

City of San Antonio, Texas

Management Letter

September 30, 2013



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, 2013, 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, 2013, 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. However, as discussed below, we identified a deficiency in internal controls 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.

Noncash and Multi-Funded Awards Reporting in the Schedules of Expenditures of Federal and State Awards

During our auditing procedures over the City's preparation of the Schedule of Expenditures of Federal Awards ("SEFA") and Schedule of Expenditures of State Awards ("SESA"), we noted adjustments were required because of improvements needed in the controls and procedures used in preparing the SEFA and SESA. The following adjustments were noted:

- Increase expenditures by \$3.8 million for noncash federal awards received in prior years that was passed through from the State of Texas (the "State") and not reported on the SEFA or general ledger until the current year
- Decrease expenditures by \$11.8 million on the SEFA and increase expenditures by \$13.8 million on the SESA for allocations between federal and state funding sources that were reimbursed as one source when received from the State

We recommend the City continue to work with all federal, state, and pass-through awarding agencies to strengthen the communication and sharing of information to ensure information on all federal and state awards is obtained timely in order for the City to accurately record federal and state expenditures in the proper period on the SEFA or SESA. In addition, we recommend the City work with all Department Fiscal Administrators to increase awareness of reporting requirements for noncash federal awards and specific identification of grant expenditures when multiple funding sources are awarded to cover the same program.

Management Response

The City agrees with the recommendation and has developed controls to require communication with the granting entity, at a minimum, upon award and at fiscal year-end specifically requesting the funding allocation for multi-funded grants and expenditure amounts incurred by the granting organization for assets to be titled over to the City. The City will utilize responses in these communications to properly account for and report grant activity in the City's financial reporting system. Communication to departments on the developed controls was sent out on March 5, 2014 and will be covered in the grant training sessions scheduled for citywide fiscal staff on April 11 and 22, 2014.

Control Deficiencies

We consider the following deficiencies to be control deficiencies.

Collectability for Grant Loan Funds

During our testing of grant funded loans we noted one loan in the amount of \$244,000 has not had any payment activity for approximately ten years. The City currently has this loan classified as collectable and has a subordinated lien on the property.

We recommend the City formalize the review of the collectability of the grant loan funds to determine if an adjustment is needed to the accounting records.

Management Response

As part of the City's reorganization of its Department of Planning and Community Development ("PCD"), a review was conducted on grant funded loans, consolidating the loans under one division to ensure consistent classification and ongoing monitoring. PCD is currently developing a Loan Administration Policy, anticipated for release by June 30, 2014, that will address the collectability of the grant loans. PCD will review the collectability of outstanding grant loans to ensure the accounting records at fiscal year-end adequately represent the net loan balances deemed collectible at that point in time.

Municipal Court Receivables

During our testing of receivables related to municipal courts, we noted the following uncorrected misstatements:

- Court Fines and Fees Receivable – During our review of the calculation on the allowance for doubtful accounts, we noted the percentage applied to the accounts receivable balances for the current year and previous years balances did not appear to be supported by historical collection amounts. Based on our review of historical collection percentages, it appears the allowance for doubtful accounts is understated by approximately \$4.4 million.
- Magistration and Detention Revenue – The City has not billed and has not estimated magistration and detention revenue from the County for the fiscal year 2013. This revenue should be billed for as earned or estimated as of the end of the fiscal year if all the information is not available to bill the County for these amounts.

While these uncorrected misstatements are not considered material to the overall financial statements, the City should continue to evaluate its method of estimating and recording the above receivables (and similar receivables) to ensure the financial statements are accurately prepared and presented.

Management Response

The City agrees with the recommendation and will continue to review and analyze our accounts receivable collectability taking into consideration the impact of historical collection, current technology, and business improvements. The FY2013 invoice to Bexar County was issued on February 27, 2014. Municipal Courts is strengthening its controls and training staff in order to bill in a timelier manner.

This letter does not affect our report dated February 19, 2014 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, Stratemann + Co., L.L.P.

Certified Public Accountants

San Antonio, Texas

February 19, 2014