

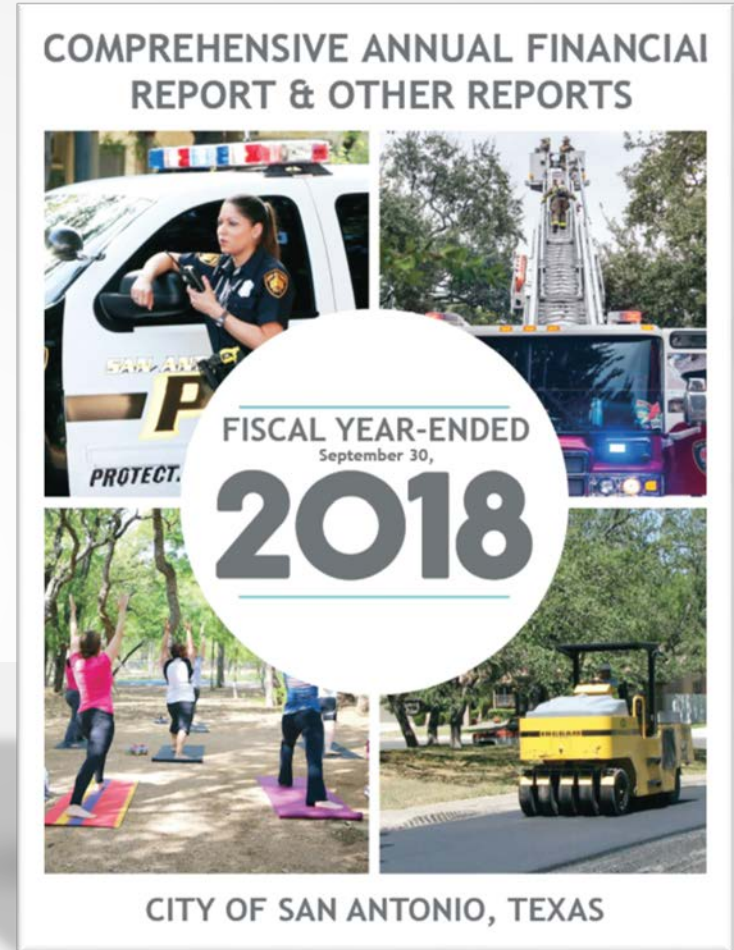
Results of the Fiscal Year 2018 External Financial Audit

Presented by:

Ben Gorzell Jr., CPA – Chief Financial Officer

&

Troy Elliott, CPA – Deputy Chief Financial Officer



Overview of the External Audit

- Required under the provisions of the City Charter
 - As practical after the close of each fiscal year
 - An Independent Audit shall be made of all accounts by a CPA,
 - No personal interest in the financial affairs of the City Government, or any of its officers
- An external audit ensures the City's records are:
 - Properly Maintained
 - Free from material misstatement
 - Comply with established concepts, principles, and accounting standards
- Required by State Statute
- Provides a true & fair view of the financial statements of the City



Communication of External Audit

- Results of the External Audit are communicated through several documents available on the City's transparency website:

<http://www.sanantonio.gov/Finance/bfi.aspx>

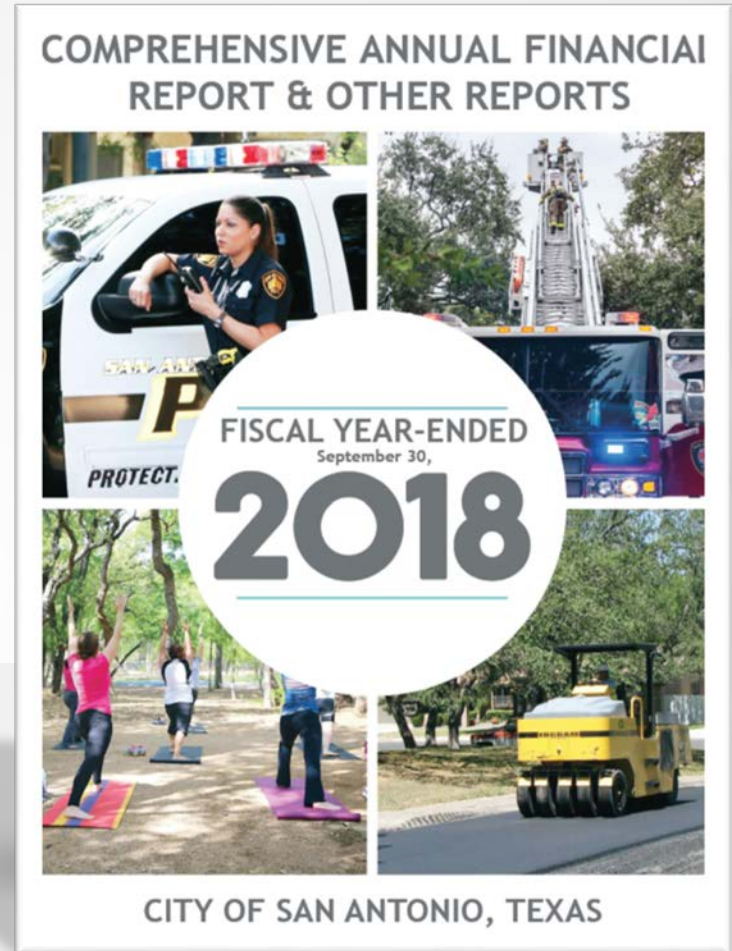
- Comprehensive Annual Financial Report (CAFR)
- Financial and Compliance Report on Federal and State Grants, “Other Reports”
- Financial and Compliance Report on Passenger Facility Charge Program
- Report on Internal Controls (Management Letter), when applicable



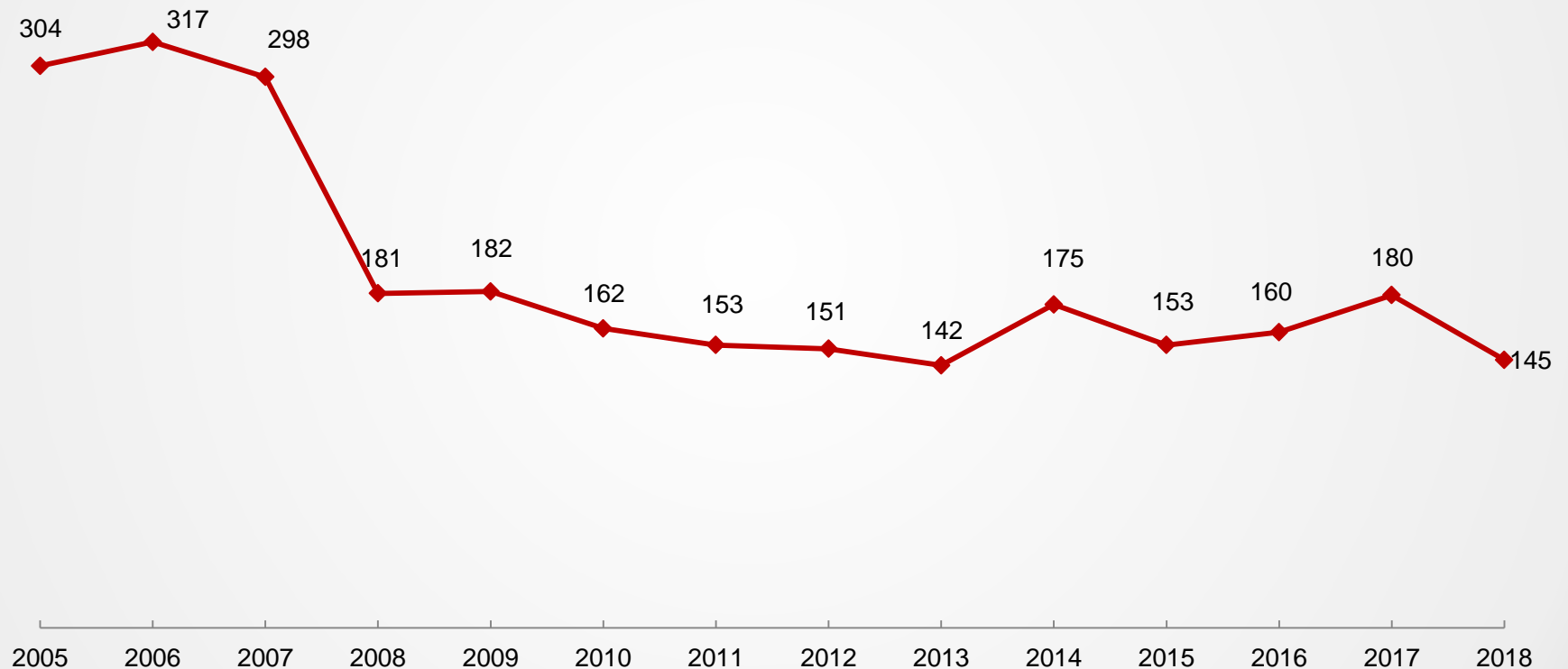
History of the External Audit

Presented by:

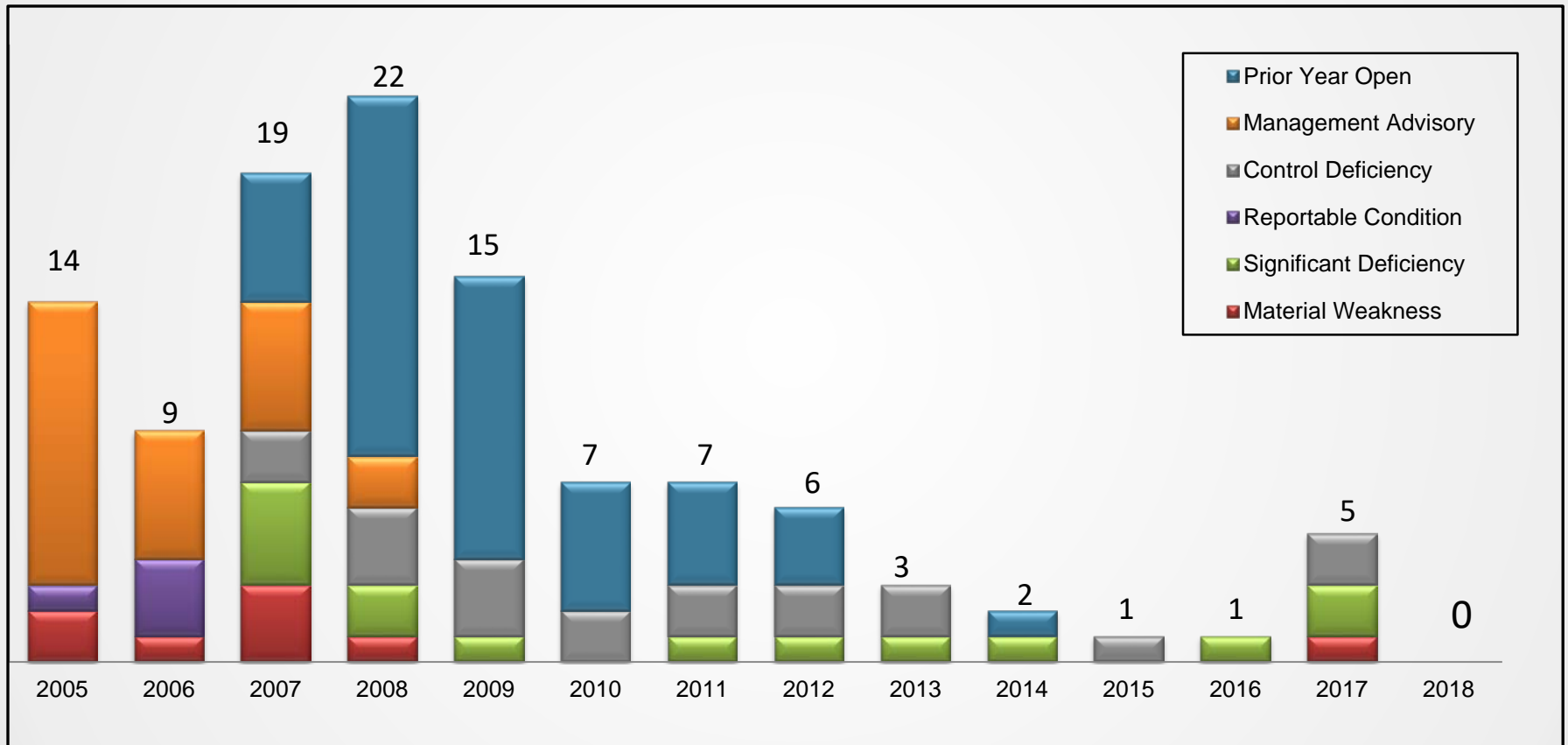
Troy Elliott, CPA – Deputy Chief Financial Officer



Days to Issue CAFR



CAFR Findings

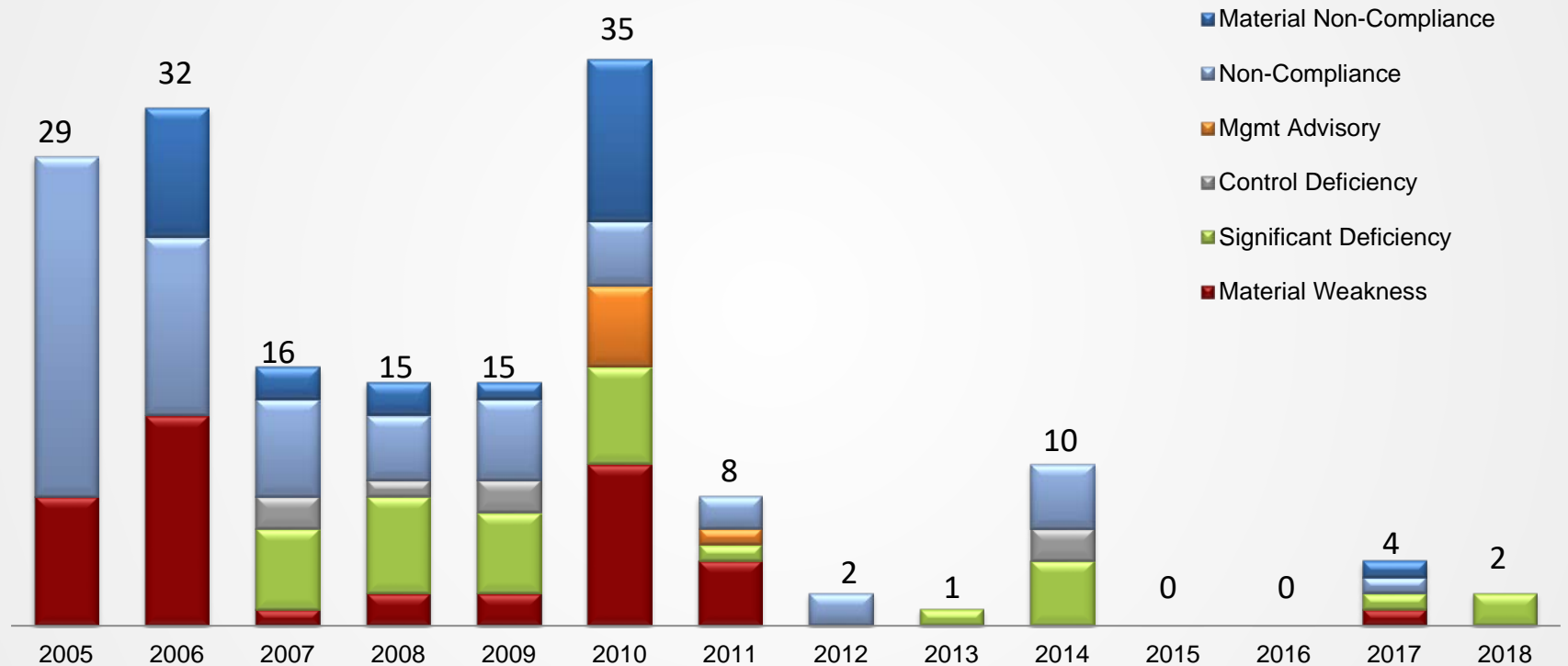


CAFR Adjustments

Fiscal Year	Reclassifications	Change in Net Position	Assets Deferred Outflows Increase/(Decrease)	Liabilities Deferred Inflows Increase/(Decrease)	Total Adjustments
2006	636,450,877	(133,473,000)	(153,828,000)	(20,220,000)	46
2007	196,929,107	(51,556,450)	(9,023,045)	(33,485,547)	11
2008	16,236,789	(15,141,262)	(722,689)	14,418,573	14
2009	21,294,238	313,751	1,010,073	696,322	9
2010	1,863,000	(545,877)	(1,044,909)	292,904	10
2011	14,091,013	(2,768,994)	(9,026,866)	4,929,028	10
2012		(15,304,086)	2,208,000	49,456,120	4
2013		(38,563,000)	(6,876,000)	28,400,000	7
2014		144,000	191,925,000	199,495,000	8
2015		115,000	(3,485,000)	(3,600,000)	3
2016		(26,119,754)	(36,468,250)	2,200,000	3
2017	19,946,930	(383,203)	4,418,548	(3,449,224)	7
2018		20,637,296		(20,637,296)	1



Single Audit



Improvement Plan

Historical

- Implementation of SAP
- Re-Organization of the Finance Department
- Shared Services (Fiscal Administration, Time Administration, Procurement, Employee Relations Business Partners, Information Technology Business Relationship Managers)
- Experienced & Tenured Employees
- Development of Administrative Directives
- Training
- Interim Audit
- Quarterly Financial Reviews
- Monthly & Quarterly Financial Reports, in coordination with OMB and departments to monitor budget versus actuals

Next Steps

- Increased focus on component unit communication, requirements and deliverables
- Continued refresher trainings
- Succession planning
- Automation of financial statements
- Identify best practices from other large cities





2018 Audit Wrap Up Presentation and Discussion

**City of San Antonio, Texas
March 19, 2019**



Audit Wrap Up Presentation

Audit Scope and Results



Significant Risks

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risks	Results
Fraud	<ul style="list-style-type: none">• Held discussions with numerous parties within the City including management and the offices of the City Auditor, City Manager, General Counsel, Information Technology and the Office of Municipal Integrity.• Performed test of journal entries according to specific criteria• Performed data analytics to identify unusual transactions <p>Results: No matters noted.</p>
Airport Revenues and related receivables	<ul style="list-style-type: none">• Performed reasonableness test on facilities rental fees, landing fees, and car rental fees based on activity volume and established rates.• Performed substantive testing over a sample of parking revenues transactions.• Tested a sample of receivables for appropriateness. <p>Results: No exceptions noted</p>
Grant Revenues and related receivables	<ul style="list-style-type: none">• Performed controls testing and substantively tested material grant revenue and receivable balances through sampling. <p>Results: No exceptions noted</p>

Significant Risks - continued

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risks	Results
Solid Waste Management Revenues and related receivables	<ul style="list-style-type: none">• Performed reasonableness tests on environmental fees, waste recycle fees, and processing fees based on monthly activity.• Confirmed balances for environmental fees and processing fees• Performed substantive testing over waste recycling fees. Results: No exceptions noted
Other Revenues and related receivables – Governmental and Business Type	<ul style="list-style-type: none">• Performed analytical procedures and substantively tested material other revenue and receivable balances through sampling or confirmations such as charges for services and loan receivables. Results: No exceptions noted

Other Areas of Focus

The following provides an overview of the other areas of audit focus based on our risk assessments.

Other Areas of Focus	Results
Capital Assets	<ul style="list-style-type: none">• Performed substantive testing over a sample of additions for each major fund that met scope.• Examined the status of construction in progress projects.• Performed application controls testing to verify depreciation is being calculated properly by SAP. <p>Results: No exceptions noted</p>
Employee Compensation	<ul style="list-style-type: none">• Performed budget to actual or trend analysis over personal services• Recalculated significant year-end accruals based on payroll data and HR policies.. <p>Results: No exceptions noted</p>
Risk Financing	<ul style="list-style-type: none">• Evaluated reasonableness of third-party workers' compensation and insurance reserves, including general liability and automobile claims, estimates using firm specialists.• Agreed third-party workers' compensation and insurance reserves estimates to recorded values. <p>Results: No exceptions noted</p>

Other Areas of Focus - continued

The following provides an overview of the other areas of audit focus based on our risk assessments.

Other Areas of Focus	Results
Cash and Investments	<ul style="list-style-type: none">• Confirmed material cash balances and investments with financial institutions.• Tested valuation of publicly traded investments using an independent pricing source.• Tested valuation of investments that are not publicly traded by performing an independent assessment of the valuation methodology• Tested purchases for propriety of recorded balances. <p>Results: No exceptions noted</p>
Operating Expenses and Account Payable	<ul style="list-style-type: none">• Performed substantive analytical procedures over the various expense types• Performed a search for unrecorded liabilities. <p>Results: No exceptions noted</p>
Debt	<ul style="list-style-type: none">• Confirmed debt transactions (principal and interest payments), including conduit debt, with financial institutions• Tested compliance with debt covenants <p>Results: No exceptions noted</p>

Other Areas of Focus - continued

The following provides an overview of the other areas of audit focus based on our risk assessments.

Other Areas of Focus	Results
Net Pension Liability	<ul style="list-style-type: none">• Reviewed the analysis of net pension liabilities.• Assessed the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others.• Tested participant census data. <p>Results: Adjustment noted for pension liability for Pension FPPF.</p>
Other Post Employment Benefits (OPEB) Liability	<ul style="list-style-type: none">• Reviewed the analysis of total and net OPEB liabilities, including appropriate implementation of GASB Statement No. 75.• Assessed the reasonableness of actuarial assumptions: discount factor, health care trend rates and cash flows, amongst others.• Tested participant census data. <p>Results: No exceptions noted</p>
Compliance with Uniform Guidance and Uniform Grant Management Standards	<ul style="list-style-type: none">• Identified major federal and state programs and determined the compliance requirements which are direct and material.• Identified and tested key controls over compliance.• Selected a sample of transactions subject to compliance requirements. <p>Results: Exceptions noted. (See slide 11)</p>

Other Areas of Focus - continued

The following provides an overview of the other areas of audit focus based on our risk assessments.

Other Areas of Focus	Results
Adequacy of Disclosures	<ul style="list-style-type: none">Reviewed the disclosures in the Comprehensive Annual Financial Report and ensured financial information agrees to the general ledger and required disclosures are included. Results: No exceptions noted
Computer Data Acquisition Analysis	<ul style="list-style-type: none">Reviewed reports that analyzed interrelationships between the (1) Vendor Master File, (2) Disbursement File, (3) Human Resource File, and (4) Payroll File. Provided management with the outcome of the Data Analysis. Results: No matters noted
Implementation of New Accounting Standards	<ul style="list-style-type: none">Reviewed the City's response to the new standards and determined if the standard was appropriately applied and required disclosures were included: GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73, GASB Statement No. 85, Omnibus 2017, and GASB Statement No. 86, Certain Debt Extinguishment Issues. Results: No matters noted

Results of the Financial Statement Audit

- Unmodified "clean" opinions
- No scope limitations
- No unresolved audit issues
- Open communication with management

Summary of Passed Adjustments (\$000s)

Management believes the passed adjustment is immaterial to the financial statements.

- Adjust net pension liability and pension expense for the Fire & Police Pension Fund (FPPF), a component unit of the City. (Net Pension Liability (LTD): \$20,637; Pension Expense: \$20,637)

Areas of Focus for Federal and State Single Audit and other Compliance Audits

The following provides an overview of the major programs tested this year; it was determined based on final schedules of expenditures of federal and state awards.

Federal Programs	State Programs
Child Care Cluster (CCDS) – 93.575, 93.596	Child Care Cluster (CCDS)
Community Development Block Grants/Entitlement Grants (CDBG) – 14.218	Regional Auto Crimes Team
Medical Assistance Program (TB Medicaid Waiver) – 93.778	Rifle-Resistant Body Armor
Airport Improvement Program (AIP) – 20.106	Texas Anti-Gang Program
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – 10.557	Truancy Intervention & Prevention Program
Program	
Passenger Facility Program	

Single Audit Findings

Source	Program	Finding	Conclusion	Status
State	Texas Anti-Gang Grant Program (TAG)	Procurement - The City of San Antonio Police Department did not submit a Procurement Questionnaire to the OOG for approval prior to procurement as required.	Significant deficiency and Non-compliance	New finding (2018-001)
State	Truancy Intervention & Prevention (TIP)	Reporting – A lack of segregation of duties over the preparation, approval and submission of the Financial Status Reports to the Office of the Texas Governor.	Significant deficiency	New finding (2018-002)

Status of Prior Year Findings

Source	Program	Year	Finding	Type of Finding	Status
Financial Statement	N/A	2017	San Antonio Bexar County Soccer Public Facility Corporation – Correction of an Error Restatement	Material Weakness	Corrected
Information Technology	N/A	2017	Lack of IT Controls within PARIS	Significant deficiency	Corrected
Financial Statement	N/A	2017	Controls over the Preparation of the Schedule of Expenditures of Federal Award (SEFA) and Schedule of Expenditures of State Awards (SESA)	Significant deficiency	Corrected
Federal	High Intensity Drug Trafficking Area [CFDA: 95.001]	2014	<i>Procurement and Suspension and Debarment</i> – Procurement, suspension and debarment requirements not followed	Control deficiency and Non-compliance	In-progress

Status of Prior Year Findings (cont'd)

Source	Program	Year	Finding	Type of Finding	Status
Federal	HOME Investment Partnership Program (HOME) [CFDA: 14.239]	2017	Allowable costs – Payroll not properly charged to the grant	Significant deficiency/Non-compliance	Corrected
State	Local Parks Grant Program	2017	<i>Subrecipient monitoring</i> - Adequate subrecipient monitoring procedures not as the department inappropriately classified the subrecipient as a vendor.	Material Weakness/ material noncompliance	Corrected

Results of the Federal and State Single Audit and other Compliance Audits

Federal Programs

- Report on controls over financial reporting
- Unmodified opinion on compliance

State Programs

- Report on controls over financial reporting
- Unmodified opinion on compliance

PFC Program

- Report on controls over financial reporting
- Unmodified opinion on compliance

Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters
Fraud and noncompliance with laws and regulations
Significant deficiencies and material weaknesses in internal control over financial reporting
Use of other auditors
Use of internal audit
Related parties and related party transactions



Other Required Communications

(continued)

Disagreements with management
Management's consultations with other accountants
Significant issues discussed with management
Significant difficulties encountered during the audit
Other significant findings or issues that are relevant to you and your oversight responsibilities
Modifications to the auditor's report
Other information in documents containing audited financial statements



Use of the Work of Others

Specialists

Grant Thornton engaged the following internal specialists to assist with the audit:

1. New York Pricing Group to provide an independent estimate of the fair value of investments.
2. In-house actuarial team to review the actuarial assumptions associated with the Texas Municipal Retirement System (TMRS), San Antonio Fire and Police Pension Fund, Fire and Police Retiree Healthcare Fund, City of San Antonio Retiree Healthcare Fund, workers' compensation, and insurance reserves.

Third Parties

Grant Thornton utilizes the services of the following teaming partners:

1. Britts & Associates, LLP
2. Robert J. Williams CPA
3. Schriver, Carmona & Company, PLLC
4. Armstrong, Vaughan & Associates, P.C.

Quality of Accounting Practices

Accounting policies	Accounting policies are consistent with prior year and deemed appropriate
Accounting estimates	<p>We have performed tests to satisfy ourselves that these amounts are free from material misstatements and reasonable</p> <ul style="list-style-type: none">▪ Accruals for pension/postretirement obligations based on actuarial assumptions.▪ Arbitrage liability▪ IBNR and self insurance▪ Fair value of Investments
Disclosures	Footnote disclosures to the financial statements appear overall to be neutral and free from undue management bias. We have assessed the financial statements and disclosures for clarity and completeness.



Technical Updates – GASB



Selected pronouncements effective for the year ending September 30, 2019 or subsequent periods - GASB

Title	Effective fiscal year
GASB 83 – <i>Certain Asset Retirement Obligations (AROs)</i>	2019
GASB 84 – <i>Fiduciary Activities</i>	2020
GASB 87 – <i>Leases</i>	2021
GASB 88 – <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019
GASB 89 – <i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	2021
GASB 90 – <i>Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 6</i>	2020

This communication is intended solely for the information and use of management and those charged with governance of the City of San Antonio, TX and is not intended to be and should not be used by anyone other than these specified parties.



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