

**AUDIT COMMITTEE MEETING  
MINUTES**

**TUESDAY, NOVEMBER 1, 2011**

**2:00 PM**

**MEDIA BRIEFING ROOM**

<b>Committee Present:</b>	Councilmember W. Reed Williams, <i>District 8, Chair</i> Councilmember Ivy R. Taylor, <i>District 2</i> Councilmember Rey Saldaña, <i>District 4</i> Citizen Member Stephen S. Penley, <i>OLLU</i> Citizen Member Donald R. Crews
<b>Staff Present:</b>	Sheryl Sculley, <i>City Manager</i> ; T.C. Broadnax, <i>Assistant City Manager</i> ; Sharon De La Garza, <i>Assistant City Manager</i> ; Leticia Vacek, <i>City Clerk</i> ; Michael Bernard, <i>City Attorney</i> ; Ben Gorzell, <i>Chief Financial Officer</i> ; Kevin Barthold, <i>Acting City Auditor</i> ; Troy Elliott, <i>Finance Director</i> ; Hugh Miller, <i>Chief Technology Officer</i> ; Nikki Ramos, <i>Assistant Parks &amp; Recreation Director</i> ; Natalie Balderama, <i>Assistant Human Resources Director</i> ; Mark Bigler, <i>Audit Manager</i> ; Brian Williams, <i>Audit Manager</i> ; Andre DeLeon, <i>Audit Manager</i> ; Danny Zuniga, <i>Auditor IV</i> ; Bernadette McKay, <i>Deputy City Attorney</i>
<b>Others Present:</b>	Bobby Perez, <i>Shelton &amp; Valadez</i>

**CALL TO ORDER**

Chairman Williams called the meeting to order.

**I. Approval of minutes from the October 4, 2011 Meeting**

Councilmember Taylor moved to approve the meeting minutes of October 4, 2011. Committee Member Penley seconded the motion. Motion carried unanimously.

**II. Final reports to be discussed**

**a. Project AU10-005 Audit of Finance Accounts Receivable Write-offs**

Brian Williams reported that the objective of said audit was to determine if (a) accounts receivable write-offs were appropriate and (b) accounts receivable aging and allowance calculations were appropriate. He stated that the accounts receivable write-offs and adjustment transactions were accurately recorded and properly classified; however, not all cancellations and adjustments were properly authorized for transactions. Said transactions were covered under administrative Directive (AD) 8.4. He noted that the Human Resources Department did not coordinate accounts receivable collection efforts with the City Attorney's Office for amounts over \$5,000 and over 120 days past due. He added that they did not monitor to ensure that

employee benefits were terminated and billings were discontinued in the benefits system. He cited the following recommendations to the Chief Financial Officer and to the Director of Human Resources:

**Chief Financial Officer:**

- ✚ Enforce AD 8.4 by ensuring that only authorized Finance personnel perform cancellation and adjustment transactions with required supporting documentation
- ✚ Reevaluate and assign SAP User Access Roles to ensure accounts receivable duties are properly segregated
- ✚ Enforce AD 8.4 by ensuring departments properly review customer accounts and process adjustments, which includes matching payments and credits to corresponding invoices

**Director of Human Resources:**

- ✚ Comply with AD 8.4 by coordinating the collection of past due accounts receivable amounts greater than \$5,000 with the City Attorney's Office
- ✚ Update and implement internal procedures to comply with AD 8.4 monitoring and documentation requirements and effectively manage accounts receivable

Brian Williams stated that the Finance and Human Resources Departments concurred with the recommendations and developed a positive corrective action plan.

In response to Mr. Penley, Kevin Barthold responded that collections for employee health insurance pertained to retirees for Cobra premiums, and worker's compensation claims. Ben Gorzell reported that a unit had been created in 2007 to focus specifically on billing and accounts receivable. He stated that there was a centralized group in the Finance Department for oversight and monitoring. He noted that administrative directives had been initiated to provide guidance to departments on processing financial information and that additional training regarding AD 8.4 was forthcoming to re-enforce implementation.

Councilmember Saldaña moved to accept Audit AU10-005. Mr. Penley seconded the motion. Motion carried unanimously.

**b. Project AU10-008 Audit of Finance Accounts Payable Division Cash Disbursements**

Brain Williams reported that Finance Department Controls were in place and operating to ensure cash disbursements were appropriate. He stated that Accounts Payable (AP) accurately paid invoices and that amounts paid were properly authorized. He noted that no duplicate payments were made for the period under review. He added that there were opportunities to strengthen controls associated with the Vendor Master File and SAP access privileges. He provided the following recommendations:

- ✚ SAP Vendor Maintenance staff conduct and document regular scheduled reviews of the Vendor Master File and consistently run SAP for pre-existing vendors

- ✦ Finance adhere to AD 7.8E User Account Management requirements for terminating and reviewing accounts
- ✦ Finance reevaluate and assign SAP User Account Roles to ensure accounts payable duties are properly segregated

In response to Mr. Crews, Brian Williams responded that disbursement of checks was a centralized function through the Finance Department. Mr. Gorzell introduced Troy Elliott as the newly appointed Director of Finance. He spoke of the use of technology and reporting measures to identify duplicate vendors. Chairman Williams spoke of the possibilities of fraud through vendor duplication. Brian Williams reported that forensic analysis had been conducted regarding said issue and that staff was working with the Finance Department to resolve same. Chairman Williams spoke of the importance of segregation of duties and auditing the processes to ensure appropriate controls are in place. Mr. Gorzell stated appropriate controls were in place and noted that there were a limited number of individuals with access to create master vendors. He reported that 83 duplicate vendors had been identified out of a population of approximately 24,500 vendors.

Councilmember Taylor spoke of the timeline for payments to vendors. Sheryl Sculley stated that the City's process has been revised and that vendors are paid within 30 days.

Mr. Penley moved to accept Audit AU10-008. Councilmember Saldana seconded the motion. Motion carried unanimously.

### **c. Project AU10-012 Audit of ITSD Configuration Management**

Mark Bigler reported that the changes to the information technology resources were authorized and systems were configured and operating securely with respect to change management. He stated that there were no recommendations.

Chairman Williams asked of the back-up technology for the dispatch system. Hugh Miller reported that the process layout provided by the software manufacturer failed a few months ago. He stated the software manufacture was in the process of reviewing the City's high availability infrastructure layout for approval and support for that layout.

Mr. Crews moved to accept Audit AU10-012. Mr. Penley seconded the motion. Motion carried unanimously.

### **III. Audit Plan Status Update**

Mr. Barthold reported that the FY2012 Audit Plan was on scheduled with several audits remaining from the previous year approaching completion. He stated that two audit reports had been issued during the month of October and three reports would be issued today.

**IV. Executive Session**

**To deliberate the duties of the Office of City Internal Auditor, pursuant to Texas Government Code, Section 551.071 (consultation with attorney) and Section 551.074 (personnel matters)**

Chairman Williams recessed the meeting into Executive Session at 2:40 p.m. He reconvened the meeting at 2:57 p.m. and announced that no action had been taken.

**V. Consideration of items for future meetings**

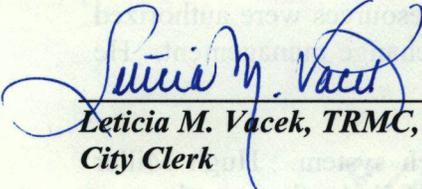
A. Next Meeting Date: December 6, 2011

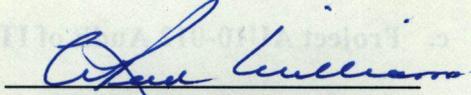
Chairman Williams announced that the next Audit Committee Meeting would occur on December 6, 2011.

**VI. Adjourn**

There being no further discussion, Chairman Williams adjourned the meeting at 2:51 p.m.

**ATTEST:**

  
Leticia M. Vacek, TRMC, CMC  
City Clerk

  
W. Reed Williams, Chair