

City of San Antonio, Texas

Management Letter

September 30, 2014



Padgett Stratemann

To the Audit Committee of the City
Council and City Management
City of San Antonio, Texas

In connection with our audit of the City of San Antonio's (the "City") financial statements as of and for the year ended September 30, 2014, auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants require that we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Recommendations Regarding the Internal Control Structure

In planning and performing our audit of the financial statements of the City as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The City's written responses to the significant deficiency and control deficiency identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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Significant Deficiency

We consider the following deficiency in the City's internal control to be a significant deficiency.

Accounting and Reporting a Transaction Related to the Convention Center Hotel Finance Corporation

In 2005, the Convention Center Hotel Finance Corporation ("CCHC"), a blended component unit of the City, issued revenue bonds in the amount of \$208,145,000 (\$195,590,000 outstanding as of 2014), which is recorded as a liability in the City's government-wide financial statements. The proceeds of these bonds were loaned to a partnership for the purpose of constructing a hotel project in downtown San Antonio. The loan is to be paid back to CCHC, in accordance with the loan agreement, after certain other payments have been made. To date, all required loan payments have been made to the CCHC; however, the loan to the partnership was not recorded in the financial statements of CCHC or the City.

The CCHC receives trustee statements showing certain receipts and disbursements of the partnership (e.g., payment of property taxes, insurance, return of preferred equity, debt service payments). Currently, CCHC has differing amounts of the balances due to the investor return of preferred equity and basic rentals due to CCHC. CCHC has currently fully allowed for the basic rental, since no payments have been made.

Additionally, CCHC has recorded all activity from the trustee statements as revenues and expenditures in the City's financial statements, although the majority of these receipts and disbursements do not relate to the CCHC or to the City and, therefore, had initially overstated revenues and expenditures by more than \$100,000,000.

We recommend the City strengthen its procedures over the above transaction and similar transactions to ensure these transactions are appropriately recorded and disclosed in the financial statements.

Management Response

CCHC is a blended component unit of the City and, as such, the financial operations and account balances are presented in the City's comprehensive annual financial statements. With the implementation of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, the external auditors discovered that the loan receivable between the Grand Hyatt and CCHC was not previously reported in CCHC's financial statements. It was further noted that operational activity (revenue and expenses) of the hotel was inaccurately running through CCHC operations. The external auditors recommended the City review the agreements in place that formed CCHC and the associated activity generated for its benefit to ensure CCHC is accurately reporting all its applicable transactions. The City agreed with the finding, recording of the loan receivable and adjusting the operations to remove transactions that were not applicable to CCHC's operations. It should be noted the adjustments made have no financial or budgetary impact and are merely reporting entries for financial statement purposes. The City will enhance procedures to identify and document significant terms of all future agreements and their accounting triggers to ensure the terms' proper recording and disclosure in the City's, or its component units', financial statements.

Control Deficiency

We consider the following deficiency to be a control deficiency.

Collectability for Grant Loan Funds (Repeat)

During our testing of grant funded loans in the previous year, we noted one loan in the amount of \$244,000 had no payment activity for approximately ten years. The City currently has this loan classified as collectable and has a subordinated lien on the property.

We understand the City has drafted a policy to formalize the review of the collectability of the grant loan funds; however, the actual review of the grant loan funds has not begun. We recommend the City implement the policies and procedures for grant loan fund review and determine if an adjustment is needed to the financial statements.

Management Response

The Department of Planning and Community Development ("DPCD") drafted a Loan Administration Policy, which will be finalized by March 31, 2015. Part of the policy includes the creation of a new committee to review the loans and their collectability. Currently, DPCD is coordinating a meeting with its Director, the Finance Director, and the Acting City Attorney to assign City staff to serve on this committee. Committee meetings are anticipated to be monthly, with the first one expected to start in May 2015.

This letter does not affect our report dated March 24, 2015 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Comments and recommendations included, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist in implementing the recommendations.

All prior year recommendations have been satisfactorily resolved.

This report is intended solely for the information and use of management, those charged with governance, and others within the City and is not intended to be, and should not be, used by anyone other than the specified parties.

We will be pleased to respond to any questions you may have, and we appreciate the opportunity to continue to be of service.

Padgett, Statemann + Co., LLP

San Antonio, Texas
March 24, 2015