City of San Antonio, Texas

Management Letter

September 30, 2012

PS&Co. **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 September 30, 2012 and for the year then ended, auditing standards generally accepted in the United States of America ("U.S. GAAS") 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, 2012, in accordance with U.S. GAAS, 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. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 significant deficiency and control deficiencies 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.

SIGNIFICANT DEFICIENCY

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

Post-Employment Benefits Other Than Pension ("OPEB") Fire and Police Retiree Health Care Fund

During our auditing procedures over the City's obligations for the City's Fire and Police Retiree Health Care Fund (the "Fund"), we noted the net OPEB obligation was not originally recorded in the City's government-wide financial statements. These obligations should be reflected in the government-wide financial statements. This resulted in an adjustment to increase liabilities by approximately $39.8 million and required a restatement of beginning net assets of approximately $33.3 million. It was noted in prior CAFR Statements that the information has not been available by the Fund for disclosure.

We recommend the City continue to work with the Fund to strengthen the communication and sharing of information to ensure OPEB information is obtained timely in order for the City to record its net OPEB obligation annually.

Management Response

The City's Fire and Police Retiree Health Care Fund is a separate and distinct statutory trust that was created to provide post-employment health care benefits to uniformed employees who retired on or after October 1, 1989. The City, active employees, and retirees are obligated to make contributions to the Fund in accordance with rates established by state law. The Fund is a component unit of the City and is blended for financial reporting purposes.

In preparation for the fiscal year-end close, the Finance Department requests information from each of the City's component units that is required for inclusion in the City's financial statements. Although, the Fund provided copies of its annual financial report and actuarial studies, they did not contain the required information related to OPEB to be included in the City's financial statements. Several unsuccessful attempts were made to obtain the required OPEB information from the Fund in prior years. However, the information was provided in January 2012, and the City's financial statements have been updated accordingly. This information has now been incorporated into the Fund's annual actuarial study and report and will continue to be provided to the City in the future. Additionally, the City will continue to work with the Fund to enhance communication and responsiveness in order for the City to issue financial statements in a complete, accurate, and timely manner.

CONTROL DEFICIENCIES

We consider the following deficiencies to be control deficiencies.

Airport Parking Revenue Reconciliation

During our testing of Airport parking revenue, we noted the system used to track Airport parking revenue (ScanNet) did not always properly reflect credit card receipts. The City experienced several malfunctions with ScanNet throughout the year. The daily cash reconciliation report did not always detect the difference between ScanNet and credit card receipts. Although the credit card receipts were recorded to the City's bank account, we recommend the City strengthen the controls over this reconciliation process to ensure reconciling differences are detected, fully investigated, and corrected timely.

Management Response

ScanNet is in the process of being replaced with a new system, CTR Systems Parking, Inc. ("CTR"). CTR, which is expected to be completed and in service by November 2013, will have a direct interface with SAP and include revenue controls to track, reconcile, and report all cash, credit card, and nonrevenue transactions.

Until CTR is operational, the Aviation Department will provide additional training, implement procedural changes to strengthen the controls over the revenue reporting and reconciliation process, and add reviews over the process to the department compliance staff's annual plan.

User Access Approval and Removal

During our review of user access, it was noted user access was historically granted and removed on an informal basis (e.g., emails, phone calls, faxes). In fiscal year 2012, management added additional controls to an existing process to formalize the tracking of all requests made for adding, deleting, and modifying user access. However, this process had not yet been fully implemented by fiscal year-end. Additionally, during our review of user access, we noted access to the Windows domain was not removed in a timely manner for one terminated employee. We noted this finding is a continuation from the prior year.

We recommend management continue to transition access controls for relevant financial systems and applications, such as SAP, Active Directory, and UNIX, into this process to assure access is authorized and removed in a timely fashion. Additionally, we recommend management continue to enhance its periodic review of terminated users to ensure these users are removed in a timely manner.

Management Response

ITSD developed and implemented an Access Control Management Standard (signed, September 2012) that provides guidance on access control implementation best practices based on NIST 800-53A. Account management provisioning and deprovisioning procedures were developed and implemented using this standard. Customer service agents have been trained on the procedures.

ITSD has established a joint process with the Human Resources Department to manage employee hiring and terminations, as well as a weekly review process using transaction logs to support the account management process for systems provisioned by ITSD.

This letter does not affect our report dated February 28, 2013 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.

Also see Attachment A for status of prior years' comments.

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.

Certified Public Accountants
February 28, 2013

The prior year comments presented below represent those comments that continue to be in process; while the remainder of prior year comments not presented was implemented during the current year. The status of prior year comments is based on discussion with management and review of implementation, based on current year audit procedures.

Recommendation	Assessment	Current Status
Segregation of Duties		
SAP - Predecessor auditors recommended that the City perform SOD role and user access reviews to identify SOD conflicts or excessive access and implement internal controls to mitigate those issues as soon as possible. To facilitate the resolution of noted conflicts at the user level, individual departments will need to provide the necessary knowledge to identify existing mitigating controls, create additional mitigating controls, when needed or modify user authorizations. Furthermore, to ensure that future conflicts do not arise, the City should a) incorporate SOD checks into the security request process, b) conduct periodic checks to monitor for SOD violations, c) conduct periodic checks to monitor mitigating manual controls and d) require approvals for mitigating controls or exceptions applied toward SOD identified issues.	Reportable Condition	In Process - Substantial progress has been made towards implementation of Approva's BizRights Segregation of Duties (SOD) Software. The City's Finance Department, Compliance and Resolution Section has taken the lead in reviewing remaining role violations, requiring mitigating controls where deemed needed, and reviewing and modifying user access.

ITSD and Finance have identified fifty one (51) new roles to be created to replace roles with conflicts utilizing the SOD Software. At this time, 38 (75%) of the roles have been implemented and assigned to appropriate users. The old roles with conflicts have been revoked from all users and blocked from future usage. The City anticipates the remaining roles will be implemented by September 30, 2013.

As part of the continued improvements, the City is finalizing a SAP Production Access Security Standard Policy and SAP Production Access Standard Procedural Guidelines. These documents will be addenda to and gain their governance from Administrative Directive 7.8D Account Access Management, the overarching administrative directive for the City's account access management. These documents will assign responsibility to rule book owners; set up standard access requirements for ESS; require standard access review and procedures for transfers; impose guidelines for terminations; require that violations be addressed and documented; and include a review process for compliance. The revised date the City anticipates these policies and procedures to be in place is March 31, 2013. |

Security Administration – User Access		
Predecessor auditors recommended that the City determine an appropriate threshold for user access attempts and implement a lockout setting after this threshold has been exceeded for the network and UNIX.	Control Deficiency	In Process, alternate solution - In 2012 Microsoft updated their recommended default policy for domain account lockout rules. The recommended best practice is now "no lockout".
		AD 7.6 is being updated to reflect this change in policy and an annual review of password and session lockout settings will be conducted by ITSD.
		This change in policy recommendation is based on changes in how user behavior has changed with the proliferation of mobile devices such as smartphones and tablet computers. When these devices are configured to automatically synchronize email or calendars, a password reset will cause multiple nearly instantaneous logon failures from the mobile device, which will in turn result in locking that user's account. In this scenario, if the Lockout/Threshold is enabled, user accounts may be locked out frequently which adds administrative costs and non-availability to the end user.
		Account lockouts have traditionally been considered a security requirement because of the ability for an unauthorized user to gain access by using tools to repeatedly guess a user password. This risk has been minimized by the use of security controls like password complexity and length and frequency of required password changes. All of these security controls are in place on the City's user accounts and therefore due to the complexity of our environment account lockouts are disabled.
Lease Revenue Schedule		
Auditors recommend that additional training be provided at the various departments for appropriate capturing of all relevant lease information.	Control Deficiency	In Process – Finance has drafted an AD concerning the processing, monitoring and accounting of leases, which is currently being review. The City intends to issue the AD and provide training by September 30, 2013.