CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

February 11, 2020

Ron Nirenberg
Mayor

Rebecca J. Viagran
Councilwoman, District 3

Melissa Cabello Havrda
Councilwoman, District 6

John Courage
Councilman, District 9

Roberto C. Treviño
Councilman, District 1

Dr. Adriana Rocha Garcia
Councilwoman, District 4

Ana E. Sandoval
Councilwoman, District 7

Clayton H. Perry
Councilman, District 10

Jada Andrews-Sullivan
Councilwoman, District 2

Shirley Gonzales
Councilwoman, District 5

Manny Peláez
Councilman, District 8

SUBJECT: Audit Report of Audit of Finance Google Fiber Right-of-Way Agreement

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Finance Google Fiber Right-of-Way Agreement. This audit began in May 2019 and concluded with an exit meeting with department management in October 2019. Management's verbatim response is included in Appendix B of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

Distribution:
Erik Walsh, City Manager
Ben Gorzell, Chief Financial Officer
Troy Elliott, Deputy Chief Financial Officer
Andrew Segovia, City Attorney
Leticia M. Vacek, City Clerk
Jim Greenwood, Chief of Staff, Office of the Mayor
John Peterek, Assistant to the City Manager, Office of the City Manager
Priscilla Soto, Audit Committee Member
Judy Treviño, Audit Committee Member

CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance

Google Fiber Right-of-Way Agreement

Project No. AU19-C05

February 11, 2020

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically Google Fiber. The audit objectives, conclusions, and recommendations follow:

Determine if the Google Fiber right-of-way contract is adequately managed.

Finance is not adequately managing the Google Fiber contract. While Finance has established a contract administrative plan for monitoring the agreement, procedures are not currently in place to request or review the completeness and accuracy of revenue received.

We recommend that the Deputy Chief Financial Officer:

Establish and implement monitoring procedures to ensure gross revenues, customer counts, and revenues received are reviewed for accuracy and completeness.

Finance Department Management agreed with the audit finding and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 5.

Table of Contents

Executive Summary i

Background 1

Audit Scope and Methodology 2

Audit Results and Recommendations 3

A. Contract Monitoring Process 3

Appendix A – Staff Acknowledgement 4

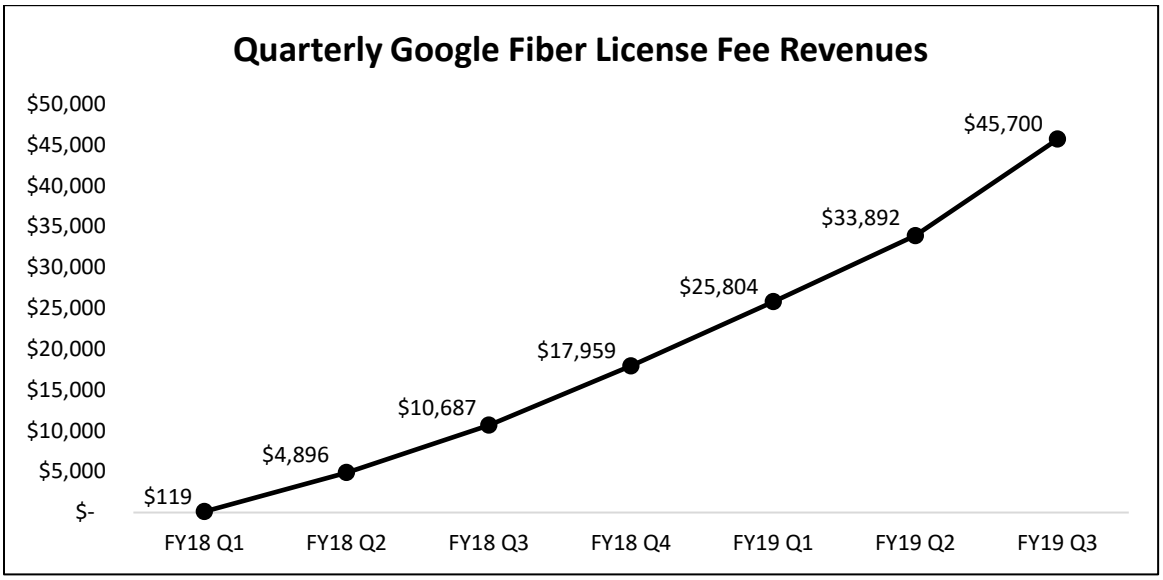
Appendix B – Management Response 5

Background

Under State law, a state-certified communications provider has access to the public right-of-way. In an effort to bring high-speed internet access to San Antonio residents and businesses via fiber optic cables, the City partnered with providers to establish franchise agreements, fiber optic right-of-way (ROW) agreements, and land lease agreements. The City has entered into fiber optic ROW agreements with three companies - Google Fiber, Zayo, and Unite Private Networks (UPN).

Currently, only Google Fiber has begun remitting license fees to the City. The City entered into an agreement with Google Fiber on November 15, 2017. The agreement established quarterly license fees equal to three percent of gross revenues derived from the operation of the licensees' communications networks.

The City started receiving revenues from Google Fiber in February 2018 or first quarter of FY 2018. As of August 2019, the City has received revenue totaling $139,057 for FY 2018 and FY 2019. See below for quarterly breakdown of revenue received:



The Public Utilities Division of the Finance Department is responsible for the monitoring and collections of the Google Fiber right-of-way agreement compensation within the City limits. Oversight of the Google Fiber agreement includes the assurance that Google Fiber is in compliance with the laws, rules, and regulations established by state and federal agencies, the provisions of the license agreement, and City Council Policies.

Audit Scope and Methodology

The audit scope for this audit included license fee revenues received from October 2017 through June 2019.

We interviewed Public Utilities staff and Information Technology Services Department (ITSD) staff to review their processes and identify procedures and controls associated with the key elements of the Google Fiber agreement. We also reviewed the adequacy of the monitoring procedures associated with the Google Fiber agreement.

We relied on computer-processed data in SAP to review the license fee revenues received. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing SAP revenue postings to supporting documentation for revenues collected. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results and Recommendations

A. Contract Monitoring Process

Finance has insufficient monitoring processes in place to ensure the accuracy of revenue received from the Google Fiber agreement. Finance does not currently request supporting documentation of the calculation method for the three percent revenue remittance nor information validating customer information.

Per the Procurement Policy Procedures Manual, departments are responsible for reviewing the calculation method used for revenue received by the City and verifying the data used from the supporting documentation submitted.

Currently, Finance receives license revenues remitted and the customer count from Google Fiber and relies on the aggregate numbers provided. However, Finance does not request nor receive additional documentation to support the calculation of the revenue received or customer count reported.

Per the Assistant Finance Director, Public Utilities is planning to request supporting revenue documentation and customer information from Google Fiber as revenue growth accrues. However, a timeline was not specified for when this request will occur.

The lack of monitoring procedures may increase the risk of incorrect license fee remittance and loss of revenue to the City.

Recommendation

The Deputy Chief Financial Officer should establish and implement monitoring procedures to ensure gross revenues, customer counts, and revenues received are reviewed for accuracy and completeness.

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Hedei Arias, CFE, Auditor in Charge

Appendix B – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

January 24, 2020

Kevin W. Barthold, CPA, CIA, CISA, CRMA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Finance Google Fiber Right-of-Way Agreement

The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	**Contract Monitoring Process** The Deputy Chief Financial Officer should establish and implement monitoring procedures to ensure gross revenues, customer counts, and revenues received are reviewed for accuracy and completeness.	3	Accept	Russell Huff, Assistant Director	03/31/2020
	Action plan: The Finance Department has developed procedures in order to monitor customer counts and revenue received under the Google Fiber agreement for accuracy and completeness. These procedures will be used to conduct a full review of the past three quarterly payments as well as all future quarterly payments remitted to the City. These review procedures include: 1. Breakdown of the ROW payment starting with Gross Revenues associated with the San Antonio build out of Google Fiber Texas and understand how San Antonio revenues are distinguished from other revenues - annually. 2. Identifying any deductions from those Gross Revenues and understand the nature and methodology used to calculate the deductions with each quarterly payment. 3. Recalculate the City revenue amount in accordance with the contract and trace the revenue to the amount received from Google Fiber Texas with each quarterly payment. 4. Obtain customer counts with each quarterly payment. 5. Trace the Gross Revenue used in the calculation into Corporate Reports for Google Fiber Texas to identify if any revenues are being received but not allocated to San Antonio - annually. 6. Public Utilities will trend the revenues, deductions and line counts monitoring for inconsistencies.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott, CPA
Deputy Chief Financial Officer
Finance Department

1/24/2020
Date

Ben Gorzell Jr., CPA
Chief Financial Officer
City Manager's Office

1/27/2020
Date