

**AUDIT COUNCIL COMMITTEE MEETING
MINUTES
AUGUST 16, 2016 at 11:30 AM
CITY HALL, MEDIA BRIEFING ROOM**

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| Committee Present: | Councilmember Rey Saldaña, <i>District 4, Chair</i> Councilmember Alan E. Warrick II, <i>District 2</i> Councilmember Shirley Gonzales, <i>District 5</i> |
| Committee Absent: | Citizen Member Tom Nichta |
| Staff Present: | Sheryl Sculley, <i>City Manager</i> ; Erik Walsh, <i>Deputy City Manager</i> ; Carlos Contreras, <i>Assistant City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Martha Sepeda, <i>Acting City Attorney</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Troy Elliott, <i>Deputy Chief Financial Officer</i> ; Lori Steward, <i>Director of Human Resources</i> ; Tom Jones, <i>Director of Aviation</i> ; Leticia Y. Saenz, <i>Deputy City Clerk</i> ; Tim O’Krongley, <i>Deputy Director of Aviation</i> ; Bob Nordhaus, <i>Assistant City Attorney</i> ; Katinka Howell, <i>Assistant City Attorney</i> ; Joseph Harney, <i>Assistant City Attorney</i> ; Margaret Villegas, <i>Assistant Director of Finance</i> ; Melanie Seale, <i>Assistant Director of Finance</i> ; Art Reinhardt, <i>Assistant Director of TCI</i> ; Michael Sindon, <i>Assistant Director of Economic Development</i> ; Christie Chapman, <i>Interim Assistant Director of TCI</i> ; Michael Rodriguez, <i>Assistant to the Director</i> ; Henrietta Brown, <i>Chief Administrative Officer</i> ; Buddy Vargas, <i>Audit Manager</i> ; Mark Bigler, <i>Audit Manager</i> ; Sandy Paiz, <i>Audit Manager</i> ; Tina J. Flores, <i>Compliance Auditor</i> ; Cecilia Gonzalez, <i>Auditor</i> ; Daniel Kuntzelman, <i>Auditor</i> ; Susan Van Hoozer, <i>Auditor</i> ; Norbert Dziuk, <i>Procurement Lead</i> ; Jeff Knuppel, <i>Program Manager</i> ; Kelsey Young, <i>Contracts Manager</i> ; Kimberly Coleman, <i>Procurement Manager</i> ; Nicole Fowles, <i>Sr. Special Projects Manager</i> ; Melissa G. Castillo, <i>Business & Policy Administrator</i> ; Tania Sanchez, <i>Airport Property Agent</i> ; Jennifer Falcon, <i>District 5</i> ; Ann Eaton, <i>Office of the City Manager</i> ; Rebecca De La Garza, <i>Office of the City Manager</i> ; Alexander Pytel, <i>Office of the City Clerk</i> |

CALL TO ORDER

Chairman Saldaña called the meeting to order.

1. Approval of the Minutes from the June 21, 2016 Meeting of the Audit Committee

Councilmember Warrick moved to approve the Minutes of the June 21, 2016 Audit Council Committee Meeting. Councilmember Gonzales seconded the motion. The motion carried unanimously by those present.

2. AU16-F06 Follow-Up Audit of Finance Department Payroll

Mr. Buddy Vargas reported that the Office of the City Auditor had completed an Audit of the Finance Department's Payroll Process in June of 2014 and that the objective of the Audit was to determine if the controls over the City's Payroll Activities were adequate to ensure compliance. He mentioned that there were two areas that required improvement:

- ❖ Payroll Duties were not properly segregated
- ❖ Access Rights were not properly restricted within SAP's Payroll Function

Mr. Vargas stated that the objective of the Follow-Up Audit was to determine if Management had implemented Corrective Action Plans. He mentioned that the Audit concluded that one Corrective Action Plan had been implemented: Internal Controls surrounding the Payroll Check Printing Process had been strengthened. He added that the Finance and Human Resources Departments were in the process of removing and creating new roles for the appropriate segregation of duties within SAP. He noted the process had not been completed and as a result; SAP Payroll Duties were not properly segregated and Access Rights were not properly restricted. He explained that the Auditors made a recommendation to correct the issue and that the Directors of Finance and Human Resources had concurred and developed a Corrective Action Plan.

Mr. Troy Elliott mentioned that progress was being made and that the Printing Process had been strengthened by moving printing procedures in-house with Security Camera Monitoring. He added that recommendations would be implemented in August.

Councilmember Warrick asked for detail regarding any breaches of security. Mr. Elliott replied that there had been no breaches but that fraud remained a risk. He explained that there had been no fraudulent activity in the Human Resources Payroll Processes.

Councilmember Warrick moved to accept the Audit. Councilmember Gonzales seconded the motion. The motion carried unanimously by those present.

3. AU16-F07 Follow-Up Audit of Finance Department Payment Card Industry (PCI) Security Governance

Mr. Mark Bigler reported that Data Security Standards for Merchants were promulgated by five major Credit Card Companies: American Express, Visa, Mastercard, Discover, and JCB International. He stated that 16 City Departments accepted Credit Card Payments and were required to protect information during transmission and storage. He added that there were

penalties in instances of Data Breaches. He explained that there was an Audit of the PCI Governance Process in 2013 which concluded that controls were not adequate and identified four major issues:

1. Assignment of overall responsibility for the Compliance Process
2. Lack of a complete listing of Personnel and Payment Solutions in use
3. Monitoring of City Departments accepting Payment Cards
4. Lack of Formal Policies and Training to establish Guidelines

Mr. Bigler stated that the objective of the Follow-Up Audit was to determine if Management had implemented Corrective Action Plans. He reported that the Follow-Up Audit concluded that Finance and ITSD had implemented solutions for two issues, with two issues yet to be resolved including the assignment of overall responsibility and the lack of formal policies. He explained that the Auditors recommended that the Finance Department require other City Departments to sign the Self-Assessment Questionnaire Form annually in order to raise awareness of PCI Compliance and Accountability. He mentioned that the Finance Department had developed a rough draft of the PCI Compliance Policies in 2013 but had not yet implemented the Policies at the time. He added that the Audit recommended that the Policies be completed and that training be provided for City Departments.

Mr. Troy Elliott reported that the Finance Department concurred with the implementation of the Self-Assessment Questionnaire in order to make Departments accountable for operations and the protection of information. He highlighted the difficulty in implementing Protective Measures amid quickly evolving systems.

Chairman Saldaña asked for detail regarding Department management of Purchasing Cards. Mr. Elliott replied that each Department is issued Cards based on demonstrated need. He added that the Audit addressed standards of Credit Card Information of customers.

Councilmember Warrick asked for detail regarding training. Mr. Elliott noted that training was already underway and would be ongoing. He explained that the formal implementation of the Administrative Directive regarding training would be complete by December 31, 2016.

Councilmember Warrick moved to accept the Audit. Councilmember Gonzales seconded the motion. The motion carried unanimously by those present.

4. FY 2017 Proposed Audit Budget

Mr. Kevin Barthold reported that staffing for the Office of the City Auditor would remain the same. He noted that there was a single vacancy which would be filled in the next month. He added that the FY 2017 Proposed Audit Budget was very similar to last year and highlighted performance increases and cost of living raises.

No action was required for Item 4.

FY 2016 Audit Plan Status

5. FY 2016 Annual Audit Plan Status as of July 31, 2016

Mr. Kevin Barthold reported that the Annual Audit Plan was one month behind schedule but would catch up with the addition of new staff. He mentioned that 31 or 32 Audits would be completed by the end of the year.

Councilmember Warrick asked for detail regarding the scope of AU16-003 Audit of Parking Operations, AU16-004 Audit of HemisFair Park Area Redevelopment Corporation (HPARC), and AU16-010 Audit of EastPoint Funding. Mr. Barthold replied the Audit of Parking Operations would examine Downtown Parking Operations from a fiscal perspective as well as management of tickets and Mag Cards. He noted that there was no analysis of future studies and that General Ledger Data was being examined to ensure proper support. He stated that the Audit of HPARC would examine the Contract between the City and HPARC as well as different deliverables required to be performed by HPARC. He added that the Audit had been conducted and the Draft Report had been issued. He mentioned that the Audit of EastPoint Funding would determine if Grant Funds were being spent as intended and indicated that the Audit was running behind schedule due to inadequate staffing.

No action was required for Item 5.

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| High Profile Contract Subcommittee Items |
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Select High Profile Pre-Solicitation Briefings

6. Terminal A Food & Beverage Prime Concessionaire for San Antonio International Airport

Mr. Tom Jones presented a Solicitation Overview and noted that the Contract was valued at \$10.9 million over the 10-year proposed term. He reported that the current Project Status was operating on Monthly Provisions of expired contracts. He mentioned that the Contracts were tied to the implementation of the construction project to establish a connector between Terminal A and Terminal B as well as expand the Terminal A Security Checkpoint. He added that a Consultant was commissioned to review the project and had concluded that it was feasible and would have an impact to concessionaires. He highlighted a potential layout and indicated that there was 1,600 feet of walkway to connect.

Mr. Jones provided an overview of the Concession Plan and reported that after the Feasibility Study; it was learned that approximately seven vendors would be affected by any construction project at the Airport. He noted that, as such, it would be difficult to enter into any long-term agreement. He proposed a Two-Year Contract option which would go before the City Council for approval. He highlighted the Solicitation Requirements and Outreach Efforts and added that at least three local brands were preferred in order to increase the branding of San Antonio inside the Airport. He mentioned that the Project would not be released under SBEDA Program Guidelines due to Federal Regulations. He stated that Audited Financial Statements would be

required for the Solicitation and that direct outreach would take place via email. He provided a listing of the Evaluation Committee and added that evaluation was scheduled to be concluded in January with City Council consideration in March 2017.

Councilmember Warrick asked for detail regarding the Airport Concession Disadvantaged Business Enterprise (ACDBE) Program. Mr. Jones replied that the Federal Aviation Administration imposes restrictions that conflict with, and overrule, the City's SBEDA Requirements. Ms. Lisa Brice added that any vendor who meets SBEDA Requirements would meet the ACDBE Requirements.

Councilmember Gonzales asked for detail regarding the number of concessionaires currently at the Airport. Mr. Jones responded that there were 13 vendors operating on a month-to-month basis and that 7 would be affected by construction of the new Connector. He stated that the remaining 6 could apply for the Solicitation. He added that Prime Contractors would work with local businesses and vendors to ensure local participation. Mr. Carlos Contreras added that there was a preference for local culinary vendors.

Councilmember Warrick asked for greater detail on culinary vendor preferences. Mr. Jones replied that vendors should stay within San Antonio local culture but not duplicate current offerings.

Mr. Jones reported that a Post Solicitation Report would be presented to the Committee.

No action was required for Item 6.

7. Construction Manager at Risk Services for Utilities Infrastructure at Hemisfair Civic Park

Ms. Christie Chapman presented an overview of the Solicitation and Project. She reported that the Contract was estimated at \$13 million and the Project would include construction of necessary utilities for the future development of the Civic Park. She stated that the Construction Manager would have to commit to deliver the Project within a Guaranteed Maximum Price. She discussed the requirements of the Solicitation and indicated that they were very similar to other RFQs. She highlighted:

- ❖ Proposed Plan
- ❖ Experience
- ❖ Costing Methodology
- ❖ Experience with Local Utilities
- ❖ Compliance with SBEDA Program requirements

Ms. Chapman stated that outreach efforts would target approximately 700 vendors via email and that the Solicitation would be posted online, in the Hartbeat, and advertised on TVSA. She highlighted the Project Evaluation Committee and mentioned that submissions would be due by September 9, 2016 with interviews scheduled for October. She noted that City Council consideration was scheduled for December 2016 with an anticipated start date of January 2017.

She added that the Project would preferably be completed prior to the Final Four and Tricentennial Celebrations.

Councilmember Warrick asked if responses from Outreach Efforts were monitored. Mr. Troy Elliott stated that the Central Vendor Registry, which is utilized for Outreach Efforts, does not track email responses or openings. He noted that a cooperative effort with ITSD could be implemented.

No action was required for Item 7.

Consideration of High Profile Solicitations for Release

8. Commercial Garbage Collection, Disposal, and Recycling [Citywide] Storm Water System Televising, Mapping and Condition Assessment

Mr. Troy Elliott reported that the two items were pending release. He stated that Commercial Garbage Collection, Disposal, and Recycling was a Citywide Contract and supported approximately 120 Municipal Locations. He highlighted the Evaluation Criteria, Proposed Plan, and Local Preference Guidelines.

Mr. Elliott stated that the Storm Water System Televising, Mapping, and Condition Assessment Solicitation was estimated at \$1.6 million and would be contracted through the Transportation and Capital Improvements Department. He reviewed the Evaluation Criteria.

No action was required for Item 8.

Consideration of Completed High Profile Solicitations

9. Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic Operation and Management of the Paul Jolly Center Broker/Dealer Services On-Call Environmental NEPA Services

Chairman Saldaña recused himself from the votes on the Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic and the Operation and Management of the Paul Jolly Center Solicitations.

Mr. Troy Elliott provided an overview of scoring for the Solicitations. He highlighted the Solicitation Requirements including Experience, Background, Qualifications, and Proposed Plan for the Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic Solicitation. He stated that there were no Due Diligence Findings. Mr. Barthold added that the City Auditor's Review revealed no issues. Mr. Elliott reported that Vendor A had competed for both the Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic and the Operation and Management of the Paul Jolly Center Solicitations but was not the preferred vendor for the former solicitation.

Councilmember Warrick asked for clarification regarding the Solicitation Requirements. Mr. Xavier Urrutia responded that the Solicitations were distinct with separate requirements. He noted that the Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic Solicitation would require high volume surgical operations and vaccinations while the Operation and Management of the Paul Jolly Center Solicitation would entail fostering and adoptions of animals.

Councilmember Warrick moved to forward the Operations and Management for Spay/Neuter and Low Cost Vaccination Clinic Solicitation to the full City Council for consideration. The motion was seconded by Councilmember Gonzales. The motion carried by the following vote:

Ayes: Warrick, Gonzales
Nays: None
Abstentions: Saldaña
Absent: Nichta

Councilmember Warrick moved to forward the Operation and Management of the Paul Jolly Center Solicitation to the full City Council for consideration. Councilmember Gonzales seconded the motion. The motion carried by the following vote:

Ayes: Warrick, Gonzales
Nays: None
Abstentions: Saldaña
Absent: Nichta

Mr. Troy Elliott reported that 30 respondents had submitted proposals for the Broker/Dealer Services Request for Proposals (RFP). He provided an overview of the Scoring Summary and stated that City Staff recommended moving forward with 12 firms. He stated that the RFP was a component of the Investment Policy which is presented to City Council in September and that the selected firms would constitute a pool of vendors to be utilized on a bid-by-bid basis on a rotating schedule. Ms. Margaret Villegas added that all the Brokers have a component being utilized. Mr. Elliott noted that the selected Brokers would be notified after City Council consideration of the Investment Policy.

Councilmember Warrick asked if data is maintained on the hiring of rehabilitated citizens or formerly incarcerated persons by selected vendors. Mr. Elliott replied that there were some restrictions in Contracts based on Felonies. He added that the Finance Department would have to collaborate with the City Attorney's Office to determine an answer. Ms. Martha Sepeda noted that the City does hire based on Criminal Convictions but added that the situation varied according to the position.

Councilmember Warrick moved to forward the Broker/Dealer Services Solicitation to the full City Council for consideration. Councilmember Gonzales seconded the motion. The motion carried unanimously by those present.

Mr. Elliott provided an overview of the On-Call Environmental NEPA Services Solicitation. He reported that there were 17 respondents with two that were disqualified. He stated that the Contract Value was \$1.8 million with the top 5 selected firms proposed to be awarded contracts out of the 15 vendors. He added that there were no Due Diligence Findings. Mr. Barthold reported that two respondents were disqualified because officers had made Political Campaign Contributions during the Black-Out Period to Elected Officials. He added that all parties were notified of the finding.

Mr. Art Reinhardt explained that the selected firm would perform On-Call Environmental National Environmental Policy Act (NEPA) Consulting Services for various City Projects located throughout San Antonio. He specified that typical work would consist of NEPA-Related Consulting Services for water, endangered species, noise and air, vegetation, cultural resources, hazardous material, and compliance with Storm Water and Edwards Aquifer Authority Regulations.

Councilmember Gonzales moved to forward the On-Call Environmental NEPA Services Solicitation to the full City Council for consideration. Councilmember Warrick seconded the motion. The motion carried unanimously by those present.

ADJOURN

There being no further discussion, Chairman Saldaña adjourned the meeting at 12:40 pm.

ATTEST:

Rey Saldaña, Chairman

*Leticia Y. Saenz, TRMC
Deputy City Clerk*