

**AUDIT COUNCIL COMMITTEE MEETING
MINUTES
MAY 30, 2017 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> Citizen Member Tom Nichta |
| Committee Absent: | None |
| Staff Present: | Kevin Barthold, <i>City Auditor</i> ; Carlos Contreras, <i>Assistant City Manager</i> ; Ben Gorzell, Jr., <i>Chief Financial Officer</i> ; Troy Elliott, <i>Deputy Chief Financial Officer & Director of Finance</i> ; Russell Huff, <i>Assistant Director of Finance</i> ; Edward Guzman, <i>Deputy City Attorney</i> ; Leticia Saenz, <i>Deputy City Clerk</i> ; Mike Frisbie, <i>Director of TCI</i> ; Christie Chapman, <i>Assistant Director of TCI</i> ; Melody Woosley, <i>Director of DHS</i> ; Jessica Dovalina, <i>Assistant Director of DHS</i> ; Kevin Goodwin, <i>Interim Director of ITSD</i> ; Heber Lefgren, <i>Director of ACS</i> ; Kathy Donellan, <i>Assistant Director of SAPL</i> ; Steven Baum, <i>Assistant Director of SAPD</i> ; Sandra Paiz, <i>Audit Manager</i> ; Buddy Vargas, <i>Audit Manager</i> ; Tina Flores, <i>Compliance Auditor</i> ; Doug Francis, <i>Auditor</i> ; Rebecca De La Garza, <i>Executive Management Assistant</i> ; Cecily Hope Pretty, <i>Office of the City Clerk</i> |

CALL TO ORDER

Chairman Saldaña called the meeting to order.

1. Approval of the Minutes from the April 18, 2017 and April 25, 2017 Meetings of the Audit Committee

Citizen Member Nichta moved to approve the Minutes of the April 18, 2017 and April 25, 2017 Audit Council Committee Meetings. Councilwoman Gonzales seconded the motion. The motion carried unanimously by those present.

Item 8 was addressed at this time.

Consideration of Completed High Profile Solicitations

- 8. Dangerous Premises Lot Clearing [DSD]**
- Downtown Lighting Master Plan [Finance]**
- On-Call Capital Program Management Staff Augmentation [TCI]**
- On-Call Civil Engineering Services [TCI]**
- On-Call Geotech and Material Testing [TCI]**
- On-Call Environmental Consulting Services [TCI]**

Chairman Saldaña inquired as to the status of the solicitations. Mr. Troy Elliott replied that they had all been completed and were in need of a recommendation to move to the full City Council.

Citizen Member Nichta asked whether it was required to use all named companies in the cases where multiple On-Call Contracts were awarded. Mr. Elliott replied that the companies were typically chosen based on project volume and need and are often rotated to give business to each company.

Councilmember Gonzales exited the meeting during the discussion of Item 8. Chairman Saldaña stated the Committee would move on to Item 2 before a vote on Item 8.

Select High Profile Pre-Solicitation

2. Advertising and Marketing Services for San Antonio Airport System [Aviation]

Mr. Russ Handy stated that this contract was seeking a full service marketing firm to carry the message of the Airport and increase productivity. He noted the value of the contract capacity would be \$4 million over the full term of three years with two one-year extensions and the City would only pay for the services used. He added that this figure included airline incentive values. He noted that this would be an end-to-end strategic marketing service from planning to execution. He stated that the marketing would cover not only San Antonio but other destination cities domestically and abroad. He noted that the contract holder would also monitor Returns on Investment and Accounting and discussed the evaluation criteria. He noted that because the contract was eligible for Federal Funding; it would fall under ACDBE rather than SBEDA. He discussed the composition of the evaluation committee. He stated that the RFP was scheduled for release June 7th with a return to the Audit Committee August 15th and a projected Council Meeting date of October 1st.

Councilmember Gonzales re-entered the meeting during the presentation.

Chairman Saldaña asked if there would be any overlap or transition period between the current contract holder and the one awarded the new contract. Mr. Handy replied that the City had a good relationship with the current marketing company and they would likely be willing to participate in a transition period. He noted that the current company had elected not to ask for an extension of their current contract and was unlikely to bid. Chairman Saldaña asked if the City's relationship with the concessionaire would change. Mr. Handy replied that it was dependent on each company's proposal but the City did not generally interfere with the marketing campaigns of the concessionaires.

Citizen Member Nichta asked if the City would have the opportunity to audit the new contract holder regarding their accounting functions. Mr. Elliott replied that standard audit language is usually included in these types of contracts. Mr. Handy added that the City often performs audits on their concessionaires in these cases. Citizen Member Nichta asked if the City incentivizes new airline carriers. Mr. Handy confirmed that they incentivize according to Federal Aviation Administration regulations. Citizen Member Nichta asked if the City approaches carriers for new routes or if the carriers approach the City. Mr. Handy replied that it occurs from both sides.

Councilmember Warrick entered the meeting at this time.

No action was required for Item 2.

The Audit Committee returned to Item 8 at this time.

**8. Dangerous Premises Lot Clearing [DSD]
Downtown Lighting Master Plan [Finance]
On-Call Capital Program Management Staff Augmentation [TCI]
On-Call Civil Engineering Services [TCI]
On-Call Geotech and Material Testing [TCI]
On-Call Environmental Consulting Services [TCI]**

Councilmember Gonzales moved to forward all solicitations to the full City Council for consideration. Citizen Member Nichta seconded the motion. The motion carried unanimously.

3. Airport Development & Strategic Planning Services [Aviation]

Mr. Handy stated that the contract would be a two-phase process but they were currently asking for Phase I approval only. He noted that the contractor selected for Phase I would also be the contractor of record for the entire series. He stated that nearly all aspects of the plan were entitled to significant amounts of Federal funding. Carlos Contreras stated that this contract was part of the City's Airport Master Plan which requires periodic updates. He noted that the last revision occurred in 2010. Mr. Handy stated that they were asking for RFQ approval and that the City would need to fund \$875,000 of the total Phase I value of \$3.5 million. He outlined the changes that had occurred since the previous Master Plan revision. He noted that the solicitation requirements put more emphasis than usual on experience and background because they were looking for a contractor with significant corporate experience. He discussed outreach for the RFQ and noted that there was already interest pre-release. He stated that the RFQ was scheduled for release June 6th with a return to the Audit Committee November 21st and anticipated to go before the full City Council December 14th.

Citizen Member Nichta asked if the contractor would examine funding sources or if they would simply state their needs in response to the RFQ. Mr. Handy replied that the community would be involved in deciding same. He added that overall financial feasibility would be a much larger part of the RFQ process compared to 2010.

Chairman Saldaña asked if there would be a similar gap between the initial request for contractors and implementation as there was between the original Master Plan and its revisions. Mr. Handy replied that it would depend on the contractors and community input but that Phase I would likely take 6-8 months to produce the results needed to move on to Phase II.

No action was required for Item 3.

4. Community Spay and Neuter Surgeries [ACS]

Mr. Heber Lefgren stated that Animal Care Services was seeking multiple contractors to perform spay and neuter services for a three-year term with two one-year options for renewal. He noted

that the contract was seeking coverage for 12,000 annual no-cost surgeries provided for owned pets residing in targeted areas of San Antonio. He stated that in addition to the free surgeries; the contractors would be required to offer low cost rabies vaccinations and microchips. He discussed the solicitation requirements. He stated that the RFQ was slated for release June 1st with recommendations to the Audit Committee August 15th and presentation to the full City Council in September. He noted that these services help incentivize responsible pet ownership and reduce the number of free roaming stray animals.

Councilmember Gonzales asked if the number of contractors would remain at five as in the current contract. Mr. Lefgren stated that they wanted to offer resources to the community at the local level as much as possible and therefore; would not set a number until the applicants were reviewed. Councilmember Gonzales asked about the possibility of a voucher program in exchange for services so that constituents could utilize veterinarians closest to them. Mr. Lefgren replied that such a program would require a contract with each provider. He also noted that many private entities would not provide spay and neuter services at the City's set reimbursement rate of \$75.

Councilmember Warrick asked how the number of spay and neuter surgeries was determined. Mr. Lefgren responded that it was based on the available budget divided by the single surgery cost of \$75. Councilmember Warrick asked if there could be a greater impact if the program money was spent in a different way. Mr. Lefgren replied that spay and neuter programs showed long-term success nationwide and that they prevented future growth in the stray population. Councilmember Warrick asked how owners were being held accountable. Mr. Lefgren responded that the number of citations to pet owners had doubled over the last few years. Councilmember Warrick asked about penalties for pet owners who had multiple violations. Mr. Lefgren noted that they were looking to amend the Chapter 5 Ordinance to increase spay and neuter requirements as well as improve the ability of Animal Care Officers to enforce regulations. Ms. María Villagómez stated that some members of the community wished to see mandatory spaying and neutering as well as enforcement. She noted that in the future, there may be a requirement to spay or neuter an impounded animal before releasing it back to its owner after a violation.

Chairman Saldaña asked if the goal of 12,000 surgeries annually had been achieved consistently. Mr. Lefgren stated that it had. Chairman Saldaña asked if the money budgeted for those surgeries was also used for special events such as the Big Fix. Mr. Lefgren responded that such events use some of the City's funds in addition to grant funds secured by the providers.

No action was required for Item 4.

Select High Profile Post-Solicitation

5. External Independent Audit Services [Finance]

Mr. Troy Elliott stated that the estimated contract value was \$4.5 million over five years with an initial term of three years and two one-year options for renewal. He noted that it would have full City Council consideration on June 15th. He stated that external audits are required by the City Charter and State statute. He noted that previous contracts focused on a prime contractor with subcontractor relationships and SBEDA participation has been in excess of 45%. He stated that

the City had a policy of partner or auditor rotation every five years. He outlined the solicitation requirements. He noted that this solicitation differed by allocating points for plans that proposed SBEDA participation in excess of 45%. He stated that Financial Audit Services fall under a special statute that does not allow for veteran preference. He noted that six firms submitted proposals and were interviewed. He stated that Vendor A had received the most points and would be recommended to the Audit Committee and ultimately the full City Council on June 15th. He noted that 65 vendors were notified about the initial RFP and there were no financial issues found with the vendors. Mr. Kevin Barthold stated there were no issues from an audit perspective.

Citizen Member Nichta asked if the prime contractor was required to replace a small or minority subcontractor with a like type in the event that the original subcontractor was underperforming. Mr. Elliott replied that the City required a like type replacement in addition to working with the City prior to ending a subcontracting relationship.

Councilmember Warrick asked what qualified a company as a small business. Mr. Elliott responded that there were four subcontractors as part of the current recommended proposal which would receive about half of the contract value over the life of the contract. Ben Gorzell added that there was a range of sizes among the subcontractors. He stated that in the past, the City had utilized multiple prime contractors but the current structure was easier to manage and more beneficial to the contractors. Ms. Shuchi Nagpal noted that the requirement to be considered a small business would be to fall below \$38.5 million. Councilmember Warrick asked if the City tracked the growth of small businesses as subcontractors to show improvement and whether any small businesses were outgrowing that category. Mr. Elliott replied that the Finance Department did not track this. Ms. Nagpal added that the City conducted surveys with subcontractors asking them to describe the benefits they receive by working with the prime contractors. Mr. Gorzell noted that some small companies credit their relationship with the City in helping them get other contracts in the future. Councilmember Warrick expressed his desire for more than anecdotal evidence of the benefits of participation for small businesses to attract more small business participation.

Councilman Warrick moved to forward the item to the full City Council for consideration. Citizen Member Nichta seconded the motion. The motion carried unanimously.

6. Financial Underwriting Services [Finance]

Mr. Elliott noted that the previous contract expired in September 2016 and the Request For Qualifications was released for a three-year period with two one-year renewal options. He stated it was planned to go for full City Council consideration June 15th. He noted that the Finance Department utilizes a pool of underwriters from firms of varying sizes for the sale and delivery of Bonds. He stated that the pool is generally separated into smaller syndicates. He outlined the solicitation requirements and noted there was no subcontracting requirement applicable to this solicitation. He stated that the evaluation process separated the firms into small, medium, and large firms depending on their net excess capital to improve their chances at getting into the pool of underwriters. He noted that they were recommending 17 firms out of 35 applicants for the final pool. He stated that one firm received SBEDA and local preference points. He noted that one firm withdrew from the RFQ as a result of conflict of interest and one was disqualified due

to a political contribution during the process. Mr. Barthold stated there were no issues from the audit perspective.

Councilmember Warrick asked why more firms did not receive SBEDA and local preference points. Mr. Elliott replied that many of the firms operated local offices but were headquartered elsewhere. Councilmember Warrick asked if this was typical for similar cities in Texas. Mr. Gorzell confirmed it was. He noted that they try to award smaller Bond issuances to small firms to give them more experience. He stated that he recommended a “mini-RFP” after two years into the contract term to allow other or newer small businesses the opportunity to participate in the process.

Citizen Member Nichta asked if all the firms were capable of handling the complexity of the scope of services based on the experience and background points awarded. Mr. Elliott stated that the lower-scoring firms were not currently capable of handling the duties alone and therefore; would be working with multiple other firms in the process. Citizen Member Nichta asked if the teams were selected by the Finance Department. Mr. Gorzell replied that they select the teams and recommend them to the City Council. He added that the team composition was based on the size and complexity of each piece of the Bond process as well as the performance of each firm throughout.

Councilmember Warrick moved to forward the item to the full City Council for consideration. Councilmember Gonzales seconded the motion. The motion carried unanimously.

7. Depository and Lockbox Services [Finance]

Mr. Elliott stated that the RFP combined solicitations for both depository and lockbox services. He noted that the value of the contract was \$145,000 annually for a total of \$725,000 over a three-year period plus two one-year options to renew. He stated that it was anticipated to go before the full City Council June 15th. He described the differences between the depository and lockbox services and noted that utilizing the depository services would reduce the time needed to deposit funds. He described the solicitation requirements and stated that a SBEDA waiver was approved for both components. He noted that the RFP had been reissued to remove a merchant services credit card component due to the upcoming implementation of a new Point of Sale system. He stated that the same firm was being recommended for both components of the contract and noted there were no financial findings. Mr. Barthold added that he had no findings.

Councilmember Gonzales exited the meeting during the presentation.

Citizen Member Nichta asked for clarification on disbursement services. Mr. Elliott responded that the firm would not be responsible for writing checks; only for processing the City’s disbursements.

Councilmember Warrick asked if the three vendors in the depository services section were the same as the three vendors in the lockbox services portion. Mr. Elliott confirmed that they were consistent between the two components. Councilmember Warrick asked about the disparity of price schedules between Firms A and B. Mr. Elliott stated that the disparity is composed of proposed fees and fee discounts. He explained that in exchange for keeping a certain amount of

money in the bank as a compensating balance, the City received earnings credit and therefore; typically paid no out-of-pocket costs.

Citizen Member Nichta asked about fee waivers and compensating balances and how the combination would affect the price schedules over the period of three years. Mr. Elliott responded that the scoring was based solely on fees and discounts rather than assuming maintenance of a compensating balance over the life of the contract. Mr. Gorzell added that the fees only accounted for a small portion of the scoring to avoid skewing the scoring process for a company that offers fee waivers based on a desire to work with the City.

Councilman Warrick moved to forward the item to the full City Council for consideration. Citizen Member Nichta seconded the motion. The motion carried unanimously with those present.

Final Audit Reports to be discussed

9. AU16-F05 Follow-Up Audit of the San Antonio Police Department Alarm Permitting

Mr. Buddy Vargas stated that the purpose of the audit was to determine if SAPD successfully implemented action plans to address findings from a 2015 audit of department alarm permitting. He noted that the scope of the current audit was limited to recommendations and corrective actions plans. He stated that SAPD had successfully implemented controls to respond to audit findings. He described improved fee corrections, permit processing, and customer credits. He stated they improved procedures for addressing unmatched alarm notifications. He noted it was a clean audit with no findings and no recommendations.

Mr. Steven Baum acknowledged the hard work of his staff to produce the positive audit result.

Citizen Member Nichta asked if there was a penalty for going beyond the 30-day period without a permit. Mr. Baum stated that there was a penalty if the Department responded to a false alarm or for operating an alarm without a permit. He noted that the State limited the City to collecting the \$40 permit fee for the residential alarm with no option for non-payment penalties. He added that those beyond the 90-day period were investigated to verify that the resident had moved or that the alarm has been disconnected.

Citizen Member Nichta moved to approve the audit. Councilman Warrick seconded the motion. The motion carried unanimously with those present.

10. AU16-008 Audit of Department of Human Services Senior Centers

Ms. Sandra Paiz stated that the objective of the audit was to determine if Senior Centers are managed efficiently and effectively. She provided an overview of the services provided at Senior Centers. She noted the Division oversees 58 Senior Centers in San Antonio with 32,000 participants in Fiscal Year 2016. She stated that the audit found the Centers were managed efficiently and effectively. She stated that the department established internal controls to ensure compliance and that there were minor administrative findings for improvement. She stated that employee confidentiality statements were not consistently on file, volunteer selection documents

were not consistently completed, driver safety practices were not consistently followed, and CPR requirements were not always met. She noted that overall the audit findings were positive.

Citizen Member Nichta asked for clarification on volunteer documents. Ms. Paiz replied that they did not always find evidence of volunteer interviews or background checks. Citizen Member Nichta asked what kinds of facility inspections were done. Ms. Melody Woosley stated that Risk Management was responsible for safety, risk, and accessibility inspections. Citizen Member Nichta asked how many City employees are at each center. Ms. Woosley responded that full time sites generally had four or five employees examined; part-time sites may only have had two. Mr. Barthold clarified that the employees in the report only reflected the sample size, not necessarily the actual number of employees at each facility. Citizen Member Nichta asked who selected the criteria for volunteer training. Ms. Woosley stated that the initial requirements were set by grant requirements and the City supplemented internally. Citizen Member Nichta asked if a lack of CPR certification would cause a facility to close. Ms. Woosley explained that there was enough overlap in certified staff that a facility would never operate without a CPR-certified employee on site. Mr. Barthold added that this was an internal requirement as a best practice and noted that the findings were likely fixed already during the process of the audit. Ms. Woosley confirmed that the administrative findings were already corrected.

Councilmember Warrick asked who was responsible for setting the standards for the Senior Centers. Ms. Woosley replied that the standards are set by the City but they are also subject to grant requirements. Councilmember Warrick asked from where the City derives its best practices. Ms. Woosley stated that they examined centers across the country and could provide more detailed data at a later time.

Councilmember Warrick moved to approve the audit. Citizen Member Nichta seconded the motion. The motion carried unanimously with those present.

11. AU16-F02 Follow-Up Audit of Public Library Billing and Collection of Fines and Fees

Ms. Paiz stated that the audit was conducted in April 2015 to determine if controls for collection of Library fines and fees were adequate. She noted there were several areas for improvement identified in the initial audit. She stated that the monitoring processes for fine and fee recovery, copy and print services, and room rental services were not adequate. She added that fiscal reporting was not adequate and that IT controls within the Millennium System were not effective. She stated that the follow up audit occurred from October 2015 to August 2016 and the objective was to determine if Library staff had successfully implemented effective action plans to correct the findings of the previous audit. She noted that management had implemented effective action plans and monitoring plans and IT had strengthened their security controls for system access. She stated there were two areas with recommendations for process improvement. She explained the process to refer delinquent accounts to the collection agency and noted the current process was more focused on the number of accounts submitted rather than submitting all accounts eligible for collection. She noted there were reconciliations of accounts taking place but errors and discrepancies were not addressed. She stated that overall, the audit found the Library did an excellent job putting controls in place.

Ms. Gabriela Rauschuber, Library Department Fiscal Administrator, stated that the audit findings were already addressed and corrected to follow procedure.

Citizen Member Nichta asked for the definition of a prioritized account. Ms. Rauschuber stated that previous to the audit recommendation, the Library was capping the amount of accounts sent for collection in order to stay within budget. Citizen Member Nichta asked how the delinquent account listing was generated and if it is reviewed by staff. Ms. Rauschuber explained that Millennium generated a report and a compliance analyst reviewed the data, notated errors, and forwarded them to her office. She added that she reviewed the reports monthly and signed off. Citizen Member Nichta asked about the process of comparing the list sent to the collection agency against the list generated by Millennium. Ms. Rauschuber explained that the compliance analyst takes a random sample from the charges submitted by the collection companies and compares them to the collections report generated from Millennium to ensure they match. Citizen Member Nichta asked if the collections agencies remitted a portion of the accounts recovered to the City and kept a portion. Mr. Barthold stated that if the Library receives the check, then the collection agency receives their portion in the billing process; if the collection agency receives the check they send the City a check for its portion.

Citizen Member Nichta moved to accept the audit. Councilmember Warrick seconded the motion. The motion carried unanimously by those present.

FY 2017 Audit Plan Status

12. FY17 Annual Audit Plan Status as of April 30, 2017

Mr. Kevin Barthold stated that the Audit Plan was on track with no specific reports to mention. He noted that 21 reports had been completed of the targeted 32 reports for Fiscal Year 2017.

No action was required for Item 12.

13. Executive Session

Chairman Saldaña recessed the Committee Meeting into Executive Session at 1:20 pm to deliberate the security audit pertaining to Transportation & Capital Improvements Department Traffic Signal System Security, pursuant to Texas Government Code Section 551.076, Deliberation regarding Security Devices or Security Audits.

Chairman Saldaña reconvened the Committee Meeting at 1:38 pm and announced that no action was taken during the Executive Session.

Councilmember Warrick moved to accept the audit. Citizen Member Nichta seconded the motion. The motion carried unanimously by those present.

ADJOURN

There being no further discussion, Chairman Saldaña adjourned the meeting at 1:38 pm.

ATTEST:

Rey Saldaña, Chairman

Leticia Y. Saenz
Deputy City Clerk