

**AUDIT COUNCIL COMMITTEE MEETING
MINUTES
TUESDAY, OCTOBER 1, 2013
2:00 PM
MEDIA BRIEFING ROOM**

Committee Present:	Council Member Ivy Taylor, <i>District 2, Chair</i> Council Member Ray Lopez, <i>District 6</i> Council Member Ron Nirenberg, <i>District 8</i> Citizen Member Donald R. Crews Citizen Member Stephen S. Penley
Staff Present:	Sheryl Sculley, <i>City Manager</i> ; Erik Walsh, <i>Deputy City Manager</i> ; Kevin Barthold, <i>City Auditor</i> ; Leticia Vacek, <i>City Clerk</i> ; Troy Elliott, <i>Finance Director</i> ; Hugh Miller, <i>Chief Technology Director</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Kevin Goodwin, <i>Asst. Director, ITSD</i> ; Norbert Dziuk, <i>Asst. to Finance Director</i> ; Rene Dominguez, <i>EDD</i> ; Mark Bigler, <i>Audit Manager</i> ; Bernadette McKay, <i>Deputy City Attorney</i> ; Christopher Moreno, <i>Auditor</i> ; Sandra Paiz, <i>Audit Manager</i> ; Patsy Boozer, <i>ITSD</i> ; Alejandra Lopez, <i>Asst. EDD Director</i> ; Dr. Thomas L. Schlenker, <i>Director Metro Health</i> ; Vincent Nathan, <i>Metro Health Dept.</i> ; Julie Sandoval, <i>Metro Health Dept.</i> ; Andre Deleon, <i>Controller; Finance</i> ; Buddy Vargas, <i>Audit Manager</i> ; Susan Sale, <i>Economic Development Department</i> ; Melanie Seale, <i>Asst. Director Finance</i> ; Lianna Patterson, <i>City Managers Office</i> . Rebekah Jamison, <i>Office of the City Clerk</i>
Others Present:	Brian Mylar, <i>Reporter, KSAT</i> ; Santos Fraga, <i>Partner, PS&Co.</i> ; Mike O'Brien, <i>Single Audit Engagement Partner at PS&Co.</i> ; Marc Sewell, <i>Manager at PS&Co.</i>

CALL TO ORDER

Chairperson Ivy Taylor called the meeting to order.

I. Approval of minutes from the September 6, 2013 meeting

Councilmember Ron Nirenberg moved to approve the meeting minutes of September 6, 2013. Committee Member Penley seconded the motion. Motion carried unanimously.

II. Required Communication with the Audit Committee for the FY 2013 External Independent Financial Audit.

Troy Elliott reported that on June 14, 2012 the Audit Services Contract with Padgett Stratemann & Co., LLP (PS&CO) was approved. The contract provides for Independent Audit Services of fiscal years ending September 30, 2012, 2013 and 2014. Mr. Elliott reported that PS&CO began the financial audit for the City of San Antonio on July 22, 2013.

Mr. Elliott stated that the communications by PS&Co to the Audit Committee as required by the AICPA include:

1. The Auditor's responsibility under generally accepted accounting standards (GAAS).
2. An Overview of the planned scope and timing for the fiscal year 2013 Audit.
3. Significant findings from the audit (to be provided upon completion)
4. Inquiry of the Audit Committee as to their knowledge of fraud, suspicion of fraud, and views of fraud risk.

Mr. Santos Fraga with PS&Co introduced their team and stated that an effective two-way communication between PS&Co and the Audit Committee is key. He noted that PS&Co has policies and procedures to ensure independence and to comply with professional independence standards.

Mr. Fraga reported that the scope of the audit is to determine that the City's Financial Statements are fairly presented and in compliance with federal grants, state grants and passenger facility charges. He stated that meetings have been scheduled with various members of Senior Management, Internal Audit, and Finance to discuss operations, risks and concerns. Mr. Fraga also offered to meet with the Audit Committee Chair or Board.

Mr. Fraga stated that their main focus areas were:

- Tax Revenues
- Intergovernmental Revenues
- Revenues from Utilities
- Charges for Services
- Treasury: Investments and Debt Management
- Purchasing and Accounts Payable function
- Capital Assets (construction in progress)
- Payroll and related liabilities
- Risk Financing
- Other Long Term Liabilities
- Commitments and Contingencies

Mr. Fraga stated that November 2013 the final single audit fieldwork and interim financial fieldwork would be reviewed. The Exit Conference and Presentation to the Audit Committee would be presented in March 2014.

Councilmember Lopez asked how audits affect the City's Ratings. Ben Gorzell stated that investors look at the City's Official Statement which supports high bond ratings.

There was no action necessary for this item.

III. Final Reports to be Discussed

A. Project No. AU13-006 - Audit of Economic Development Department, Economic Development Incentives

Kevin Barthold reported that the purpose of the Audit was to determine if companies are receiving Economic Development Incentives from the City are in compliance with incentive contracts. Also, to determine if the Economic Development Department (EDD) was adequately monitoring incentive contracts.

Mr. Barthold noted that incentives, such as grants, loans, and tax abatements, for the EDD Contracts totaled over \$110 million. Incentives for the City Center Development Office (CCDO) Contracts total over \$20 million.

Mr. Barthold stated that the majority of companies tested complied with FY 2012 contract requirements. For companies not fully compliant, the City reduced incentives or terminated the contracts.

Mr. Barthold reported that EDD was adequately monitoring the incentive contracts. However the extent by which a contract is monitored and staff's effectiveness could be enhanced and improved by the development of specific contract language. The language would allow staff to verify compliance and reduce tax abatements when companies fail to meet a portion of their contractual obligations.

Mr. Barthold also reported that EDD could make improvements to strengthen its policies and procedures that would enhance EDD's monitoring function. He mentioned that EDD had inadequate documentation of the recipients' compliance of prior years contract requirements.

Mr. Barthold recommended:

- Collaborate with the City Attorney's Office to ensure that contracts allow for adequate verification of compliance; provide clear guidelines for reducing tax abatements, and are aligned with departmental practices.
- Create additional policies and procedures to ensure recipients are complying with contract terms. These additions should cover site visits, Bexar Appraisal District record verification, and analytical procedures for evaluating compliance reports.
- Ensure that all recipients provide sufficient support documentation.

Rene Dominguez agreed with the Audit Findings and stated that they have developed a corrective action plan.

Councilmember Lopez asked if the audit compared the incentives. Mr. Barthold replied no; as there are too many variables. Councilmember Nirenberg asked of the "Living Wage" issue and if it was in the Contract. Mr. Dominguez replied that Full-Time employees are specified in the contract as they meet the "Living Wage." Mr. Crews asked who approves each contract. Mr. Dominguez responded that the contracts are approved by the City Council.

Councilmember Nirenberg moved to accept Audit AU13-006 as presented. Councilmember Lopez seconded the motion. Motion carried unanimously.

B. Project No. AU13-008 –Audit of San Antonio Metropolitan Health District, Lab Operations

Sandra Paiz reported that the purpose of the audit was to determine if the San Antonio Metropolitan Health District's (SAMHD) Lab Operations were operating in compliance with appropriate rules and regulations.

Ms. Paiz stated that the laboratories (labs) were in compliance with State and Federal regulations for the lab functions to include: Water Bacteriology, Milk and Dairy, Immunology, Microbiology, and Syphilis Serology.

Ms. Paiz stated that the labs had been audited by their respective regulating agencies and received positive evaluations for the recent audits conducted. Additionally, the Labs have internal controls in place to ensure timely receipt and appropriate processing and reporting of test samples. They also have effective controls in place to ensure compliance with safety standards for internal handling and disposing of medical waste and are effectively training personnel as required by the State.

Ms. Paiz recommended the following improvements:

- Implement end of day procedures for safeguarding cash and establish internal controls to comply with Cash Handling AD 8.1.
- Establish and implement a process to ensure Medicaid/Medicare eligible services are billed accurately and within the required timeframe. Rejected claims should be corrected and resubmitted timely.
- Establish and implement a process to review lab sample counts for accuracy before sending to the Fiscal Division for billing.
- Establish a standard process for conducting inventories and work with the Fiscal Division to update the list of lab consumables to ensure that the inventory value is accurately reported at the end of each year.
- Ensure contracts are created for vendors that they anticipate purchasing goods/services totaling \$3000 or more as required by Purchasing AD 1.6.
- Strengthen security and access controls for the information management system and ensure compliance with the City's administrative directives established by the Information Technology Services Department.

Dr. Schlenker agreed with the Audit Findings and stated that they have developed a corrective action plan for each recommendation.

Councilmember Nirenberg asked of the lab supplies inventory. Mr. Barthold stated that they audited the recurring type of consumables. Councilmember Nirenberg asked if staff was not keeping track of purchases. Ms. Paiz replied that the purchases were filled properly but could not put volumes together to provide the services. Chairperson Taylor noted that the weakness is on the administrative side rather than the scientific side. Mr. Gorzell mentioned that with the shared services concept; they are standardizing all the positions and roles.

Committee Member Crews moved to accept Audit AU13-008 as presented. Committee Member Penley seconded the motion. Motion carried by those present.

C. Project No. AU13-012 – Audit of Information Technology Services Department, Payment Card Industry Data Security Standards (PCI DSS)

Sandra Paiz reported that the purpose of the Audit was to determine if the City had adequate governance procedures and controls over the Payment Card Industry Data Security Standard (PCI DSS) specifically:

- Assigned authority and responsibility for achievement of the PCI DSS requirements,
- Implemented and reporting and monitoring process for these responsibilities, and
- Defined expectations for compliance with PCI DSS and formally communicated those expectations to personnel involved in the process

Ms. Paiz reported that the City does not have adequate governance procedures and controls over PCI DSS process. She stated that the City has begun implementing governance procedures and controls, but they are not yet adequate to ensure City-wide compliance with PCI DSS.

Ms. Paiz recommended:

- Expressly assigning ultimate responsibility for compliance with PCI DSS to the Director of the Finance Department.
- Assign responsibility for signing annual self-assessments to a combination of ITSD, Finance and other Department Directors.
- Conduct regular inventories of personnel accepting payment cards and their processes so that the universe of processes to monitor is known.
- Ensure all departments accepting payment cards receive monitoring visits.
- Promulgate a comprehensive administrative directive for payment security and providing formal training.

Finance and ITSD Management concurred with the recommendations and have developed a positive corrective action plan for each recommendation.

Councilmember Nirenberg moved to accept Audit Number-AU13-012. Committee Member Penley seconded the motion. Motion carried unanimously.

D. Project No. AU13-016 – Audit of Public Works Department, Traffic Signal IT Controls

Said item was addressed in Executive Session.

IV. FY 2013 Audit Plan Status Update

Mr. Barthold noted that there were 28 audit reports for 2013. He added that they were on track in wrapping up the 2013 Audit Plan. He reported that all audits would be completed by December 2013.

V. FY 2014 Audit Plan Schedule

Mr. Barthold reported that the 2014 Audits were already plugged into the 2014 Timeline.

VI. Executive Session

The Audit Committee convened in executive session to deliberate the security audit pertaining to Public Works Department, Traffic Signal IT Controls, pursuant to Texas Government Code Section 551.76 (deliberation regarding security devices or security audits)

Chairperson Taylor recessed the meeting into Executive Session at 2:58 pm. She reconvened the meeting at 3:16 pm and announced that no action had been taken.

VII. Consideration of items for future meetings

It was reported that the next Audit Committee Meeting would be held November 5, 2013 at 2:00 pm.

VIII. Adjourn

There being no further discussion, Chairperson Taylor adjourned the meeting at 3:20 pm.

ATTEST:



Leticia M. Vadek, TRMC/MMC
City Clerk



Ivy R. Taylor, Chairperson