

**AUDIT COUNCIL COMMITTEE MEETING  
MINUTES  
TUESDAY, MARCH 25, 2014  
10:00 AM  
MEDIA BRIEFING ROOM**

Committee Present:	Council Member Ivy Taylor, <i>District 2, Chair</i> Council Member Ray Lopez, <i>District 6</i> Council Member Ron Nirenberg, <i>District 8</i> Citizen Member Donald R. Crews Citizen Member Stephen S. Penley
Staff Present:	Sheryl Sculley, <i>City Manager</i> ; Erik Walsh, <i>Deputy City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Leticia Vacek, <i>City Clerk</i> ; Troy Elliott, <i>Finance Director</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Melanie Seale, <i>Assistant Finance Director</i> ; Andre DeLeon, <i>Controller</i> ; Ed Belmares, <i>Assistant City Manager</i> ; Chief McManus, <i>Police Department</i> ; Dennis Rosenberry, <i>Police Department</i> ; Steven Baum, <i>Police Department</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Gloria Hurtado, <i>Asst. City Manager</i> ; Mark Bigler, <i>Audit Manager</i> ; Buddy Vargas, <i>Audit Manager</i> ; Sandra Paiz, <i>Audit Manager</i> ; Susan Van Hoozer, <i>Auditor</i> ; Mary Perez, <i>City Manager's Office</i> ; Francesca Caballero, <i>District 2 Aide</i> ; Rebecca De La Garza, <i>City Manager's Office</i> ; Rebekah Jamison, <i>Office of the City Clerk</i>
Others Present:	Marc Sewell, Santos Fraga, Mike O'Brien, <i>PS&amp;Co.</i> ; Theresa Britts, <i>Britts &amp; Associates, LLP</i> ; Carmen C. Garcia, <i>C.C. Garcia &amp; Co., PC</i> ; Robert J. Williams, <i>CPA</i> ; Chris Carmona, <i>Schrifer, Carmona &amp; Carrera, PLLC</i> ; Yami Virgin, <i>KABB FOX 29</i> .

**CALL TO ORDER**

Chairperson Ivy Taylor called the meeting to order.

**1. Approval of minutes from the February 25, 2014 Meeting**

Councilmember Nirenberg moved to approve the meeting minutes of February 25, 2014. Councilmember Lopez seconded the motion. Motion carried unanimously.

**2. Results of the Fiscal Year 2013 External Financial Audit and Presentation of Related Reports**

Troy Elliott reported that Padgett, Stratemann & Company (PS&Co) completed the External Financial Audit for the City's 2013 Fiscal Year on February 19, 2014. He added that the City is required to engage an independent CPA Firm to conduct an Annual Audit of the City's

Financial Records and Accounts. Additionally, the City publishes a Comprehensive Annual Financial Report (CAFR) which reports the City's financial position, results of operations and the liquidity of its various funds. He added that the CAFR is provided to rating agencies, bondholders and is available to the general public. He also referenced the Management Letter that is provided by PS&Co to the City Council and City Management that focuses on internal control matters discovered during the audit of the City's Financial Statements.

Mr. Elliott introduced Santos Fraga of PS&Co.

Mr. Fraga reported on the planning and performing of their audit of the financial statements of the City as of and for the year ended September 30, 2013. In accordance with auditing standards, they considered the City's internal control over financial reporting (internal control) as a basis for designing their auditing procedures for the purpose of expressing their opinion on the Financial Statements.

Mark Sewell of PS&Co reported that there were no significant difficulties encountered during the audit and there were no disagreements with management.

Mr. Sewell stated that there was a/an:

- Decrease in federal revenues and increase beginning net position by \$3.8 million for federal revenues used to purchase capital assets in previous years that were not recorded until the current year for the Airport Fund.
- Decrease of capital assets and beginning net position by \$513,000 for capital projects that should have been written off in the previous year for the Airport Fund.
- Increase allowance for doubtful accounts and decrease deferred revenue (revenue not available) by \$4.4 million for court fines and fees for historical collection percentages for the General Fund and Government Wide.
- Increase allowance for doubtful accounts and expenditures by \$163,000 for uncollectable code compliance receivable for the General Fund and Government Wide.
- Increase of accounts receivable and deferred revenue (revenue not available) by \$1.3 million which is estimated based off prior year amounts for unrecorded magistration and detention revenue for the General Fund and Government Wide.

Mr. Sewell stated the corrected misstatements were as follows:

- Increase accrued liabilities and expenditures/expenses by \$32.6 million for initially unrecorded liabilities. The effect of this adjustment was as follows in the fund level financial statements-General Fund \$1.8 million, General Obligation Project Fund \$9.2 million, Airport Fund \$6.0 Million, and Other non-major funds of \$15.6 million.
- Decrease accrued leave payable and expenditures by \$1.1 million to adjust due and payable accrued leave to actual in the General Fund.

Mr. Sewell stated that there was a significant deficiency during their auditing procedures over the City's preparation of the Schedule of Expenditures of Federal Awards (SEFA) and Schedule of Expenditures of Sate Awards (SESA). He noted adjustments were required because of improvements needed in the controls and procedures used in preparing the SEFA and SESA. The following adjustments were noted:

- Increase expenditures by \$3.8 million for noncash federal awards received in prior years that was passed through from the State of Texas and not reported on the SEFA or General Ledger until the current year.
- Decrease expenditures by \$11.8 million on the SEFA and increase expenditures by \$13.8 million on the SESA for allocations between federal and state funding sources that were reimbursed as one source when received from the State.

Mr. Sewell recommended that the City continue to work with all Federal, State, and pass-through awarding agencies to strengthen the communication and sharing of information. Said communication ensures information on all federal and state awards is obtained timely in order for the City to accurately record expenditures in the proper period on the SEFA or SESA. In addition, the recommendation was that the City work with all Department Fiscal Administrators to increase awareness of reporting requirements for non-cash Federal Awards and specific identification of grant expenditures when multiple funding sources are awarded to cover the same program.

Mr. Sewell reported the following to be control deficiencies:

Collectability for Grant Loan Funds - During the testing of grant funded loans; they noted one loan in the amount of \$244,000 had not had any payment activity for approximately ten years. The City currently had this loan classified as collectable. He recommended that the City formalize the review of the collectability of the grant loan funds to determine if an adjustment was needed.

Municipal Court Receivables – Mr. Sewell stated that during the testing of receivables related to municipal courts, they noted the following uncorrected misstatements:

- Court Fines and Fees Receivable – During their review of the calculation on the allowance for doubtful accounts; the percentage applied to the accounts receivable balances for the current year and previous years balances did not appear to be supported by historical collection amounts. Based on their review of historical collections, the allowance for doubtful accounts is understated by approximately \$4.4 million.
- Magistration and Detention Revenue – Mr. Sewell stated that the City had not billed and had not estimated magistration and detention revenue from Bexar County for Fiscal Year 2013. This revenue should be billed for as earned or estimated as of the end of the fiscal year.

Mr. Sewell reported that while these uncorrected misstatements were not considered material to the overall financial statements; the City should continue to evaluate its method of estimating and recording the mentioned receivables to ensure the financial statements are accurately prepared and presented. Mr. Sewell reported that all prior year recommendations have been satisfactorily resolved.

Mr. Elliott stated that as part of the City's reorganization of its Department of Planning and Community Development (PCD), a review was conducted on grant funded loans, consolidating the loans under one division to ensure consistent classification and ongoing monitoring. PCD

is currently developing a Loan Administration Policy, anticipated for release by June 3, 2014 that will address the collectability of the grant loans. PCD will review the collectability of outstanding grant loans to ensure the accounting records at fiscal year-end adequately represent the net loan balances deemed collectible at that point in time.

Mr. Elliott reported that starting Fiscal Year 2008, the City coordinated with the external auditor to begin interim procedures during the summer in order to shorten the timeline of the audit. Through the interim procedures and efficiencies realized within the Finance Department, the City continues to improve its time for completion of audits. Mr. Elliott added that there has been drastic improvement over the history of the City's External Audit.

Mr. Elliott agreed with the recommendations and developed controls to require communication with the granting entity, and a minimum, upon award and at fiscal year-end. The City will utilize responses in these communications to properly account for and report grant activity in the City's financial reporting system. Communication to departments on the developed controls were sent out on March 5, 2014 and will be covered in the grant training sessions scheduled for citywide fiscal staff on April 11 and 22, 2014.

Sheryl Sculley thanked Mr. Fraga and his team for all their work. She added that there has been significant progress through the years and is proud of the audit.

Chairperson Taylor thanked staff for their improvements.

Councilmember Lopez asked if the City had been applying more money into the auditing oversight or minimizing the amount of investment and efficiency from staff. Ms. Sculley stated that eight years ago the Finance Department had a high vacancy rate and it was restructured with fewer positions but with a higher skill set; which has helped to do a better job and save money.

No action was necessary for this item.

### **Final Reports to be discussed**

#### **3. Audit No. AU13-023 – DCCD Audit of Arts and Cultural Agency Funding**

Kevin Barthold reported that as part of the annual Audit Plan, an audit of the Department for Culture and Creative Development (DCCD), specifically Arts and Cultural Agency funding was conducted.

Mr. Barthold reported that the objective of the audit was to determine if DCCD was adequately monitoring arts and cultural agency funding and performance measures of agencies receiving funding.

Mr. Barthold stated that overall DCCD was adequately monitoring arts and cultural agency funding and performance measures of agencies receiving funding. He added that they had identified improvement opportunities for the reporting process.

Mr. Barthold reported that in fiscal years 2012 and 2013, DCCD had four programs for funding the arts: General Operational, Project Funding, Community Arts Access, and Technical & Economic Development Assistance. The Fiscal Year 2012 and 2013 Budgets to fund arts and cultural agencies, supported by the hotel occupancy tax, were \$5.3 million and \$5.9 million, respectively. For both years, the General Operational Program support was budgeted among approximately 40 agencies, with funding to a single agency ranging from \$10,250 to \$540,060.

Mr. Barthold stated that a random sample of 25 agencies was selected that received General Operational Support or Project Support. They verified that the Fiscal Year 2013 (quarters 1-3) performance plans and invoicing were adequately monitored. Additionally, they verified that Fiscal Year 2012 end of contract reviews were performed. When applicable, they verified that awards were appropriately reduced. They also reviewed agency eligibility and program income requirements.

Mr. Barthold stated that in Fiscal Year 2013 several agencies reported ineligible events to DCCD which were events not open to the general public. He noted that events not in the City limits and events planned primarily for fundraising purposes are not allowed under the current guidelines.

Mr. Barthold recommended that the Director of DCCD implement monitoring controls to ensure agencies report events in accordance with contractual requirements and DCCD Guidelines.

Ed Belmares stated that they welcomed the audit and a corrective action plan had been put in place.

Committee Member Penley moved to accept Audit AU13-023 as presented. Councilmember Lopez seconded the motion. Motion carried unanimously.

#### **4. Audit No. AU14-025 – SAPD Audit of Asset Seizure and Forfeiture Funds**

Mark Bigler reported that as part of the annual audit plan, an audit of the San Antonio Police Department's (SAPD's) Asset Seizure and Forfeiture Program was conducted. The objective of the audit was to verify the information contained in the Fiscal Year (FY) 2013 Chapter 59 Asset Forfeiture Report by Law Enforcement Agency (AFRLEA) regarding SAPD's Asset Seizure and Forfeiture Program for compliance.

Mr. Bigler stated that overall, controls over the Asset Seizure and Forfeiture Program were adequate and in compliance with laws and regulations. However, they had identified two areas of improvement:

- The SAPD comingled funds forfeited under the Texas State Code of Criminal Procedure Chapter 59 (CCP 59) with funds forfeited under other chapters of the CCP additionally, comingled funds forfeited under federal law via both the Departments of Justice (DOJ) and Treasury (TD). Each of these types of funds is required to be segregated from all other funds.

- The SAPD spent federally forfeited funds on fringe benefits, which is not allowed under guidelines published by the DOJ and TD. However, the SAPD remediated this issue prior to the conclusion of the audit, so no recommendation was made.

Mr. Bigler recommended that the SAPD work with the Finance Department to ensure that funds generated from forfeitures and sales of assets forfeited under Texas State CCP 59, the DOJ equitable sharing program, and the TD equitable sharing program are segregated by fund or accounting code from each other and from all other sources of funding.

Chief McManus thanked Mr. Barthold and Mr. Bigler and added that he had requested this audit. Chief McManus stated that most important, record keeping was accurate with what is taken in.

Chairperson Taylor asked if we cannot predict what is being brought in how it is budgeted. It was stated that they use past history of items acquired for this fund. Chairperson Taylor stated that she felt like it should go towards more of a community oriented project. Chief McManus stated that it could only be used for Police/Law Enforcement use.

Sheryl Sculley stated that they would talk about the funding during the budget process to bring forth alternatives.

Councilmember Lopez asked of the vehicles at the Growden Storage Lot. Mr. Walsh stated that they have a separate seizure fund.

Mr. Penley asked if the previous audit review on property was part of this audit. Mr. Barthold responded that the prior audit focused on seized property being held for evidence and maintained by SAPD. The current audit focused on property forfeited to SAPD at the conclusion of judicial proceedings.

Committee Member Crews moved to accept Audit AU14-025 as presented. Committee Member Penley seconded the motion. Motion carried unanimously.

## **FY 2014 Audit Plan Status Update**

### **5. FY 2014 Audit Plan Status Update**

Mr. Barthold reported that a total of 14 reports had been issued and 7 Reports were in the Management Response Phase. He added that the Audit Department received a request from management to audit the Fire Fighters and Police Officers Prepaid Legal Plan and Trust. He noted that they have audit hours available to perform the audit.

Committee Member Crews moved to amend the 2014 Audit Plan by adding the San Antonio Police Officers and Fire Fighters Prepaid Legal Plan and Trust Audit. Committee Member Penley Seconded the motion. Motion carried unanimously.

### **Consideration of items for future meetings and next meeting date and time.**

It was noted that the next Audit Committee Meeting was scheduled for April 22, 2014 at 10:00am.

There being no further discussion, Chairperson Taylor adjourned the meeting at 11:06 a.m.

**ATTEST:**

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*Ivy R. Taylor, Chairperson*

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*Leticia M. Vacek, TRMC/MMC  
City Clerk*

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