



COMMISSIONERS COURT  
COMMUNICATION

REFERENCE NUMBER CO#138455

PAGE 1 OF 5

DATE: 06/28/2022

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF MERCANTILE  
REAL PROPERTY LEASE CONTRACTS, FACILITIES  
MANAGEMENT DEPARTMENT**

**COMMISSIONERS COURT ACTION REQUESTED**

It is requested that the Commissioners Court receive and file the Auditor's Report of Mercantile Real Property Lease Contracts administered by the Facilities Management Department.

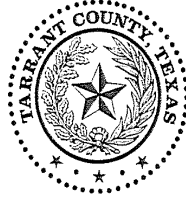
**BACKGROUND**

In accordance with Texas Local Government Code, the Auditor's Office conducted an audit of the Mercantile Real Property Lease Contracts administered by the Facilities Management Department. The objective of the audit was to determine whether controls were adequate to ensure payments made under the agreement were accurate. The scope of the audit included invoices relative to calendar year 2021, including the annual true-up invoices.

**FISCAL IMPACT**

There is no fiscal impact associated with this item.

SUBMITTED BY:	Auditor Office	PREPARED BY: APPROVED BY:	Kim Trussell S. Renee Tidwell
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**TARRANT COUNTY**  
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June 15, 2022

Mr. Michael Amador, Interim Director, Facilities Management  
The Honorable District Judges  
The Honorable Commissioners Court  
Tarrant County, Texas

Re: Auditor's Report – Facilities Management, Mercantile Real Property Lease Contracts

**SUMMARY**

In accordance with Texas Local Government Code, the Auditor's Office conducted an audit of the Mercantile Real Property Lease Contracts administered by the Facilities Management Department. The objective of the audit was to determine whether controls were adequate to ensure payments made under the agreement were accurate. Our scope included invoices relative to calendar year 2021, including the annual true-up invoices. As a result, we observed two issues requiring management's attention. Specifically:

1. The contracts between Tarrant County and Mercantile Partners, LP do not specify the amounts of the Management Fee. The invoices included a Management Fee totaling 3% of the base rent. Although the contracts referred to a Management Fee, none specified the amount of the fee. The vendor acknowledged that the industry standard of 3% was omitted from the County's contracts.

Recommendation: When the contract is amended, the amount of the Management Fee should be specified.

2. The annual true-up invoices for the common area maintenance (CAM) areas did not include adequate documentation supporting the amounts invoiced to Tarrant County. Furthermore, we observed no evidence that management reviewed the accuracy of the CAM expenses, which includes expenses such as property taxes, insurance, utilities, janitorial, and pest control. Based on our review of a sample of the CAM expenses billed for 2021, we observed a minor error which caused the County to make an immaterial overpayment.

Recommendations: Management should request and review documentation supporting the accuracy of the CAM amounts invoiced to the County. Documentation should include the landlord's general ledger accounts of CAM areas and the documentation supporting the amounts recorded in the general ledger. The reviewer should also initial or sign the invoice as evidence of the review.

## **BACKGROUND**

During the calendar year 2021, Tarrant County had five commercial property lease agreements with Mercantile Partners, LP (Mercantile). All lease agreements are negotiated by Mercantile and Facilities Management and approved by Commissioners Court.


Mercantile uses a Triple Net (NNN) Cost method to estimate the monthly amount billed to the County for variable costs such as the maintenance, janitorial services, and utilities for the common areas, property taxes, and insurance. At the end of each calendar year, the landlord will “true-up” actual expenses paid during the year and either invoice the County the amount underpaid or issue a credit for any amount overpaid.

During the calendar year 2021, Tarrant County paid approximately \$1.4 million to the landlord for the five commercial real property leases occupied by various Tarrant County offices, including Facilities Management, Information Technologies, County Clerk, Sheriff, Public Health, and the Juvenile Family Partnership Program. The spaces reserved for Elections Administration has not been completed, but Tarrant County pays for the unoccupied spaces.

## **CLOSING REMARKS**

We appreciate the assistance and cooperation of Facilities Management and the landlord during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Rénee Tidwell, CPA  
County Auditor

*Distribution:* G.K. Maenius, County Administrator

*Audit Team:* Kim Trussell, Audit Manager  
Maki Brown, Senior Internal Auditor



**TARRANT COUNTY**  
DEPARTMENT OF FACILITIES MANAGEMENT

MICHAEL A. AMADOR  
INTERIM DIRECTOR

**DATE:** June 21, 2022  
**TO:** Renee Tidwell, County Auditor  
**FROM:** Michael Amador, Interim Director, Facilities Management [REDACTED]  
**RE:** Auditor's Report – Facilities Management, Mercantile Real Property Lease Contracts

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Renee, I have provided responses below to address your observations and recommendations regarding the Auditor's Report of the Facilities Management Mercantile Real Property Lease Contracts.

Regarding Observation #1 – The contracts between Tarrant County and Mercantile Partners, LP do not specify the amounts of the Management Fee.

Facilities Management will ensure the allowable percentage of the Management Fee is specified on all Mercantile Partners, LP contracts when the contracts are amended for renewal.

Regarding Observation #2 – The annual true-up invoices for the common area maintenance (CAM) areas did not include adequate documentation supporting the amounts invoiced to Tarrant County.

Facilities Management will request documentation supporting the accuracy of the CAM amounts invoiced to the County from Mercantile Partners. The CAM supporting documents will first be reviewed and approved by the newly approved Business Manager. Secondly, an Assistant Director will perform a review and approval of the CAM supporting documents and submit the documentation to the Director of Facilities Management for final review and approval.

I believe this three-step review/approval process will ensure the County is only paying for truly owed CAM related costs.

Renee, I want to thank you and your staff for all the continuous support and guidance provided to Facilities Management. I especially want to recognize Kim Trussell and Maki Ogata Brown for their pleasantness and professionalism throughout the process of this audit.

Sincerely,

MAA