Retainage without Contract Stipulation			
1	Where retainage is withheld from payments, are such terms incorporated into developer agreements?	*Implemented*	*Implemented*
	For existing contracts where retainage language is not included, did management consult with the Legal Department on the City's right to do so?		

Staff Acknowledgements:
Brianna Annas, CFE Auditor-in-Charge
Grayson Meyer, Senior Auditor

Appendix A – Additional Follow-up Information

E. Developer Records Management
In the original audit, we found records for developers are not centrally stored, strategically organized, processed with standardized forms and maintained intact. Auditor observed files with names that did not correspond with documents, multiple copies of the same document filed under different names and in multiple stages (draft, executed, unexecuted), and saved in various locations across the department's network folders.

Recommendation(s):
E-1 To ensure records are maintained in a manner supporting efficiency and completeness, management should develop and document policies and procedures over records management for developer records. Those procedures should include provisions to standardized forms, incorporate methods to systematically organize them to enable easy retrieval, and adopt a naming convention to identify the record.

We found management developed and documented procedures specifying documents to be archived for each agreement with provisions for standardized forms and file names. Instead of procedural crafted records, we noted the following.

Of 28 agreements reviewed for contract oversight, extensions for plats or construction completion, and exceptions granted by the Planning Commission, multiple requests to Development Services staff were made to obtain documents needed for testing.

Through extensive record search, Auditors found files saved within other documents, with indistinguishable file names, or saved in inconsistent locations. For those we were unable to locate, additional requests were made to Development Services. When these records were provided, the records were either sent independently, added to the original record, or correlated into a separate file for the purpose of this audit.

When reviewing 14 agreements for completeness of records against *Procedural Directives for Processing Trust Fund Reimbursement Applications* and *Procedural Directives for Processing Trust Fund Deferment Agreement Applications*, no agreement had all required documents.

It was noted that proof of payment documentation for application and recording fees was the most difficult to locate and correlate to a specific agreement. At any given time, deferment and reimbursement agreements would need up to 18 or 22 documents, respectively. In general, document retrieval was a tedious and time-consuming process for both parties.

> *Management's Assertion: Implemented*
> *Audit Status: Partially Implemented*

F. Other Matters

F.01 General Application Controls – Infor Hansen/CDR

In the previous audit, there were no processes in place to monitor the application activity to ensure only valid transactions are being performed. One of three Infor Hansen users had proper user rights and two of three had adequate restrictions from overriding and modifying fees.

Recommendation(s):

F.01-2 Management should strengthen internal controls over the Infor-Hansen system by developing procedures for incorporating user group definitions that highlight significant functions the user groups can perform and assist in identifying incompatible duties in the system.

Through coordination with department staff and management, IT developed user groups and definitions aligning with job functionality. Incompatible duties have not been addressed. Currently, Development Services is undergoing a software upgrade and are still revising system functionality; therefore, this remains in progress during application transitioning.

> *Management's Assertion: Partially Implemented*
> *Audit Status: Partially Implemented*

F.01-3 Develop procedures for segregating user access to prevent users from performing transactions that are incompatible. When segregating user access is not possible, management should implement measures to monitor user transactions where incompatible roles conflict.

Due to incompatible duties having not been identified, segregation of user access has not occurred and is still in development as with F.01-2.

> *Management's Assertion: Implemented*
> *Audit Status: Not Implemented*

F.01.4 Monitor activity for users with administrative rights access.

Although application reports are available, report retrieval to monitor activity for users with administrative rights access is not occurring. The reports being ran are utilized for department management review of performance metrics.

> *Management's Assertion: Implemented*
> *Audit Status: Not Implemented*

Appendix B – Management's Response

01/21/2022

Kimberly Houston
Interim City Auditor
Corpus Christi, Texas

Re: AU18-F06 Development Services, Funding for Developer Agreements
Follow-up Report

The Development Services management has reviewed the follow-up report
and provided its comments below.

☑ Fully Agree

☐ Do Not Agree

Sincerely,

_____   1·27·22
Al Raymond, Director   Date
Development Services

_____   2-3-22
Steve Viera   Date
Assistant City Manager

_____   2-3-22
Peter Zanoni   Date
City Manager