

AUDIT COUNCIL COMMITTEE MEETING MINUTES

**OCTOBER 20, 2015 at 11:30 AM
CITY HALL, MEDIA BRIEFING ROOM**

Committee Present:	Council Member Rey Saldaña, <i>District 4, Chair</i> Council Member Alan E. Warrick II, <i>District 2</i> Council Member Shirley Gonzales, <i>District 5</i> Citizen Member Tom Nichta
Committee Absent:	None
Staff Present:	Erik Walsh, <i>Deputy City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Martha Sepeda, <i>Acting City Attorney</i> ; Charles Hood, <i>Fire Chief</i> ; Troy Elliott, <i>Director of Finance</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Lisa Biediger, <i>Assistant City Attorney</i> ; Melinda L. Uriegas, <i>Assistant City Clerk</i> ; Melanie Seale, <i>Assistant Director of Finance</i> ; Wanda Heard, <i>Assistant Director of Human Resources</i> ; Steve De La Haya, <i>Assistant Director of CVB</i> ; Alejandra Lopez, <i>Assistant Director of EDD</i> ; Noel Horan, <i>Assistant to Fire Chief</i> ; Norbert Dziuk, <i>Assistant to Director of Finance</i> ; Deborah Foster, <i>Fire Engineer</i> ; Mark Bigler, <i>Audit Manager</i> ; Gabe Treviño, <i>Auditor</i> ; Susan VanHoozer, <i>Auditor</i> ; Holly Williams, <i>Auditor</i> ; Buddy Vargas, <i>Auditor</i> ; Marc Druck, <i>Compliance Auditor</i> ; Christian Bove, <i>Public Relations Manager</i> ; Suzanne Guerra, <i>Financial Operations Administrator</i> ; Derek Roberts, <i>Chief of Staff, District 2</i> ; Tim Salas, <i>Chief of Staff, District 4</i> ; Choco Meza, <i>Chief of Staff, District 5</i> ; Melissa G. Castillo, <i>Executive Assistant</i> ; Rebecca De La Garza, <i>Executive Assistant</i> ; Alexander J. Pytel, <i>Office of the City Clerk</i>
Others Present:	Kelsey Delperdang, <i>WOIA/KABB</i> ; Amanda Weber, <i>WOIA/KABB</i> ; Josh Baugh, <i>San Antonio Express News</i> ; Mike O'Brien, <i>Padgett Stratemann</i> ; Theresa Britts, <i>Britts & Associates</i> ; Chris Carmona, <i>Schrivers, Carmona, & Carrera</i> ; Carmen Garcia, <i>C.C. Garcia & Company</i>

CALL TO ORDER

Chairman Saldaña called the meeting to order.

1. Approval of the Minutes from the September 15, 2015 Meeting of the Audit Committee

Councilmember Gonzales moved to approve the minutes of the September 15, 2015 Audit Council Committee Meeting. Citizen Member Nichta seconded the motion. The motion carried unanimously.

2. Required Communications with the Audit Committee for the Fiscal Year 2015 Audit

Mr. Troy Elliott explained the External Audit examined financial statements at a macro level while Internal Audits were micro level examinations of processes. He noted that Audit Findings would be communicated to the Audit Committee.

Mr. Mike O'Brien introduced team members and stated that Padgett Stratemann was the Prime Auditor with several subcontractors. He detailed the scope of the project to include Communication Plan, Audit Plan, and Deliverables. He noted that intent was to review Fiscal Year 2014 Comprehensive Annual Financial Report (CAFR) and other reports. He highlighted key points of the Audit including communication, independence, and engagement objectives. He stated that if Material Weaknesses would be reported as well as suggestions for improvements.

Ms. Michelle Hype explained Audit Scope and deliverables. She highlighted what had been done in prior years, including Financial Audits, Comprehensive Annual Financial Reports (CAFR), Schedule of Expenditures of Federal and State Awards, and Passenger Facility Charge Reports. She detailed focus areas of the Audit including: Tax Revenues, Intergovernmental Revenues, Utility Revenues, Service Charges, Treasury (Investments and Debt Management), Purchasing and Accounts Payable Function, Capital Assets (construction in progress), Payroll and related liabilities, Risk Financing, and commitment and contingencies. Mr. O'Brien added that Audits are done in accordance with Government Auditing Standards as set forth by the Office of Management and Budget due to the City's receipt of Federal and State Funds.

Chairman Saldaña asked how Material Weaknesses would be reported. Mr. O'Brien responded that Material Weaknesses relating to operations, management functions, or performance of programs would be communicated through Internal Audits. He explained that Material Weaknesses relating to accounting standings would be reported through External Audits.

Councilmember Gonzales asked for more information regarding Major Federal and State Programs. Mr. O'Brien highlighted the Review Process and Reporting Requirements. He stated that if a Finding arose, it would be reported in a Federal Compliance Audit as well as communicated to the Audit Committee. He noted that Review Procedures examined only the process of implementation, excluding the allocation of funds.

No action was required for Item 2.

3. Recommendation of Second Extension of External Audit Contract

Mr. Elliott noted that External Audits were required by the City Charter and State Statute. He stated that Audit Findings were communicated through presentations and the Management Letter. He explained that the current Audit Contract was a 3 year contract and detailed allocations by project and fees for the previous contracts. He reported that after completion of the External Audit Contract; the City would issue a new Request for Proposals. Mr. Ben Gorzell noted that Audit information was provided as back up documents for sale of bonds.

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

4. AU14-014 Audit of Finance Department Vendor Master File & Disbursements

Mr. Kevin Barthold provided an overview of AU14-014 Audit of Finance Department Vendor Master File & Disbursements. He described the Vendor Master File and reported that the objective of the Audit was to determine if external controls were appropriately reliable. He noted that the scope of the Audit was September 2014. He stated that the Audit found that there were internal controls that required improvement to ensure reliability of payments to approved vendors. He mentioned that vendor records were not consistently created with accurate information and highlighted examples of vendor duplication. He added that records were included for inactive vendors and that authorization for access within the system had not been reviewed. He reported that the Finance Department had taken appropriate corrective action.

Mr. Elliott provided a history of departmental consolidation and subsequent consolidation of systems resulting in duplicate vendor entries. He highlighted enhancements scheduled for future implementation including additional support for back-up data, removal of duplicate entries, and joint efforts with ITSD to address inactive vendor accounts.

Councilmember Warrick asked for information regarding follow up procedures. Mr. Barthold stated that a Follow Up Audit was scheduled for the end of summer 2016 and reported that corrective action of both past and future entries would be made simultaneously.

Citizen Member Nichta moved to accept the Audit. Councilmember Warrick seconded the motion. The motion carried unanimously.

5. AU15-005 Audit of Convention and Visitor's Bureau Hosting Obligations

Mr. Mark Bigler reported that the objective of the Audit was to determine if Hosting Obligations were appropriately managed, approved, and documented. He noted that the scope of the Audit was for 2014 as well as the first six months of 2015. He stated that the Audit found that the Convention and Visitor's Bureau was appropriately managing, approving, and documenting obligations. He added that there were no subsequent recommendations.

Mr. Steve De La Haya explained that San Antonio competes with other major cities such as New Orleans, San Diego, and Phoenix for major conventions and events. He mentioned the use of price discounts to incentivize groups to bring their conventions to San Antonio.

Councilmember Warrick asked for information regarding competition between other cities. Mr. De La Haya stated that many conventions utilize a rotation schedule which places San Antonio in direct competition with other southern cities. He reported that incentive discounts were paid back to the City through the Convention Center.

Councilmember Warrick moved to accept the Audit. Citizen Member Nichta seconded the motion. The motion carried unanimously.

6. AU15-023 Audit of Fire Department Payroll

Mr. Bigler noted that the Audit was originally completed in July 2011 and had identified deficiencies in application and general controls. He mentioned that the Audit identified a segregation of duties and a lack of management oversight over the Payroll Process of the Department. He reported that a number of retiring Firefighters were using Sick Leave Hours immediately prior to retirement in order to reach the threshold mandated by the State of Texas for employer payout of Sick Leave Hours. He stated that the Audit Objective was to determine if controls were adequate and complied with City Policies and Directives.

Mr. Bigler reported that the Audit determined that the Fire Department had successfully implemented controls to ensure that issues identified in the first Audit were effectively addressed. He highlighted the continued use of Sick Leave Hours prior to retirement and stated that payouts ranged from \$1,000 to \$136,000. He described the Audit Recommendation that the Fire Chief prohibit taking Extended Leave of Sick Time prior to retirement and added that it could be accomplished by requiring a physician's note for approval. He stated that if a note was not presented; the Fire Chief could rely on the Texas Government Code to invoke the Fit For Duty Clause which requires examination by an independent physician in order to determine if a Firefighter is fit to return to duty. He mentioned that the Fire Department had agreed with recommendations and had implemented a positive Management Action Plan.

Chairman Saldaña asked for information regarding the operational impact on the Fire Department. Chief Hood reported that the Fire Department utilized four person staffing which required substitution at high class pay for missing positions. He stated that changes would include a formal notice explaining Zero Tolerance for the practice and requiring a Physician's Note as well as a possible Fit For Duty Exam. He stated that refusal would be considered insubordination and subject to discipline.

Councilmember Warrick asked for more information regarding the Pay Upgrade Process. Chief Hood reported that in certain situations, a person would get paid on a higher scale based on the position that they were filling.

Citizen Member Nichta asked for information regarding the Fire Department Payroll System. Chief Hood reported that the current Payroll System supports a large amount of diverse pay codes in the Department. He referenced a previous Audit which found that the previous Payroll System was not adequate to support the Department. He noted that the new System is a Best Practice System which consolidates and manages the Department's pay codes before processing by the City's SAP System. Citizen Member Nichta asked for clarification regarding the price of overtime. Chief Hood responded that overtime is included in the Annual Budget. He stated adding the same amount of personnel would be substantially more expensive.

Chairman Saldaña asked that this item be presented at a later time as follow up presentation. Mr. Walsh stated that the item would be incorporated into a future Budget Presentation.

Councilmember Warrick moved to accept the Audit. Citizen Member Nichta seconded the motion. The motion carried unanimously.

7. FY 2016 Audit Plan Status as of October 1, 2015

Mr. Barthold provided an update to the status of the Audit Plan.

Chairman Saldaña asked that the Advanced Transportation District be included in the FY 2016 Audit Plan Status. He asked that the Audit ensure that funds are being spent appropriately. Mr. Barthold reported that the Advanced Transportation District had been reviewed approximately 5 years ago. He added that the hours were allocated for special projects and requests.

Citizen Member Nichta moved to add the Advanced Transportation District to the Audit Plan. Councilmember Warrick seconded the motion. The motion carried unanimously.

8. FY 2016 Annual High Profile Contract Forecast

Mr. Elliott reviewed the FY 2016 Annual High Profile Contract Forecast and reported that High Profile Contract Solicitations had been identified. He presented a list of items for review to the Committee.

No action was required for Item 8.

9. Consideration of Completed High Profile Solicitations

Mr. Elliott discussed the Temporary Personnel Services Solicitation and stated that the item required additional Due Diligence before presentation to the Committee. He noted that it would be presented at the next High Profile Subcommittee Presentation.

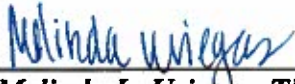
Mr. Elliott presented an overview of the Employee Life Insurance. He noted that the contract was valued at \$2.5 million and that three submissions had been received.

Councilmember Gonzales moved to forward the Employee Life Insurance Solicitation to the full City Council for consideration. Councilmember Warrick seconded the motion. The motion carried unanimously.

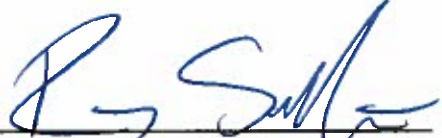
ADJOURN

There being no further discussion, Chairman Saldaña adjourned the meeting at 1:20 pm.

ATTEST:



Melinda L. Uriegas, TRMC
Assistant City Clerk



Rey Saldaña, Chairperson

