

Internal Control Letter - COSA

City of San Antonio

March 1, 2012



Grant Thornton

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Audit Committee and City Management
City of San Antonio, Texas

Ladies and Gentlemen:

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In connection with our audit of the City of San Antonio's (the "City") financial statements as of September 30, 2011 and for the year then ended, auditing standards generally accepted in the United States of America ("US 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.

The auditors of San Antonio Water System, City Public Service of San Antonio, Brooks Development Authority, Port Authority of San Antonio, SA Energy Acquisition Public Facilities Corporation, Office of Urban Redevelopment of San Antonio, San Antonio Health Facilities Development Corporation, San Antonio Library Foundation, San Antonio Education Facilities Corporation, San Antonio Housing Trust Finance Corporation, San Antonio Industrial Development Authority, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Trust Foundation and San Antonio Fire and Police Pension Fund, separate discretely presented and blended component units of the City, are required to separately communicate internal control matters identified during their respective audits.

Our responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention.

Significant deficiency

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination may be material weaknesses or significant deficiencies.

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A deficiency in internal control (“control deficiency”) 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

We consider the following control deficiency to be a significant deficiency.

Review and Oversight

During the course of the audit, we identified various adjustments related to accrual of revenue, proper recognition of revenue and deferred revenue, clearing cash reconciling items, and correcting construction in progress/capital assets. Additionally, modifications to schedules supporting the reported balances continue to occur as a result of identification of errors during the audit process. We note the City continues to enhance its internal control environment each year and consequently the number of identified audit adjustments continues to decrease. An organization the size of the City will likely not be void of proposed adjustments. However, it is noted that the majority of adjustments proposed continue to be in the area of capital assets. A continued focus on timely communication between departments, ongoing review and oversight, training and adherence to established policies is still warranted.

As the majority of adjustments related to the capital asset area, we recommend that the City provide specific training as it relates to the accounting for capital asset projects. We further recommend incorporating a monthly reporting of status of capital projects with detailed explanations. As it relates to other areas that generated adjustments, we recommend the City continue periodic trainings or reminders for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.

Management’s Response:

The Finance Department has developed processes and administrative directives to standardize accounting citywide for the recognition of revenues, year-end accruals, capital assets and capital projects in fiscal year 2010. Finance further holds annual year end meetings with departmental fiscal administrators to review items included on its checklist for fiscal year close-out and to provide refresher training on expectations from the departments. The administrative directives issued by Finance will be reviewed, updated as needed, and additional training will be held during fiscal year 2012. Finance will additionally review its year-end processes to identify where it can further clarify, expand or revise the directions in order to address the audit findings.

The City has made substantial progress in identifying and expensing capital projects that do not meet the definition or threshold of construction in progress, and capitalizing assets constructed in the year the asset was put into service. Through the establishment of improved processes

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and controls, the City has identified over \$236 million worth of construction projects during fiscal year 2011 that were previously placed in service. Additional procedures will be put in place to conduct quarterly working sessions with departments responsible for capital projects to validate the purpose and status of the departments' projects to ensure proper accounting. Finance in coordination with the Office of Management and Budget, and Information Technology Services Department (ITSD) are in the process of designing management dashboard reports on the City's capital project portfolio. This report will be able to assist management in providing a summary review of the overall status of the City's capital projects. This report is expected to be designed and functioning by fiscal year 2013.

The City implemented Shared Services through a phased-in approach beginning in fiscal year 2008. Department fiscal administrators were created to assist in standardizing fiscal operations across the City. The City is currently evaluating fiscal organizational structures within the departments to address fiscal needs and standardization of positions, strengthening controls and enforcing administrative directives. The City anticipates the completion of Shared Services by June 30, 2013.

Control deficiencies

A deficiency in internal control ("control deficiency") 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.

We identified the following control deficiencies.

Segregation of Duties (MARR application)

It was noted that two individuals possess the ability to develop changes to MARR and then promote the changes into the production environment. Access to promote/introduce changes to production by IT personnel introduces a risk of unauthorized transactions and changes and possible impairment of data integrity.

We recommend that the City remove access to promote changes to production from the individuals and assign those responsibilities (i.e. production control) to another individual that does not possess the ability to develop changes as well.

Management Response:

ITSD has expanded its formal change management process to include changes to core application systems as well as infrastructure systems. All changes that impact the manner in which business transactions are processed are approved, tested, and formally accepted by the business system owner prior to deployment. The Senior IT Managers responsible for application development and support are also responsible for reviewing changes prior to deployment to the production system, and changes without business owner signoff are not approved for deployment. While there are no system controls in place to prevent individuals from exploiting the perceived segregation of duties issue, and only a small group of MARR developers, administrative direction was provided by department management for developers to not both make changes and then release those changes into production.

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ITSD will further segregate the responsibility of Change Requests management and the management of the Release into Production by removing the Release management responsibility from the MARR developers.

Security Administration – User Access

It was noted that there are no periodic access reviews occurring for the network, SAP, and MARR applications for all users of the systems. It was also noted that users are not locked out after a reasonable number of unauthorized access attempts to the network and UNIX. Data integrity may be compromised due to unauthorized or inappropriate access.

We recommend the City conduct periodic access reviews (at least quarterly), for each of the financially significant applications, in order to ensure that users' access rights are commensurate with their job title/responsibilities. We also recommend that the City determine an appropriate threshold for user access attempts and implement a lockout setting after this threshold has been exceeded.

Management Response:

Substantial progress has been made towards implementation of Approva's BizRights Segregation of Duties Software. The City's Finance Department, Compliance and Resolution Section has taken the lead in reviewing remaining role violations and creating mitigating controls where deemed needed, and reviewing and modifying user access.

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 which is the overarching administrative directive for the City's account access management.

In summary, the documents:

- Assign responsibilities to rule book owners, Finance Department, Information Technology Services Department, Human Resources, and all other COSA Departments for various account access matters in SAP.
- New COSA employees are allowed access to ESS without additional permission approvals.
- Require that SAP permissions are revoked and then requested as appropriate for all intra-department and inter-department transfers. The exception is ESS permissions.
- Impose strict procedures and guidelines for terminating/terminated employees.
- Require that segregation of duties violations are addressed and documented.
- Include a periodic review process to ensure compliance.

The authentication system used by the City's UNIX systems (NIS) does not allow for implementing account lockouts based on number of unsuccessful access attempts. The City is in the process of deploying a new Identity and Access Management system for network accounts and will continue to investigate the availability of this feature for UNIX systems using that new product.

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City's response

Management's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

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See **Attachment A** for status of prior years' comments.

This communication 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 these specified parties.

Very truly yours,

Grant Thornton LLP

Attachment A

STATUS OF PRIOR YEARS' COMMENTS AS OF SEPTEMBER 30, 2011

The status of prior year comments is based on discussion with management and review of implementation, based on current year audit procedures.

Recommendation	Assessment	Implemented	In process	Current Status
Review and Oversight Auditors recommend that the City require a more thorough self-review by the individuals responsible for the accounting transactions and/or preparation of schedules.	Control Deficiency		X	In Process – The Finance Department has strengthened the knowledge of its Controller Section’s staff through biweekly training sessions and working with staff, supervisors/managers and management, when needed, to review various accounting transactions and schedules prepared by Central Finance. A more refined year-end checklist will be created in order to assist the Section with reviewing to ensure accuracy and completeness of year-end accruals; capital asset validation, completion and depreciation; debt related amortization calculations; etc.
Auditors recommend that the City continue to provide ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions.	Control Deficiency	X		Completed – The Finance Department conducts biweekly training sessions (outside of CAFR season) to strengthen the knowledge base on its staff. The Department has additionally scheduled one-on-one sessions with new DFAs on Finance Administrative Directives, and all DFAs on new GASB Statements affecting them. The City continues to develop training and refresher courses on its Administrative Directives at least every two years.
Physical Site Security Auditors recommend that the City restrict access only to those persons who need access to perform their job responsibilities.	Control Deficiency	X		Completed – ITSD management reviewed the access listing to the ITSD server room at S. Frio and the EOC and have reduced access to both centers to only those individuals needing to provide essential support services to both centers.
Lease Revenue Schedule Auditors recommend that additional training be provided at the various departments for appropriate capturing of all relevant lease information.	Control Deficiency		X	In Process – Finance performed a detail assessment with all departments identifying transactions that met the definition of a lease. Finance has additionally drafted a lease administrative directive which it intends to issue and provide Citywide training on in fiscal year 2012.

Attachment A

STATUS OF PRIOR YEARS' COMMENTS AS OF SEPTEMBER 30, 2011 – Continued

Recommendation	Assessment	Implemented	In process	Current Status
<p>Administration and Management of User Access</p> <p>Auditors recommended that access requests for new hires be approved by appropriate management, and for terminated employees that their access be disabled or removed from all critical systems in a timely manner. In either case, documentation should be maintained evidencing the request for granting access and removal of access.</p>	<p>Significant Deficiency</p>		<p>X</p>	<p>In Process - ITSD has developed processes to ensure that terminated employees' access rights are disabled in a timely fashion.</p> <p>Through both the City's Shared Services and Segregation of Duties Projects, 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 which is the overarching administrative directive for the City's account access management. These documents will assign responsibility to rule book owners; give all new employees direct access to ESS without additional permission approvals; require SAP permissions be revoked and subsequently requested as appropriate for all transfers (with the exception of ESS access); impose strict procedures and guidelines for terminating/terminated employees; require that segregation of duties violations be addressed and documented; and include a periodic review process to ensure compliance. The City anticipates that these policies and procedures will be in place by September 30, 2012.</p>
<p>Access/Security</p> <p>Auditors recommended that the City develop a detailed policy and procedure for the new user access process for the network and for the terminated user access removal process for the network.</p>	<p>Control Deficiency</p>	<p>X</p>		<p>Completed – The City has developed ITSD Security Policies to include Asset Classification, Management, Operational and Technical Controls as well as provided guidance in the development of standards for granting access to COSA network, systems resources. ITSD Security further worked with departments in the development of supplemental standards to these policies and to AD 7.8D and 7.8E. ITSD has undertaken the Identity Access Management project that addresses and remediates this finding.</p>

Attachment A

STATUS OF PRIOR YEARS' COMMENTS AS OF SEPTEMBER 30, 2011 – Continued

Recommendation	Assessment	Implemented	In process	Current Status
<p>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.</p>	<p>Reportable Condition</p>		<p>X</p>	<p>In Process - Substantial progress has been made towards implementation of Approva's BizRights Segregation of Duties Software. The City's Finance Department, Compliance and Resolution Section has taken the lead in reviewing remaining role violations and creating mitigating controls where deemed needed, and reviewing and modifying user access.</p> <p>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 which is the overarching administrative directive for the City's account access management. These documents will assign responsibility to rule book owners; give all new employees direct access to ESS without additional permission approvals; require SAP permissions be revoked and subsequently requested as appropriate for all transfers (with the exception of ESS access); impose strict procedures and guidelines for terminating/terminated employees; require that segregation of duties violations be addressed and documented; and include a periodic review process to ensure compliance. The City anticipates that these policies and procedures will be in place by September 30, 2012.</p>