

**AUDIT COUNCIL COMMITTEE MEETING
MINUTES
FEBRUARY 17, 2015 at 11:30 AM
MUNICIPAL PLAZA BUILDING “B” ROOM**

Committee Present:	Council Member Rey Saldaña, <i>District 4, Chair</i> Council Member Shirley Gonzales, <i>District 5</i> Council Member Ray Lopez, <i>District 6</i> Citizen Member Donald R. Crews
Staff Present:	Kevin Barthold, <i>City Auditor</i> ; Leticia M. Vacek, <i>City Clerk</i> ; Erik Walsh, <i>Deputy City Manager</i> ; Anthony L. Trevino, <i>SAPD Chief</i> ; Geraldine J. Garcia, <i>Asst. SAPD Chief</i> ; Roy Waldhelm, <i>SAPD Deputy Chief</i> ; Troy Elliott, <i>Director</i> ; Norbert Dziuk, <i>Asst. to Director</i> ; Kathy Davis, <i>Director</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Jonathan Kaplan, <i>Assistant City Attorney</i> ; Mark Bigler, <i>Audit Manager</i> ; Sandra Paiz, <i>Audit Manager</i> ; Matt Howard, <i>City Auditor</i> ; Buddy Vargas, <i>Audit Manager</i> ; Michelle Garcia, <i>City Auditor</i> ; Danny Zuniga, <i>City Auditor</i> ; Cecilia Gonzalez, <i>City Auditor</i> ; Lorenzo Garza, <i>City Auditor</i> ; Douglas Frances, <i>City Auditor</i> ; Susan Vanhozzser, <i>City Auditor</i> ; Jorge A. Perez, <i>Director</i> ; Debbie Sittre, <i>Asst. Director</i> ; Razi Hosseini, <i>Asst. Director</i> ; Ayten Cibildah, <i>Compliance Mgr.</i> ; Rebecca De La Garza, <i>Executive Asst.</i> ; Alyssa Lopez, <i>Asst. to Director</i> ; Amy Cowley, <i>Finance Dept.</i> ; Melanie Seale, <i>Finance Dept.</i> ; Joseph Cortez, <i>Senior Advisor-City Council District 6</i> ; Pat Bruny, <i>Senior Advisor-City Council District 4</i> ; Joaquin Gonzalez, <i>Political Director</i>

CALL TO ORDER

Chairman Saldaña called the meeting to order.

1. Approval of Minutes from the January 28, 2015 Meeting

Council Member Lopez moved to approve the minutes of the January 28, 2015 Audit Council Committee Meeting. Citizen Member Crews seconded the motion. The motion carried unanimously.

2. AU14-002 Audit of Animal Care Services Department Non-Profit Rescue Groups Contracts Compliance

Mr. Kevin Barthold reported that the scope of the Audit was for all Animal Control Services (ACS) contracts for paid non-profit animal rescue groups in effect during the period of October 2012 to September 2014. The ACS Staff was interviewed and the controls for the contract process was observed. Relevant documentation was reviewed including ACS internal and external policies and procedures, City Code, and Administrative Directives.

Chairman Saldaña asked about the life-span of the contract. Mr. Barthold responded the time frame was FY2013 and FY2014 only.

Mr. Barthold reported that it was determined that ACS is compliant with non-profit rescue group contracts; therefore, there are no formal recommendations.

Ms. Kathy Davis reported that a Contract Coordinator has been put in place as a result of this Audit. She said this Audit was good and it gave ACS the opportunity to further review the checks and balances in the current system as well as the opportunity to make sure all of the animals are meeting the requirements for Spay and Neuter.

Ms. Davis reported that ACS takes in over 30,000 animals on average each fiscal year. In fiscal year 2012, ACS initiated an incentive program with some of the City's non-profit animal rescue groups called Contracted Rescue Groups (CRG) to partially compensate them for their efforts. She stated that ACS compensates CRGs at a rate of \$50.00 for each animal rescued after a baseline quota of 700 has been met. Ownership of animals is permanently transferred to the CRGs who are then required to provide food, shelter, needed medical care, and humane treatment. Since 2012, the City's relationship with these CRGs has resulted in the rescue of over 30,000 animals, or approximately 79% of all rescued animals in the City.

Ms. Davis said the City has two programs whereby CRGs can be compensated for rescuing animals; the Rescue Partner Incentive Program (RPIP), and the High Volume Pet Partner (HVPP) Program. In fiscal year 2014, the City had nine RPIP and two HVPP contracts with a total value of \$370,000 with the potential to rescue over 10,000 animals.

Citizen Member Donald Crews moved to accept said Audit. Council Member Lopez seconded the motion. The motion carried unanimously.

3. AU14-F01 FOLLOW-UP AUDIT OF BUILDING & EQUIPMENT SERVICES

Mr. Mark Bigler reported that the scope of the Audit included the recommendations made in the original report and the corresponding action plans implemented between October 2012 and July 2014. The fuel operations staff was interviewed regarding relevant documentation, including departmental operating procedures, administrative directives, and regulations for petroleum storage tanks. He also said the objective of the Audit was to determine if Building and Equipment Services Department (BESD) effectively implemented action plans in response to recommendations in the Fuel Inventory Management Audit issued October 31, 2012.

Mr. Bigler stated that BESD has made progress implementing controls to address the recommendations; however, improvements are still needed. BESD management developed eleven action plans to address the findings from the previous Audit. The Audit reflected that seven action plans were implemented and four require additional effort. Specifically, it was determined that:

- Policies and procedures were not adequate or did not exist for key fuel operations areas.
- Reports for excessive inventory variances were not filed with TCEQ within required timeframes.
- Corrective action was taken for 75% (41 of 55) of critical issues identified in 2012 site maintenance issues; however the process is not formalized.

- A review process was not implemented for year-end inventory reporting and valuation. Volumes for 4 of 45 fuel tanks/fuel trucks were not accurately transferred on FY2013 valuation worksheet.
- BESD did not use temperature compensated volumes when reporting year-end inventory for FY2013.

Mr. Bigler reported the following recommendations were made to the Director of BESD:

- Continue to develop, implement, and communicate policies and procedures for key fuel operations.
- Ensure that Fleet staff report excessive inventory variances to Texas Commission on Environmental Quality (TCEQ) in compliance with regulations. Also, update guidance to include reporting requirements and timeframes.
- Continue to address critical site maintenance issues and formalize the internal inspection process by ensuring that TCEQ requirements, other relevant inspection criteria, and corrective actions are properly documented.
- Develop an adequate review process to ensure fuel volumes are transferred correctly and that fuel valuations are calculated properly.
- Ensure that temperature compensated fuel volumes are used for year-end inventory valuations.

Mr. Bigler reported that BESD Management concurred with the recommendations and developed a positive corrective action plan.

Mr. Jorge Perez thanked the Audit Department. He reported that one of the positive changes was to enhance the Departments communication with TCEQ. The follow-up Audit assisted with tightening up the fuel checklist that was currently being used. BESD manages 19 million dollars of fuel located throughout San Antonio and performs physical site visits to ensure the SOP's are being followed.

Chairman Saldaña asked who generated this Audit. Mr. Barthold replied that this was a follow-up Audit that is done automatically. City Manager Sculley remarked that the Audit was originally requested by Staff.

Mr. Ben Gorzell added there has been progress made since the original Audit. He said the biggest problem was the temperature of the fuel but that issue was fixed prior to the last Audit being completed.

Chairman Saldaña asked who manages the calculations for the fuel.

Mr. Perez said there are two employees and one Fuel Manager supported by fuel site technicians that conduct Citywide site visits to the fuel stations to ensure volumes reported through the system are correct and accurate. He added that the fuel that BESD manages is utilized by all vehicles in the City of San Antonio organization.

Citizen Member Crews moved to accept said Audit. Council Member Gonzales seconded the motion. The motion carried unanimously.

4. AU14-015 AUDIT OF FINANCE DEPARTMENT PURCHASING CARD PROGRAM

Ms. Sandy Paiz reported that the Citywide Purchasing Card Program (P-Card) was developed to allow departments the ability to readily purchase small dollar non-biddable items through the use of a City issued credit card. The program objective is to establish an effective, efficient and convenient process to facilitate small dollar purchases and their settlement. The P-Card Program has been in existence since March of 2001 and was the procurement channel for over \$3.2 million and \$4 million of purchases in FY2013 and FY2014, respectively. In 2013, 359 cards were used for purchases throughout 30 City Departments.

Ms. Paiz said the purpose of the Audit was to determine if the P-Card Program is managed in compliance with policies and procedures she also reported that the Audit Scope was for FY2013 which included a review of current processes, user roles in the Works system, department policies and procedures, related City Administrative Directives and staff interviews. There was also a standard questionnaire that was created and sent to each respective Department Site Administrator to gain an understanding of the individual department's P-Card process.

Ms. Paiz reported that the computer-processed data in the Works System was used to review transactions per card, code purchases to the appropriate funding source, track the approval workflow and ultimately to import transactions into SAP to issue payments to Bank of America.

Ms. Paiz said the Audit concluded that the P-Card Program is not managed in compliance with policies and procedures. The Finance Department has made significant improvements to the P-Card process and the P-Card Program is meeting its objectives for allowing small dollar items to be purchased in an efficient manner. However, there were areas where internal controls are lacking and/or not working as expected:

- Program guidelines and policies do not provide enough detail to be effective and are outdated in some areas.
- Control processes outlined in the P-Card Policy are not being conducted and/or are weak. This includes annual review, customer service visits, and audits. Additionally, training is not required for Site Administrators.

P-Card purchases are not consistently approved prior to payment. An excessive amount of unapproved purchases in the Works system are being paid via a process known as sweeping; these purchases are not being monitored. In FY2013, \$279,698 (9%) of purchases were swept into SAP and processed for payment.

- Information Technology controls for the Works System are weak. Users' assigned non-standard merchant codes in the Works system lacked formal approval as required by Policy. Also, user access is inappropriate and excessive for staff with Accountant access, terminated employees and Program Administrators. It was also determined that there is a segregation of duties issue as well.

Mr. Troy Elliot reported that there are 360 P-Cards that have been issued thus far. He said the segregation of duties has been corrected, standard operating procedures have been strengthened and expense classifications have been corrected. The Department has also re-trained all individuals who have been issued a P-Card.

Citizen Member Crews asked if the amounts being charged to P-Cards have decreased. Mr. Elliott said due to the utilization of the annual large vendor contracts the P-Card Program is actually increasing.

Mr. Ben Gorzell reported that the Finance Department is charged with the P-Card Program and oversight of its users. The Finance Department is making sure the P-Card Program is being used as it was intended. He said every process was re-vamped and that has made a significant difference.

Chairman Saldaña asked who handles problems with an employee card holder. Mr. Elliott replied each P-Card charge is monitored electronically. Each charge is then coded to the proper classification in the accounting system and there are now several levels of reviewers for each charge. Council Member Saldaña asked who handles the employee/card holder with questionable charges. Mr. Elliott replied that issues with the employee/card holder are addressed Department Director.

Council Member Lopez moved to accept said Audit. Citizen Member Donald Crews seconded the motion. The motion carried unanimously.

5. AU14-011 AUDIT OF FINANCE DEPARTMENT REFUND TRANSACTIONS

Mr. Buddy Vargas reported that the City Departments issue refunds and they cover a variety of transactions including development permit fees, deposits for the use of City-owned facilities, animal adoption fees, alarm permit fees, and municipal court citations. Refunds are governed under Administrative Directive (AD) 8.4 – Financial Management of Accounts Receivable. Departments are responsible for developing internal procedures to comply with AD 8.4. Departments process refunds by creating a credit memo in SAP. Once these are approved, they are issued by Central Finance. For FY 2014, total refunds issued were approximately \$2.6 million through April 30, 2014. The FY 2013 total refunds issued was approximately \$3.9 million.

Mr. Vargas said the Audit Scope was for Fiscal Year 2014 from October 1, 2013 to April 20, 2014. The departmental staff was interviewed regarding refund transactions and how they are processed at both the department level and in SAP. The policies and procedures pertaining to processing refund transaction were reviewed. Also reviewed, were the training documents Finance provided to the Departments.

Mr. Vargas reported the Audit concluded that the customer refunds are being processed in accordance with City policies and Departments were properly approving and processing refund transactions.

Mr. Vargas stated that there was one recommendation made to improve segregation of duties controls in the creation and approval of refunds in SAP. He reported that the Director of Finance concurred with the recommendation and developed a corrective action plan to address the issue.

Mr. Kevin Barthold also added that the deposits and refund dollars are high due to construction projects.

City Manager Sheryl Sculley stated she and Mr. Kevin Barthold meet to review those departments which are handling cash and or refunds. The purpose for this Audit is to ensure money management and cash management is being reviewed on a bi-annual or annual basis and to ensure best practices are being utilized.

Citizen Member Crews made a motion to approve the Audit. Council Member Lopez seconded the motion. The motion carried unanimously.

6. AU14-027 AUDIT OF SAN ANTONIO POLICE DEPARTMENT HELICOPTER MAINTENANCE

Mr. Marc Biegler provided background on the San Antonio Police Department (SAPD) Helicopter Detail (Detail). He said the Detail was started in 1971 with six pilots. Current Detail is comprised of twenty pilots, including two police sergeants, four helicopter mechanics, and one supervisor. All twenty pilots are Police Officers and certified Commercial Pilots.

Mr. Biegler reported the SAPD Helicopter Detail flew on a budget of \$3.8 million in 2013 and \$4.6 million in 2014. He said during FY 2013, the Detail reported assisting in the arrest of 601 people, the recovery of vehicles and other property worth \$1.2 million, and responded to 6,595 calls. In FY 2013, the Detail spent \$3.6 million, with 75% of that amount going to personnel costs (salaries and benefits).

Mr. Biegler said the objective of the Audit was to determine if controls over the SAPD Helicopter Maintenance Program are adequate as well as to look into issues associated with the life-cycle of the Helicopters.

Mr. Biegler reported that the Audit reflected that overall, controls over SAPD Helicopter Maintenance are adequate. The SAPD Helicopter Detail has controls to ensure maintenance is performed in accordance with federal and manufacturer requirements. Helicopters are available for flight, mechanics are certified by Federal Aviation Administration (FAA), inventory is appropriate and recorded accurately. The Audit also reflected that fire and jet fuel safety are appropriately addressed.

Mr. Biegler said SAPD Management requested the examination of the life-cycle issue for the SAPD Helicopter Detail. There were two areas that required improvement:

- Components of the SAPD Helicopter Detail are not aligned to support current Mission/Operational Goals. Specifically, Mission Goals and Helicopter flight hours which were not aligned with program components including fuel budget, staffing, and Helicopter Fleet size.
- SAPD does not have a formal plan or funding mechanism to replace Helicopters at end-of-life.

Mr. Biegler noted that recommendations were shared with the Chief of Police Treviño. Chief Treviño concurred and developed a positive action plan. Chief Treviño thanked the Audit Department for their work on the Audit. He also said the Helicopters are of great value to the day-to-day operations of SAPD.

Chief Treviño reported that the Helicopter hours had decreased due to a change over with the manufacturing company that provides parts for two Helicopters. Chief Treviño said there is a goal of 2700 flying hours annually. He also said another goal is to be ready and prepared to fly anytime an Officer needs their assistance. Chief Treviño added he is working with the Budget Department on the life-cycle program that is needed and necessary.

Mr. Erik Walsh added that the two helicopters that formally had issues with parts, were replaced in 2014 out of the FY 2014 budget. With those additional resources the flight hours have been increasing. He also said the flight hours are mandated by manufacturing flight numbers.

Council Member Gonzales asked what type of SAPD calls would require the need for a Helicopter versus a traditional land vehicle.

Chief Treviño said the changes to the Road Pursuit Policy has limited land pursuits. He also said the land pursuit policies that are currently in place in San Antonio are now the model for Departments throughout the country.

Chief Treviño stated that Helicopters are the right tool to keep Officers safer. In some instances, Officers cannot get to areas due to the terrain. The Helicopters can fly atop and assist Officers with locating a perpetrator.

Council Member Gonzales asked of the idea of having Drones to replace the Helicopter in the near future.

Chief Trevino said SAPD is looking into that for possible future use. Drones can be used for crowd control and other types of calls; however, due to current legislation, the use of a Drone is limited. Council Member Gonzales asked how many officers are in the Helicopter Program. Chief Treviño responded that there are 20 Officers assigned to the Helicopter Program.

Mr. Walsh said Firefighters and Paramedics at Fire Station Number One are trained to rescue. One SAPD Helicopter is utilized for these types of calls as well. That Helicopter received funding from Homeland Security in 2007. Said monies funded the Helicopter Program for the purchase of an Apparatus to carry water and another to assist with water rescues.

Mr. Biegler reported that the budget for the SAPD Helicopter Program was \$3.8 million in 2013 and \$4.6 million in 2014.

Citizen Member Crews moved to accept the Audit. Council Member Gonzales seconded the motion. The motion carried unanimously.

7. AU14-027 AUDIT OF TRANSPORTATION & CAPITAL IMPROVEMENT PROJECT MANAGEMENT OF THE HENRY B. GONZALEZ CONVENTION CENTER EXPANSION (HBGCC)

Mr. Buddy Vargas reported that in September 2012 the City Council awarded Hunt/Zachry with a Design/Build contract for the expansion of the Convention Center. The Project began in October 2012 with a budget of \$325 million. The City assigned a Project Management (PM) Team consisting of six staff to the HBGCC Expansion Project responsible for monitoring both the Design/Construction and the financial obligation of the project.

Mr. Vargas said that in addition to that, the City hired the consulting firm Project Control of Texas (PCT) to assist with the project. PCT hired 17 sub-consultants from all specialized trades needed to oversee the project.

Mr. Vargas reported that the objective of the Audit was to determine if TCI Project Management personnel were adequately and properly managing significant components of the HBGCC Expansion Project.

Mr. Vargas stated that the scope of the Audit included project management over the HBGCC Expansion from the inception of the project through the current progress. He also said there was evidence of project management on-site daily observations of the work performed.

Mr. Vargas reported the Audit concluded that key management controls are in place to ensure project management personnel are adequately and properly managing significant components of the HBGCC Expansion Project. The overall project management structure is adequate and had proper controls in place to monitor the project timeline, budget and the material testing process. He added that they are also coordinating on a daily basis with Project Control of Texas to ensure construction is progressing timely.

Mr. Vargas said one area observed is in need of improvement. The Audit identified wage and hour violations that were not resolved for several employees being paid less than the prevailing minimum wage for their trade. Procedures were in place to resolve the issues but the Project Management Team did not adhere to them.

Mr. Vargas reported that the Director of TCI concurred with the recommendation and developed a corrective action plan.

Chairman Saldaña mentioned that this project is the City's largest construction project.

Mr. Barthold reported this was not a typical construction audit. He added that this project is massive and the Audit Department does not have the expertise in all trades for a construction audit of this size. TCI has put a team in place that does have that expertise so Audit looked at the management process for this project including reviews of financial data and materials testing.

Mr. Barthold said TCI and PCT did have the right team in place. All had the right skill sets to watch the contractors and sub-contractors working the project such as:

- Materials Testing from a Safety Perspective
- Inventory Management
- Materials Management

Ms. Debbie Sittre reported that Development Standards were put in place with the assistance of the City Auditor's Office. She added that \$54 million was paid out and the contractors were paying prevailing wages for laborers on the project. She reported that the prevailing wage issue was corrected immediately.

Citizen Member Crews made a motion to accept the Audit. Council Member Gonzales seconded the motion. The motion carried unanimously.

8. FY 2015 ANNUAL AUDIT PLAN STATUS AS OF JANUARY 31, 2015

Mr. Barthold reported that there have been Fourteen Reports issued for FY 2015. Six Reports have been reviewed to date. It was stated that the Audit Department is executing the audit plan as advertised.

Chairman Saldaña asked for a high level overview of the Audit Committee. There are five members, two are citizens of San Antonio. One is a Mayoral Appointment.

Chairman Saldaña asked that staff place on the next Audit Agenda; an Executive Session relating to Personnel Matters to discuss the vacancy on the Audit Council Committee.

Chairman Saldaña announced the next Audit Committee Meeting will be on March 17, 2015.

There being no further discussion, Chairman Saldaña adjourned the meeting at 12:50 pm.

ATTEST:

Rey Saldaña, Chairperson

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