

City of San Antonio, Texas

Management Letter

September 30, 2016



Padgett Stratemann

March 9, 2017

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, 2016, 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, 2016, 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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Significant Deficiency

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

Airport Revenue Recognition

Condition and Context

In 2015, the City issued revenue bonds to finance the construction of a Consolidated Rental Car Special Facilities Project ("CONRAC") for the Airport. While the City engaged a trustee to manage the City's bond funding related to the CONRAC, the City accurately recorded the proceeds in one of its airport funds as cash. However, for financial reporting purposes, at the end of the current year, the City inaccurately accrued \$36,468,000 in revenue for construction costs that were pending reimbursement by the trustee, rather than record a transfer between funds. The City incorrectly recorded a similar transaction totaling \$11,737,000 in the prior year, which was reversed in the current year.

Additionally, the bond indenture allowed for reimbursement to the Airport operating fund for lost parking revenues and increased expenses related to shuttle costs, as a result of the demolition of the short term garage in order to construct CONRAC. While the City appropriately requested and received \$5,063,000 in reimbursements in the current year, the funding was inaccurately recorded as revenue rather than as a transfer. The City recorded similar transactions in the prior year and had a year-end accrual of \$857,000 that inaccurately increased net position at the end of fiscal year 2015.

Had these reimbursements been treated as transfers between the City's various Airport funds they would have been properly eliminated for financial reporting purposes at year-end. The effects of these errors resulted in the City overstating the Airport System's net position for financial reporting in the comprehensive annual financial report ("CAFR").

Cause

While the City documented the process for the recording pledged revenues once the project is completed and commences operations and the subsequent repayment of the bonds and related costs, the City did not adequately review and document the process of requesting reimbursement for costs during the construction phase of the CONRAC.

Effect

These errors required the City to adjust the 2016 financial statements for the Airport Fund as follows:

- Decrease accounts receivable by \$36,468,000
- Decrease non-operating revenues by \$24,731,000
- Decrease beginning net position by \$11,737,000
- Decrease revenues and expenses by \$5,063,000
- Increase revenue and decrease beginning net position by \$857,000

Recommendation

We recommend the City formally document the process for recording reimbursements from the trustee to ensure future transactions are in accordance with generally accepted accounting principles (GAAP). Additionally, as the City enters into similar or unusual transactions, we recommend the accounting for these transactions be formally documented and reviewed to ensure they are in accordance with GAAP.

Management Response

The City agrees with the recommendation and has updated existing written procedures related to CONRAC's flow of funds to ensure the reimbursements from the trustee for costs during construction are recorded in compliance with GAAP for year-end financial reporting purposes. The City will continue to train all staff involved in the transaction to prevent future classification and financial reporting eliminating errors. This misclassification only impacted the Airport Project Fund and had no impact to the Airport Operating Fund.

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 9, 2017