

**AUDIT & ACCOUNTABILITY COUNCIL COMMITTEE
MEETING MINUTES
MARCH 20, 2018 at 9:30 AM
CITY HALL, MEDIA BRIEFING ROOM**

Committee Present:	Councilmember John Courage, <i>District 9, Chair</i> Councilmember Roberto C. Treviño, <i>District 1</i> Councilmember Clayton Perry, <i>District 10</i> Citizen Member Priscilla Soto Citizen Member Judy Treviño
Staff Present:	Sheryl Sculley, <i>City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Andy Segovia, <i>City Attorney</i> ; Ben Gorzell, Jr., <i>Chief Financial Officer</i> ; Peter Zaroni, <i>Deputy City Manager</i> ; Troy Elliott, <i>Deputy Chief Financial Officer & Director of Finance</i> ; Carlos Contreras, <i>Assistant City Manager</i> ; Roderick Sanchez, <i>Assistant City Manager</i> ; Lori Houston, <i>Assistant City Manager</i> ; Michael Shannon, <i>Director of Development Services</i> ; Russ Handy, <i>Director of Aviation</i> ; Melody Woosley, <i>Director of Department of Human Services</i> ; Jorge Perez, <i>Director of Building and Equipment Services</i> ; John Jacks, <i>Director of Center City Development & Operations</i> ; Craig Hopkins, <i>Chief Information Officer</i> ; Edward Guzman, <i>Deputy City Attorney</i> ; Ray Rodriguez, <i>Deputy City Attorney</i> ; Leticia Saenz, <i>Deputy City Clerk</i> ; Jessica Dovalina, <i>Assistant Director of Economic Development</i> ; Razi Hosseini, <i>Assistant Director of Transportation and Capital Improvements</i> ; Christie Chapman, <i>Assistant Director of Transportation and Capital Improvements</i> ; Mark Bigler, <i>Audit Manager</i> ; Buddy Vargas, <i>Audit Manager</i> ; Shreya Shah, <i>Assistant City Attorney</i> ; Syed Mehdi, <i>Chief Strategy Officer (Aviation)</i> ; Daniel Kuntzelman, <i>Auditor</i> ; Nastasha Leach, <i>Auditor</i> ; Douglas Francis, <i>Auditor</i> ; Amy Barnes, <i>Auditor</i> ; Lauron Fischer, <i>Executive Management Assistant</i> ; Michael Dice, <i>Executive Management Assistant</i> ; Cecily Hope Pretty, <i>Office of the City Clerk</i>
Others Present:	Sarah Baray, <i>Pre-K 4 SA</i> ; Warren Wilkinson, <i>Centro</i> ; Trish DeBerry, <i>Centro</i> ; Margaret Moore, <i>Centro</i> ; Michael Bernard, <i>Centro</i> ; Brent McDaniel, <i>KPMG</i> ; Travis Canova, <i>KPMG</i>

CALL TO ORDER

Chairman Courage called the meeting to order.

1. Approval of the minutes from the February 20, 2018 meeting of the Audit and Accountability Committee

Councilmember Treviño moved to approve the minutes of the February 6, 2018 Audit and Accountability Council Committee Meeting. Citizen Member Soto seconded the motion. The motion carried unanimously by those present.

Councilmember Perry entered the meeting at this time.

ITEMS FOR INDIVIDUAL CONSIDERATION

2. Centro Update

Ben Gorzell provided an overview of the Downtown Public Improvement District (PID) since its creation in 1999. He noted that the PID allowed an assessment to be levied on property owners within the specified geographic area to provide services supplemental to regular City Services. He stated that the funds collected were utilized for specified purposes in accordance with a service plan and budget. He noted that Centro San Antonio had been selected to provide these supplemental services for a contract period from October 1, 2013 to September 30, 2023. He stated that Centro's contract allowed the city to reimburse them for services based on documentation provided.

Mr. Gorzell stated that Centro became aware of embezzlement of funds in Fall 2017 and City Manager Sheryl Sculley ordered the engagement of an external, independent audit firm to conduct an investigation of reimbursements from the PID fund. He noted that the hired firm, KPMG, did not identify any fraud within the PID. He stated that recommendations were made that supported the audit report that the Committee received regarding Centro's relationship with the Center City Development and Operations (CCDO) in August 2017. He noted that reimbursement request procedures for the time period examined did not meet expected standards and additional due diligence had already been put in place.

Mr. Gorzell stated that the reimbursement process was fully manual and time-consuming. He noted that the city would work with Centro to streamline the reimbursement process to improve efficiency and accuracy. He stated that the Department Fiscal Administrator for CCDO had been replaced with an individual with a strong auditing background.

2A. Results of the Review of the Downtown Public Improvement District Performed by KPMG

Brent McDaniel, Managing Director with KPMG, thanked staff for their cooperation during the review process. He provided an overview of his background conducting investigations and working in compliance. He reiterated that KPMG found no evidence of fraud within the PID. He stated that KPMG had been engaged in December 2017 to examine the PID reimbursement packages and process and met extensively with City staff and RSM to narrow the review scope.

Citizen Member Treviño entered the meeting at this time.

Mr. McDaniel stated that the scope of the review was from July 2014 to September 2017 and included review of every reimbursement package submitted by Centro. He noted the following questions during the review process:

- Does support exist for the reimbursements?
- Is the support accurate to what is being claimed?
- Are the services reasonably within Centro's scope?
- Are the invoices consistent with other invoices of the same kind?
- Is the support sufficient to justify the reimbursement amount requested?

Mr. McDaniel stated that KPMG examined 39 reimbursement packages from 18 vendors with 300 code items each containing multiple transactions. He noted that the review identified 25 transactions for further analysis due to anomalous activity. He stated that each of the transaction was followed through to the ultimate bank deposit and no issues with monetary diversion were identified. He noted that KPMG also performed vendor confirmations to ensure the services claimed were actually performed for the duration of the review scope.

Mr. McDaniel stated that one issue was identified with a potential duplicate journal entry due to reclassification and another issue with duplicate invoice submission. He noted that both issues were still being resolved to reconcile the proper reimbursement amounts. He stated that KPMG observed missing supporting documentation in each of the reimbursement packages and recommended automation and streamlining where possible to ensure completion and accuracy. He added that in all cases, missing support was acquired to justify the reimbursements.

Chairman Courage asked of the completion status of the review. Mr. McDaniel replied that there were six transactions remaining to be traced fully but all other review work was complete. Chairman Courage asked if Centro had utilized different bookkeepers for their individual funds versus PID funds. Ms. Sculley replied that one bookkeeper oversaw both.

Councilmember Perry asked if City Staff had rejected any of the reimbursement packages for corrections or clarifications. Mr. Gorzell stated that in every instance communication for clarity had occurred but full review was not performed as expected. He added that staff changes and streamlining would address review issues in the future. Councilmember Perry asked if the difficulties and complexities of funding Centro merited continuation of the professional relationship. Mr. Gorzell replied that the issues stemmed from non-standardized review practices and not from the services provided so internal control improvement would ensure a beneficial relationship. Councilmember Perry asked if strengthening internal controls would require additional manpower. Mr. Gorzell replied that he intended for streamlining and automation to reduce the amount of staff time required for reimbursement package review. He stated that there may have been some errors in items being billed to the incorrect place so staff and RSM would perform a reconciliation to allocate funds appropriately. Councilmember Perry asked of the anticipated completion for said reconciliation. Mr. Gorzell replied that it would likely be completed in the next 30 to 45 days and staff could report the final findings to the Committee.

Councilmember Treviño stated that there were examples in other departments of how the city could handle mass amounts of information and review requirements through streamlined processes. He expressed support for automating the reimbursement process and asked if such

automation had begun. Mr. Gorzell replied that staff was discussing how to simplify the process using various methods including automation. He stated that they were examining the processes used by other departments for similar contractual relationships and were confident they would be able to establish a better system with Centro.

Chairman Courage asked if Centro waited for PID reimbursements before paying their contractors. Mr. Gorzell replied that they did.

Citizen Member Soto asked if vendor confirmation included verification of consistent service delivery with other entities. Mr. McDaniel replied that part of the verification process included ensuring that each vendor had a legitimate customer base outside of Centro.

Chairman Courage asked that a final report be made to the Committee once all components of the review were completed.

No action was required for Item 2A.

2B. A Report on Centro San Antonio's External Forensic Review

Michael Bernard of Dykema Cox Smith stated that he was hired as outside legal counsel by Centro when the embezzlement was discovered and was tasked with conducting an internal investigation. He noted that he hired RSM who determined a total of \$291,000 was taken from a single account at Centro that did not involve City funds. He noted that the process of theft itself was simple but the cover up methods were complex and led RSM to expand their investigation from the original scope. He stated that investigation into the method and amount of loss was complete but law enforcement investigations were still on-going. He noted significant changes in leadership at Centro following the discovery.

Trish DeBerry stated that she became Chair of the Centro Board of Directors six weeks prior. She noted that Centro hired a controller with a strong financial background and employees would be subject to background checks. She stated that former CEO Pat DiGiovanni and former COO and CFO Tony Piazzzi both resigned but were not implicated in the embezzlement. She noted that Centro intended to work with the city to streamline processes and enforce internal controls. She stated that Centro appointed Warren Wilkinson as Interim Executive Director the previous week. She noted that Centro anticipated conducting a search for a permanent Director beginning in Fall 2018 and would not select one until the situation was resolved. She stated that the Board of Directors would hold a retreat in six weeks to discuss the simplification of Centro's structure.

Councilmember Perry exited the meeting at this time.

Ms. DeBerry stated that the Board would discuss narrowing the focus of the organization to focus on place-making experiences downtown.

Councilmember Treviño expressed the importance of clarifying Centro's mission and ensuring complete documentation to support its services. He noted that revitalization occurred by design rather than by default and the Downtown PID should set an example for the entire city.

Ms. DeBerry expressed concern over a lack of synergy between Centro and CCDO and stated that Centro may rebrand entirely as a result of negative press.

Chairman Courage asked if RSM examined both Centro's side of finances and the PID funds. Mr. Bernard replied that RSM's scope included all financial aspects to ensure reconciliation.

Ms. DeBerry noted that Centro membership remained strong and supportive.

No action was required for Item 2B. Councilmember Treviño exited the meeting. Item 5 was addressed at this time.

Select Post-Solicitation High Profile Briefings

5. Airport Development & Strategic Planning Services [Aviation]

Russ Handy reviewed the history of planning efforts leading to the solicitation. He stated that the department had conducted a global search for a firm to produce an Airport Master Plan and Airport Layout Plan. He noted that both were required by the Federal Aviation Administration (FAA) for airports undertaking infrastructure developments. He stated that the last Airport Master Plan was completed in 2010 and updates were needed to address changing conditions. He noted that the Request for Qualifications (RFQ) was for a two-phased project estimated at \$3.6 million with the FAA covering almost 75% of the cost. He stated that the contract would become active upon City Council approval and would last until project completion. He noted that the complexity of possibilities for the future of air travel in San Antonio led to the decision to split the project into Phase I of stakeholder engagement and analysis and Phase II of plan development. He highlighted the community engagement component with the Airport System Development Committee as well as other working groups and public outreach. He provided an overview of the project timeline with full City Council consideration planned for March 2018.

Mr. Elliott stated that there were no due diligence issues from a financial perspective. Kevin Barthold stated that one subcontractor had made a campaign contribution during the blackout period and was disqualified. He noted that the recommended prime contractor was allowed to replace the subcontractor and continue the process.

Chairman Courage asked if the large scope and cost of the contract was necessary given the Mayor's creation of the Airport System Development Committee. Mr. Handy replied that the contractor would provide the detailed, technical data necessary to support the work of the Committee and other stakeholders. He added that the necessity of a two-way relationship was made clear to the contractor and interactions were mandated by the contract terms.

Citizen Member Soto asked why the recommended firm received a significantly higher score in the category for Proposed Approach/Management Plan. Mr. Handy replied that they had a strong grasp of community concerns and presented a robust plan for stakeholder engagement.

Citizen Member Treviño moved to forward Item 5 to the full City Council for consideration. Citizen Member Soto seconded the motion. The motion carried unanimously by those present.

Item 6 was addressed at this time.

6. Design-Build for Prue Road [Transportation & Capital Improvements]

Christie Chapman stated that the contract was part of the voter-approved 2017-2022 Bond Package. She noted that it was a design-build contract valued at \$23.9 million and the scope was to widen and reconstruct the roadway with curbs, sidewalks, driveway approaches, intersection, traffic signal, and drainage improvements as needed. She provided an overview of the project timeline with full City Council consideration planned for April 2018. She provided an overview of the solicitation requirements for the Phase I RFQ and the Phase II Request for Proposals (RFP). She noted the importance of context-sensitive design for the Phase II evaluation and provided an overview of the scoring results. She stated that there were only three responsive firms so all three were evaluated and there were no financial due diligence issues.

Mr. Barthold stated that there were no due diligence issues from an audit perspective.

Chairman Courage asked of the exclusion of SBEDA requirements. Ms. Chapman replied that the size of the project would disqualify most small firms so the solicitation included subcontracting requirements of 22% Minority and Women-owned Business Enterprises (M/WBE) and 2% African-American Business Enterprises (AABE). Chairman Courage asked if the contract amount matched what was budgeted in the Bond Package. Razi Hosseini replied that it did match and supplemental funds for portions of the project would be provided by CPS and SAWS.

Citizen Member Soto moved to forward Item 6 to the full City Council for consideration. Citizen Member Treviño seconded the motion. The motion carried unanimously by those present.

Item 7 was addressed at this time.

Select Pre-Solicitation High Profile Briefings

7. BuildSA Software Replacement [Development Services]

Michael Shannon stated that the Pre-Solicitation Briefing was for a Request For Competitive Sealed Proposals (RFCSP) for Phase II of the BuildSA Project valued at \$16 million. He noted that the Development Services Department (DSD) conducted many types of transactions that utilized different systems of varying ages. He stated that the purpose of the project was to create a single Enterprise System to centralize transactions and data for both staff and customers. He noted that Phase I covered Land Development, Phase II covered Building Development and Code Enforcement, and future phases could include expansion to other City Departments. He provided an overview of the project timeline including Phase I and reviewed solicitation requirements. He noted that the specialized nature of the project and the necessity of Phase I vendor pre-approval resulted in waiving of Preference Program requirements. He provided an overview of planned outreach efforts and the composition of the Evaluation Committee. He highlighted the addition of voting members from the development community and the Neighborhood Code Enforcement Task Force to ensure customer representation.

Chairman Courage asked of the differentiation of roles between voting members and advisory members. Mr. Shannon replied that only voting members participated in the scoring process while advisory members provided technical expertise and input.

Mr. Shannon provided an overview of the Project Timeline with the RFCSP planned for release in April 2018 and full City Council consideration in August 2018 for a November 2018 contract start date.

Chairman Courage asked of the anticipated cost for all project phases. Mr. Shannon replied that the combined cost of Phases I and II would be approximately \$30 million and though there was the possibility for future phases, Phases I and II represented the bulk of work so future costs would be significantly less. He added that similar projects across the country totaled between \$25 million and \$45 million. Roderick Sanchez stated that customer demand for a more reliable, accessible system necessitated the project. Craig Hopkins noted that the current system components would need to be replaced at some point so the creation of an Enterprise System was cost-effective in the long term.

Citizen Member Treviño asked if the Enterprise System would connect with existing systems. Mr. Shannon replied that it would integrate with SAP and 311.

No action was required for Item 7. Item 8 was addressed at this time.

8. Café College [Human Services]

Melody Woosley stated that the current contract with Café College was set to expire September 30, 2018. She noted that the contract would be pursued through an RFP for a contract value of \$3.8 million and a two-year term with three, one-year renewals. She provided an overview of the history of Café College since 2010 as a one-stop college access center. She stated that the scope of services included advising services, coordination with high schools and colleges to conduct events, and hosting a series of financial aid seminars. She noted that the contract included a lease for the city-owned facility space and the contractor was responsible for all building and landscaping maintenance. She stated that because the RFP was limited to non-profit education and governmental entities, Preference Programs did not apply but SBEDA subcontracting requirements of 15% for M/WBE and 2% for AABE were applied. She provided an overview of outreach efforts, Evaluation Committee, and project timeline with full City Council consideration in September 2018.

Chairman Courage asked how the vendor would meet the subcontracting requirements. Ms. Woosley replied that services such as maintenance could be contracted out to meet the requirements.

Citizen Member Soto asked if the vendor would be required to advertise Café College's services. Ms. Woosley replied that outreach was specified in the contract.

Chairman Courage asked of the cost of the lease component. Ms. Woosley replied that it was \$1 per year.

No action was required for Item 8. Item 3 was addressed at this time.

Final Internal Audit Reports to Be Discussed

3. AU17-C01 Audit of BESD – Maintenance & Custodial Service Contracts

Mark Bigler stated that the objective of the audit was to determine if the Building and Equipment Services Department (BESD) had proper and adequate monitoring controls for their contracts. He noted that the department was separated into fleet services and facility services and the audit only addressed facility services. He stated that the scope of the audit was from June 2016 to May 2017. He noted that there were no findings and no recommendations. He stated that BESD employees verified each invoice and ensured compliance with Preference Program, insurance, bond, and certification requirements.

Citizen Member Soto asked how many contracts were examined. Mr. Bigler replied that the audit examined all 18 of the facility services contracts held by BESD.

Citizen Member Treviño moved to accept the audit. Citizen Member Soto seconded the motion. The motion carried unanimously by those present.

Item 4 was addressed at this time.

4. AU17-018 Audit of Pre-K 4 SA – Monitoring of Competitive Grants

Mr. Barthold stated that grants were provided to schools to improve their pre-kindergarten programs. He noted that the objective of the audit was to determine if the grant award process was functioning as intended in terms of bidding, awards, and monitoring. He stated that awards totaled \$4.1 million. He noted that the audit produced no findings and no recommendations.

Chairman Courage spoke in support of Pre-K 4 SA and expressed satisfaction with the audit outcome. He asked if all funding for Pre-K 4 SA was generated through the local sales tax. Dr. Sarah Baray replied that aside from federal grants to assist with food programs, all funding was provided from the tax.

Citizen Member Treviño moved to accept the audit. Citizen Member Soto seconded the motion. The motion carried unanimously by those present.

ADJOURN

There being no further discussion, Chairman Courage adjourned the meeting at 11:55 am.

ATTEST:

John Courage, Chairman

*Leticia Y. Saenz
Deputy City Clerk*