

SAN ANTONIO WATER SYSTEM
Memorandum

TO: Audit Committee of San Antonio Water System Board of Trustees

FROM: Doug Evanson, Sr. Vice President/Chief Financial Officer
Mary Bailey, Vice-President of Business Planning/Controller

SUBJECT: 2014 Management Letter Comment

DATE: April 2, 2015

The following is a discussion of the finding by auditors in regards to a control deficiency in connection with the 2014 audit. The following reiterates the finding and recommendation by the auditors as well as the response of management relative to the finding. If you desire further information, relative to this matter, please do not hesitate to contact me.

Section B – Management Letter

CONTROL DEFICIENCIES

Contributed Capital

SAWS and SAWS DSP regularly receive contributed capital when infrastructure is donated. Since SAWS and SAWS DSP are responsible for operating and maintaining the donated infrastructure, these assets are recorded as contributed capital revenue in the financial statements. The accounting department is reliant on information from other departments and sources to obtain the information needed to properly record these transactions in the general ledger. During discussions with management and testing performed, management found that a portion of the assets contributed during the year were not recorded in the general ledger. Also, upon further review and investigation by management they found that some of the assets values were significantly higher than similar assets constructed by SAWS. This appears to be related to the fact that small projects that are contributed to SAWS are recorded based on a declared value by the donor instead of based on actual costs. As a result, management decreased the overall value of the 2014 contributed assets by approximately \$2 million.

We recommend that SAWS develop a formal process where information obtained by other departments is regularly communicated, valued, and reconciled to the SAWS accounting department to ensure the capital asset records are appropriately updated and recorded in the general ledger based on values that approximate cost or fair value at the time of donation. Furthermore, SAWS should develop a process to ensure that when declared values are used they are reviewed for reasonableness to ensure they are appropriately valued.

Management's Response:

SAWS utilizes a permit process to track the installation of water and sewer infrastructure within its CCN. Large developments such as new neighborhoods, shopping centers and other large business complexes are tracked by "General Construction Permits" (GCPs). Smaller projects such as a new home in an undeveloped area are tracked by a "Counter Permit". The control deficiency discussed in the auditor's comment relates to the Counter Permit process and not the GCP process.

The finance, engineering and information services departments of SAWS will work together to develop reporting that will allow each department to insure that all Counter Permits are tracked and recorded properly in the general ledger. Further, all departments will work together to see if changes can be made to the permit tracking software in order to automate the process as much as possible.

In reference to valuation, the SAWS engineering department has already developed and implemented a schedule of values to insure assets are recorded at a fair and reasonable cost. The schedule of values will be reviewed periodically to account for increases in construction costs.

Each department involved in the permit process will develop written procedures to insure that contributed capital assets are recorded in a timely, complete and accurate manner.

SAWS will have all the necessary controls in place by June 30, 2015.