



# CITY OF SAN ANTONIO

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March 5, 2009

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Mayor and Council Members:

**SUBJECT: San Antonio Metropolitan Health District Food Establishment License Fees Audit Report**

We are pleased to send you the audit report of the San Antonio Metropolitan Health District Food Establishment License Fees. This audit began in October 2007 and concluded with an exit meeting with department management in January 2009. Management's verbatim response is included in Appendix A of the report. The San Antonio Metropolitan Health District should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Park E. Pearson, CPA  
Interim City Auditor  
City of San Antonio

**Distribution:**

**Sheryl L. Sculley, City Manager**  
**Frances Gonzalez, Assistant City Manager**  
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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of the San Antonio Metropolitan Health District

Food Establishment License Fees

Project No. AU07-018

March 5, 2009

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## Executive Summary

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The Office of the City Auditor conducted an audit of the Food and Environmental Services Division in the San Antonio Metropolitan Health District (SAMHD). The audit focused on the billing and collection processes for food establishment license fees. We performed the audit to determine two objectives:

**1) Did SAMHD appropriately collect license fees from food establishments during FY 2007?**

The collection of licensing fees for FY 2007 was generally representative of the number of food establishments located in the City of San Antonio. Using data from SAMHD's information systems, we determined that approximately \$2.27 million should have been collected. This appears to be reasonably consistent with the \$2.24 million in actual collections. However, some establishments were exempted from license and license fees requirements although not provided for in the City's Code. Consequently, the City did not receive licensing fee revenues from these establishments.

**2) Were internal controls appropriate for the food establishment license billing and collection process?**

We determined that internal controls over the billing and collection process for food establishments were not adequate. Specifically, we determined that formal policies and procedures were not in place to ensure that:

- All food establishments operate with a current license.
- SAMHD appropriately bills and collects all license and late fees.

In addition, information systems do not adequately identify, track, and monitor food establishments delinquent in license fee payments. This resulted in uncollected fees for 10 of 30 establishments tested, which totaled approximately \$100,000. Additionally, late fees were under-calculated for 15 of 30 establishments tested, which totaled approximately \$19,000.

Finally, access controls over food establishment accounts in SAMHD's information systems need strengthening to prevent and detect loss of revenue caused by misappropriation or human error.

We recommend that SAMHD:

- Develop and communicate policies and procedures that ensure effective management of the license renewal process.
- Calculate late fees in accordance with the City's Code.
- Include identifying, tracking, and monitoring requirements in its information systems.
- Develop a formalized policy, consistent with the City Code, which provides for when, if ever, food establishments may be granted license and license fee

exemptions.

- Consult with the Information Technology Services Department (ITSD) to assign appropriate IT access controls or develop appropriate compensating controls to prevent undetected losses in license revenues.

SAMHD does appear to accurately identify establishments that are no longer in operation. During our audit, we tested 50 food establishments labeled “inactive” to determine the validity of this classification. We concluded that all establishments tested were not in operation, and thus were properly classified.

SAMHD Management agrees with the report. Its verbatim response is in Appendix A on page 7.

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## Background

SAMHD is the agency responsible for providing public health services in San Antonio and unincorporated areas of Bexar County. SAMHD's Food and Environmental Services Division is responsible for local food and environmental health code enforcement, as well as related licensing issues. Specifically, Chapter 13 of the City Code (Food and Food Handlers) authorizes SAMHD to inspect and license food establishments<sup>1</sup>.

A food establishment license indicates that an inspected food establishment meets public health standards. A new license is required each year, and the food establishment must pay a fee before SAMHD issues the license. The fee varies with the number of individuals employed. See Table 1 for the fiscal year (FY) 2007 and FY 2008 Fee Schedules.

**Table 1: Food Establishment License Fees**

FY 2007	
Employees	Fee
1-3	\$113.30
4-6	\$226.60
7-10	\$453.20
11-25	\$679.80
26-50	\$906.40
51+	\$1,133.00
FY 2008	
1-5	\$226.60
6-10	\$453.20
11-25	\$679.80
26-50	\$906.40
51+	\$1,133.00

The City Code requires a late charge assessment equal to 10% of the total amount due for each month that any license fee is more than 30 days past due. The Code also requires receipt of all charges and fees before issuance of a food license. As of May 2008, the City of San Antonio had 6,769 active food establishments. During FY 2007, the Food and Environmental Services Division collected approximately \$2.24 million in license fees and approximately \$33,000 in late fees.

SAMHD currently uses two legacy systems—Establishment Name Vendor Record (ENVR) and Municipal Accounts Receivable Receipt (MARR)—to manage food establishment licensing. ENVR stores customer information and provides case management functionality and license printing capabilities. MARR provides financial management capabilities such as invoicing and payment posting. SAMHD and the Information Technology Services Department (ITSD) are working to implement a new system called Digital Health Department, which is intended to eliminate the need for both the ENVR and MARR systems.

<sup>1</sup> *Food establishment* is defined as an establishment or section of an establishment where food and food products are stored, manufactured, or offered to the consumer for consumption. Ordinance No. 2008-05-15-0403, Chapter 13 Food and Food Handlers.

## Audit Scope and Methodology

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The original scope of this audit consisted of reviewing licensing and fee collections for selected food establishments during FY 2007. Based on observations during the audit, we expanded the scope to include FY 2004 through the first half of FY 2008. We did not evaluate code compliance directly related to conditions affecting public health.

We conducted interviews with key staff members in the Food and Environmental Services Division to determine policies and procedures for monitoring food establishments. We also researched and reviewed internal control best practices from the Committee of Sponsoring Organization of the Treadway Commission's Internal Control Framework and the Information Systems Audit and Control Association's Control Objectives for Information and Related Technology (COBIT). Additionally, we observed and flow-charted relevant processes to gain an understanding of the process flow, related systems, and controls.

We relied on computer-processed data in the ENVR and MARR information systems as of May 2008. Using a download of 16,857 food establishments from SAMHD's ENVR database, we identified 6,769 "active" and 10,088 "inactive" or "suspended" establishments. Although we observed some gaps in sequential account numbering, we determined that the reliability of the data was sufficient for our purposes. We directly tested the data instead of evaluating the systems' general and application controls. We do not believe that the absence of testing the general and application controls had an effect on the results of our audit.

We conducted the audit from October 2007 to November 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

### Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor  
Brian K. Williams, MBA, CIA, CFE, CGAP, Audit Manager  
Marcella R. Woods, MPA, Auditor in Charge  
Cynthia R. Brown, MBA, CIA, Auditor  
Kristy L. Cyr, MSA, CPA, Auditor

# Audit Results and Recommendations

## A. Monitoring License Renewals and Computing Late Fees

Although an annual fee is required for license renewal, some establishments did not pay this fee and continued to operate without a current license. This was able to occur because no formal policies and procedures were in place to ensure that (1) food establishments operate with a current license and (2) SAMHD appropriately bills and collects license and late fees. Moreover, the computation of late fees was not consistent with City Code. In addition, information systems do not adequately identify, track, and monitor food establishments delinquent in license fee payments. As a result, the City did not receive approximately \$119,000 in fees for licenses for 25 of 30 establishments tested (Table 2).

**Table 2: Summary of Test Results**

Category	# of Establishments	Amounts Not Collected
Fees Paid on Time	5	\$ 0
Uncollected Fees	10	100,229
Late Fees	15	18,650
Totals	30	\$118,879

We judgmentally selected a sample of 30 “active” establishments for testing based on key risk factors. For example, some active establishments showed expired licenses in ENVR. We also considered key words in ENVR’s comment field, such as “late fees,” “waived,” or “out of business.” For the sample selected, we reviewed billing and payment information in MARR to determine whether (1) food establishments operated with a current license and (2) appropriate billing and collection of license and late fees occurred.

We determined that only five establishments paid on time and had current licenses. The remaining 25 paid late or did not pay at least one annual fee. These 25 establishments should have incurred late fees in addition to the license fees; however, 10 were not assessed any late fees. This resulted in approximately \$100,000 in uncollected fees. According to the Committee of Sponsoring Organization of the Treadway Commission’s Internal Control Framework, documenting and communicating policies and procedures for essential business processes should assist in ensuring appropriate execution of management’s objectives.

Although 15 establishments were billed late fees, the amounts computed were not in accordance with the City Code. Chapter 13 of the Code states that the City should assess a late fee “equal to 10% of the amount due (the amount due is the license fee plus the sum of prior late fees) for each month” a food establishment is delinquent. However, SAMHD assessed the 10% fee monthly on the original license fee only. Consequently, bills for late fees were understated by approximately \$19,000.

Additionally, existing information systems do not adequately identify, track, and monitor food establishments delinquent in license fee payments. SAMHD currently uses the legacy systems ENVR and MARR to manage food establishments but the systems do not:

- Maintain license history.
- Generate follow up invoices.
- Calculate late fees.
- Alert management when establishments are past due.

Finally, SAMHD does appear to accurately identify establishments that are no longer in operation. During our audit, we tested 50 food establishments labeled “inactive” to determine the validity of this classification. We concluded that all establishments tested were not in operation, and thus were properly classified.

### **Recommendations**

**A-1** The SAMHD Director should develop and communicate policies and procedures to ensure that license revenues are properly collected and that only food establishments with a current license are allowed to operate.

**A-2** The Department should calculate late fees in accordance with the City’s Code.

**A-3** SAMHD management should include identifying, tracking, and monitoring requirements in its information systems.

## **B. License and License Fee Exemptions**

Chapter 13 of the City Code requires any person who operates a food establishment in the City to possess a valid license and pay the appropriate licensing fees. Some schools, churches, and nonprofit organizations have been granted license and license fee exemptions. However, the City Code does not appear to include provisions for exempting food establishments from licensing requirements. Consequently, the City does not receive all appropriate licensing fees.

### **Recommendation**

**B-1** The SAMHD Director should develop a formalized policy, consistent with the City Code, which provides for when, if ever, food establishments may be granted license fee exemptions.

### **C. Access Controls over Accounts**

Access controls do not provide appropriate segregation of duties over food establishment accounts in ENVR and MARR. For example, two administrative assistants have user roles that allow them to:

- Post payments.
- Alter master files for food establishments.
- Modify billing and payment status.
- Update inspection results.
- Generate licenses.

According to the Information Systems Audit and Control Association's COBIT, effective IT controls should contain appropriate segregation of duties through job-specific user profiles to help prevent undesired activities. Compensating controls should be employed when IT controls are not feasible or cost-effective. For example, monitoring employees' system access and activities using access logs, management reports, or system notifications can help management to (1) detect undesired activities and (2) ensure process objectives are met. Without appropriate controls, the City could experience undetected monetary losses caused by misappropriation or human error.

Additionally, management can use monitoring as part of a continuous process to improve accountability, identify training needs, and determine other process improvement needs. COBIT also suggests that IT processes are optimized when management uses its technology resources to assist with monitoring activities.

### **Recommendation**

**C-1** The SAMHD Director should consult with ITSD to assign appropriate IT access controls or develop appropriate compensating controls to prevent undetected losses in license revenues.

## Appendix A – Management Response



# CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

Park E. Pearson  
Interim City Auditor  
San Antonio, Texas

RE: Management's Corrective Action Plan for the Temporary Audit of Food Establishment License Fees in the

The San Antonio Metropolitan Health District has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

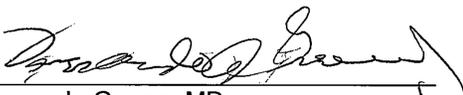
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<b>Monitoring License Renewals and Computing Late Fees</b>				
A-1	The SAMHD Director should develop and communicate policies and procedures to ensure that license revenues are properly collected and that only food establishments with a current license are allowed to operate	4	Accept	Dr. Fernando Guerra, Director SAMHD	Completed
A-2	The Department should calculate late fees in accordance with City Code	4	Accept	Dr. Fernando Guerra, Director SAMHD	Completed
A-3	SAMHD management should include identifying, tracking, and monitoring requirements in its information systems.	4	Accept	Dr. Fernando Guerra, Director SAMHD	March 2009
<p><b>Action plan:</b>                      A-1 - In October 2008 a memorandum was circulated to all Sanitariums requiring that establishments found to be operating without a permit are issued a ten (10) day notice to obtain a valid permit. If after ten (10) days the permit has not been obtained, the Sanitarian will issue a (24) hour notice to comply. If after the end of the next business day the establishment still has not obtained its permit, the establishment will be closed until a permit is obtained. A policy has been developed to formalize this procedure.                      A-2 - Department is now compounding late fees.                      A-3 - The Digital Health Department software currently being installed will be capable of creating standard and ad hoc reports to include information to analyze compliance history as well as allow all fees generated and collected to be tracked. Staff will be able to see if an establishment's fees are in "Paid" or "Late" status. The system will also automatically generate "past due" invoices. Written procedures have been implemented and a formal policy will be distributed late March 2009 when the system is expected to "go live".</p>					

Audit of the San Antonio Metropolitan Health District  
Food Establishment License Fees

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B-1	<p><b>License and License Fee Exemptions</b></p> <p>The SAMHD Director should develop a formalized policy, consistent with City Code, which provides for when, if ever, food establishments may be granted license fee exemptions.</p>	5	Accept	Dr. Fernando Guerra, Director SAMHD	Partially Completed
<p><b>Action plan:</b> B-1 - SAMHD implemented a policy, consistent with current practice that clarifies the various types of food establishments both in the City limits and in the County that do not need to obtain a food permit in order to operate. Notably, this policy exempts public schools. The Department is reviewing this practice which may require a change in the City Code.</p>					
C-2	<p><b>Access Controls over Accounts</b></p> <p>The SAMHD Director should consult with ITSD to assign appropriate IT access controls or develop appropriate compensating controls to prevent undetected losses in license revenues.</p>	6	Accept	Stephen Barscewski, Sanitarian Services Manager	March 2009
<p><b>Action plan:</b> C-2 - Digital Health Department software will automate the food and environmental health permitting process to include managing renewal notices, tracking delinquent notices, and improving collections. The SAMHD established a lock box agreement with Frost Bank to receive all payments for licenses and the fees will be directly deposited into the City's account. This will eliminate the problem with conflicting roles.</p>					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

  
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 Fernando Guerra, MD  
 Director  
 San Antonio Metropolitan Health District

  
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 Frances A. Gonzalez  
 Assistant City Manager  
 City Manager's Office