

# AUDIT COUNCIL COMMITTEE MEETING MINUTES

MAY 5, 2015 at 11:30 AM

“B” ROOM, MUNICIPAL PLAZA BUILDING

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> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Martha Sepeda, <i>Acting City Attorney</i> ; Troy Elliott, <i>Director of Finance</i> ; Kathy Davis, <i>Director of Animal Care Services</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Bob Nordhaus, <i>Assistant City Attorney</i> ; Melanie Seale, <i>Assistant Director</i> ; Mark Bigler, <i>Audit Manager</i> ; Buddy Vargas, <i>Audit Manager</i> ; Sandra Paiz, <i>Audit Manager</i> ; Rebecca Moulder, <i>Auditor</i> ; Danny Zuniga, <i>Auditor</i> ; Heber Lefgren, <i>Assistant to Director</i> ; Norbert Dziuk, <i>Assistant to Director</i> ; Victoria Roeder, <i>Finance Reporting Manager</i> ; Rebecca De La Garza, <i>Executive Assistant.</i> ; Alexander J. Pytel, <i>Office of the City Clerk</i>
Others Present:	Santos Fraga, <i>Overall Engagement Partner; Padgett, Stratemann &amp; Co.</i> ; Marc Sewell, <i>Senior Manager, Padgett, Stratemann &amp; Co.</i> ; Mike O'Brien, <i>Partner, Padgett, Stratemann &amp; Co.</i> ; Robert J. Williams, <i>External Auditor, CPA</i> ; Theresa Y. Britts, <i>External Auditor, Britts &amp; Associates</i>

## CALL TO ORDER

Councilmember Lopez called the meeting to order.

### 1. Approval of the Minutes from the March 17, 2015 Meeting of the Audit Committee

Councilmember Gonzales moved to approve the minutes of the March 17, 2015 Audit Council Committee Meeting. Citizen Member Crews seconded the motion. The motion carried unanimously by those present.

### 2. Results of the Fiscal Year 2014 External Financial Audit and Presentation of Related Reports

Chairman Saldaña entered the meeting at this time.

Mr. Troy Elliott reported that External Audits are required to take place on a yearly basis by State Statute and the City Charter. He stated that External Audits ensure that records are properly maintained and free from material misstatements. He noted that Internal Audits were conducted by the City

Auditor's Office and were far more program-specific. He mentioned the Comprehensive Annual Financial Report which includes all financial information for the City of San Antonio and also encompasses the Federal and State Audits.

Mr. Santos Fraga reported that the Fiscal Year 2014 External Financial Audit included examination of the City's Financial Statements, assets, cash, investments, and bond. He added that a second audit was conducted to ensure City Compliance with State and Federal Grant Requirements. He noted that there were a few findings but nothing major.

Mr. Marc Sewell stated that the audit covered 9 Major Programs, both Federal and State, and that there was no material noncompliance. He detailed 5 findings from 4 Programs and noted that the findings were divided into 2 different categories. The first included findings from the HOME Program and CDBG in which Program Income was required to be expended before any Federal funding could be utilized. He noted some issues with reconciliations between the City's Program Income Account and the Drawdown System. He stated that the City expended Federal Funds before exhausting Program Income Funds and this accounted for the majority of the Audit Findings.

Mr. Sewell reported that the High Intensity Drug Trafficking and Homeland Security Cluster Programs also received Audit Findings. He noted that there were Program Purchases that did not finish going through the proper procurement procedures. He added that there were no findings or issues with the Passenger Facility Charge Program for the San Antonio International Airport.

Mr. Sewell noted that any non-material uncorrected adjustments in the Financial Statements are required to be disclosed and stated that there were no current year adjustments. He noted that any material adjustments are communicated to the Audit Committee and cited the following examples:

- The EMS Receivable Allowance adjustment in the General Fund
- Reversal of prior year revenue accrual of Non-Major Funds
- Failure to report Loan Receivable from the Hyatt and Trust Statements reporting
- Correction of a depreciation expense in the Airport Fund
- Net position for Convention Center Hotel Finance Corporation Loan Receivable

Mr. Sewell stated that Material Weaknesses, Significant Deficiencies, and Control Deficiencies are all included in the Management Letter as part of the Audit. He described Material Weaknesses as a severe item in which controls are deficient and would be unable to detect material misstatements. He described Significant Deficiencies as lesser than a Material Weakness but still reported to those charged with governance and a Control Deficiency as lesser in magnitude than a Significant Deficiency. He stated that while there were no Material Weaknesses, the Convention Center Hotel Finance Corporation accounting was noted as a Significant Deficiency.

Mr. Sewell reported that in 2005 the Convention Center Hotel Finance Corporation issued bonds to the Hyatt as a member of the Partnership, and the Hyatt was then expected to pay it back to the City. He stated that the debt was properly reported, but the Loan Receivable as a long-term asset was not properly reported. He cited a single Control Deficiency which included a repeat comment from the previous year. He noted that the City loans funds to developers for construction of multi-family housing units, many of which are contingent on cash flows. He noted that there was planned formal monitoring in place, but

execution of that monitoring had not yet occurred and as a result, the recommendation was to continue as planned with the monitoring of that process.

Mr. Troy Elliott reported that in 2005, completion and presentation of the External Audit took approximately 304 days. He noted that by 2011 the City had managed to cut that time in half. He cited the single Significant Deficiency which regarded financial reporting which did not entail a Material Misstatement or impact to the budget. He compared the 14 Findings for Fiscal Year 2005 to the current 2 Findings for Fiscal Year 2014. He cited a total number of adjustments of 46 in 2006 compared to the current 12 for Fiscal Year 2014, all of which related to the Significant Deficiency regarding the Convention Center Hotel Finance Corporation accounting.

Citizen Member Crews asked why the reporting error with the Convention Center Hotel Finance Corporation was not reported in earlier years. Mr. Elliott responded that due to changes in the Accounting Standards of the Government Accounting Standards Board the current findings were identified by the External Audit.

Chairman Saldana asked if Federal Grants and Programs also drew the majority of audit findings with other cities. Mr. Fraga responded that although Federal Grants and Programs are growing increasingly complex, the nature of the findings as they related to Federal Grants and Programs were not significant to the External Audit. Mr. Gorzell reported that in consideration of increasingly complex regulations, Questioned Costs for Single Audit Findings have been decreasing steadily over the last 10 years. He noted that in the course of audits conducted by the City Auditor's Office issues identified will be examined across City Departments.

### **3. AU14-F05 Follow-Up Audit of Finance Department San Antonio eProcurement System (SAePS) Controls**

Mr. Buddy Vargas stated that in December of 2012 an Audit was conducted on the eProcurement System (SAePS) Control utilized by the Purchasing Division of the Finance Department. He reported that the audit that took place in 2012 was the basis for this Follow-Up Audit and to determine if the Purchasing Division had successfully implemented action plans to address the recommendations related to the original report. He added that the conclusion found that the Finance Department had successfully implemented action plans to address all the prior audit recommendations. According to the findings of the Follow-Up Audit, the Finance Department has redesigned the Procurement Process, updated the City's Procurement Policies and Procedures to reflect current business processes associated with SAePS, implemented additional processes to track and monitor purchases, and implemented stronger controls to ensure internal pricing is accurate. He reported that there were no recommendations for this Follow-Up Audit.

Citizen Member Crews moved to accept the Audit. Councilmember Lopez seconded the motion. The motion carried unanimously.

### **4. AU14-012 Audit of Finance Department Local Preference Program**

Mr. Vargas reported that in March of 2013 the City of San Antonio adopted the Local Preference Contracting Program with the goal of maximizing the amount of resident tax dollars that remain in the local economy as well as increasing the opportunities of contracting with local businesses. He stated that

in November of 2014 the City Council amended the Ordinance to clarify the application process related to joint ventures and the principle places of business. The objective of the audit was the implementation of the Local Preference Program in compliance with the established Ordinance. He noted that the scope of the audit included assessing compliance of the Program for Fiscal Year 2014. The results of the audit found that there has been successful implementation of the Local Preference Program in compliance with the established Ordinance. He mentioned that there was one improvement to the administrative process which included controls to verify the self-reporting process related to local presence. He reported that the Finance Department had implemented an action plan to address that issue.

Mr. Elliott spoke on the self-reporting process. He reported that vendors sign an affidavit stating that they are local and that through Compliance and Resolution in the Finance Department; the City is able to validate locality through a number of tools such as examination of payroll and GIS.

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

## **5. AU14-001 Audit of Animal Care Services Dispatching and Operations**

Ms. Sandy Paiz reported that the objective of the Audit was to ensure that Dispatching and Operations of Animal Control Officers was effective, efficient, and in accordance with policy. She stated that the results of the Audit concluded that Dispatching and Operations of Animal Control Officers in accordance with guidelines and policies. She added that Officer Activities are appropriately prioritized and aligned with strategic goals. She noted that the Animal Care Services Department is in the process of standardizing documentation to improve and facilitate greater accountability as well as assure that areas requiring improvement are receiving stronger controls. Ms. Paiz detailed the following Control Weaknesses:

- She explained that supervisors are required to review Officer Activity Worksheets to ensure officer compliance and actions are appropriately and timely. She mentioned that in some cases supervisor sign off was not always evident.
- She stated that in the case of aggressive and dangerous dogs; some follow ups with pet owners is not taking place.
- She noted that there were cases of aggressive and dangerous dogs that were not escalated to a supervisor and as a consequence, it could not be determined if management had decided if further action was required on those cases.
- She remarked that in some cases of unprovoked aggression citations were not issued.
- She reported that follow up procedures for expired permits to ensure resident compliance with State and City Code were not consistently performed as mandated by policy.
- She detailed that invoices were still being generated for unnecessary and outdated permits.

Ms. Kathy Davis detailed the following improvements undertaken by Animal Care Services:

- Installation of new Department Policies and Procedures
- Updated computer system
- Installation of new Dispatch Operations System
- Instituted Performance and Accountability Measures

- Proactive calls

She noted that there have been steps taken to address the Audit Findings and that many of the issues identified in the Audit were improved through technological innovations.

Citizen Member Crews moved to accept the Report. Councilmember Lopez seconded the motion. The motion carried unanimously.

## **6. FY2015 Annual Audit Plan Status as of April 30, 2015**

Mr. Barthold reported that there has been 19 Audit Reports issued this year and added that the Audit scheduled for SAWS Impact Fee Waivers could be cancelled due to a previous Audit that had examined the Inner City Reinvestment Infill Policy which utilizes the same process.

## **7. Executive Session**

Chairman Saldaña recessed the Audit Committee into Executive Session at 12:48 p.m. to deliberate the appointment, qualifications, experience and other applicable criteria of prospective resident members of the Audit Committee, pursuant to Texas Government Code Section 551.074 (Personnel Matters) and deliberate the duties and evaluation of the City Internal Auditor.

Chairman Saldaña reconvened the meeting at 1:08 p.m. and stated that no action was taken during the Executive Session.

Councilmember Gonzales moved to forward evaluation of the City Internal Auditor to the full City Council. Councilmember Lopez seconded the motion. The motion carried unanimously.

Councilmember Lopez moved to amend the FY 2015 Annual Audit Plan to remove the Audit for SAWS Impact Fee Waivers. Citizen Member Crews seconded the motion. The motion carried unanimously.

There being no further discussion, Chairman Saldaña adjourned the meeting at 1:08 pm.

**ATTEST:**

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*Rey Saldaña, Chairperson*

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