

City of San Antonio, Texas

Management Letter

September 30, 2015



Padgett Stratemann

March 2, 2016

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, 2015, we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matter 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, 2015, 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 response to the control deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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Control Deficiency

We consider the following to be a control deficiency.

Allowance for Uncollectible Accounts

During testing of grant funded loans, we noted several significant loans, in the approximate amount of \$3.3 million that were listed as collectible and were currently in foreclosure. The City has subordinated liens on these properties; however, the City determined that these loans should be fully reserved and recorded an adjustment to the general ledger in the amount of \$3.3 million. Additionally, the City has a number of the loans in the loan tracking system listed as delinquent. These loans should also be investigated to determine if they are still collectible.

Furthermore, during testing of other accounts receivable we noted some credits in the accounts receivable balance were incorrectly reclassified as unearned revenue which impacted the City's calculation of allowance for doubtful accounts. The City recorded an adjustment to correct this situation, which resulted in an adjustment on the balance sheet of \$2.5 million and an adjustment to bad debt expense of \$115,000.

The City does have policies and procedures in place to evaluate the collectibility of these types of receivables. However, it appears either the policies and procedures were not fully followed or there was an error in the calculations. We recommend the City continue to monitor all receivables to determine collectibility and reserve receivables that appear to be uncollectible. Additionally, the City should evaluate the effectiveness of these policies and procedures to determine if they should be modified.

Management Response

The City concurs and is in the process of evaluating its grant funded loan portfolio for collectibility. The Finance Department is in the process of reviewing and modifying its policies and procedures over the receivable process to further clarify and strengthen them. The impact to the City's financial statements was a reclassification on the balance sheet with a minimal impact to our bottom line of \$115,000.

This letter does not affect our report dated March 2, 2016 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.

Prior year significant deficiency 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, Stratemann + Co., L.L.P.

San Antonio, Texas

March 2, 2016