OFFICE OF THE CITY AUDITOR

September 30, 2026

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SUBJECT: Audit Report of Finance Unapplied Deposits Account

Mayor and Council Members:

We are pleased to send you the final report of the Finance Unapplied Deposits Account. This audit began in March 2025 and concluded with an exit meeting with department management in January 2026. Management's verbatim response is included in Appendix B of the report. Finance Department management and staff should be commended for their cooperation and assistance during this audit.

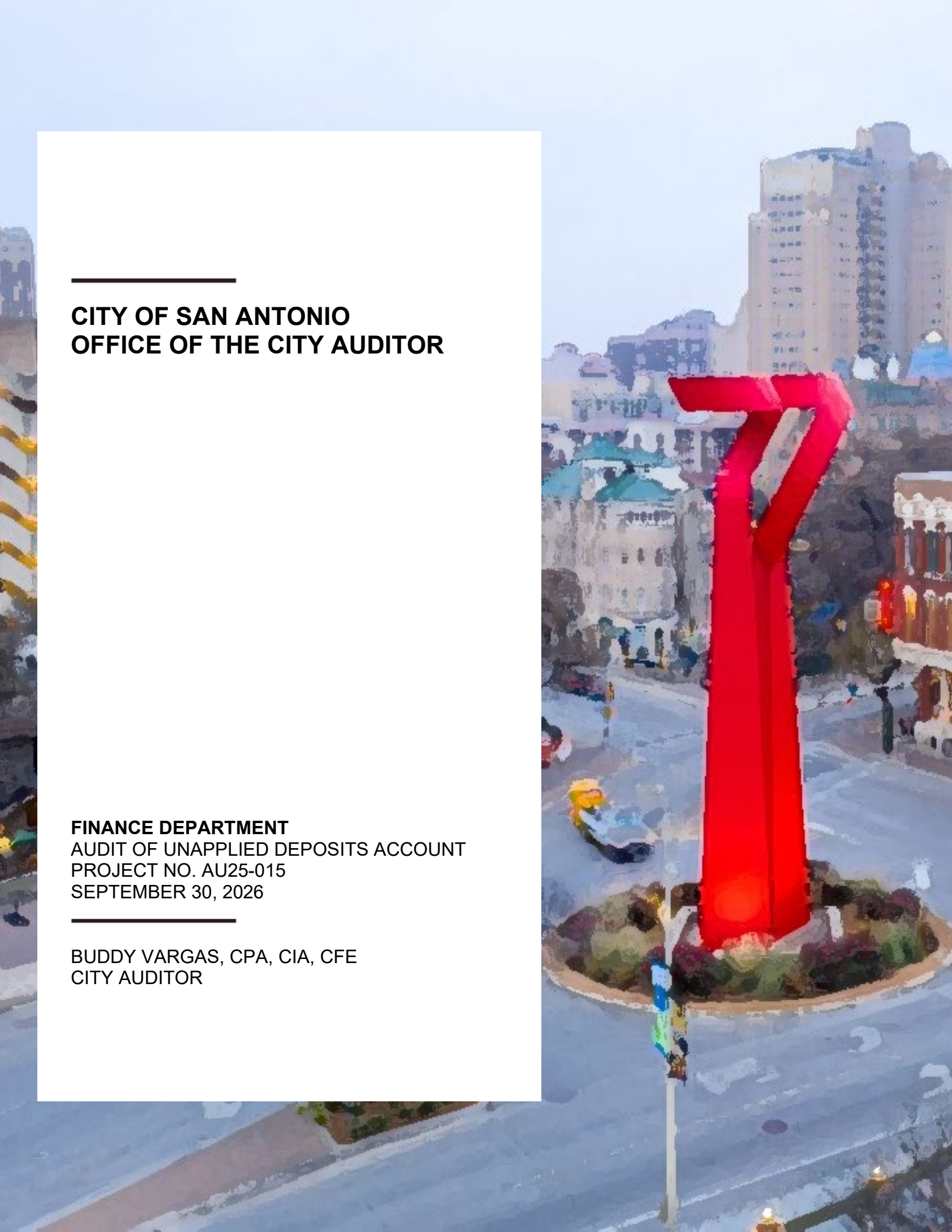
The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Buddy Vargas

Buddy Vargas, CPA, CIA, CFE
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

FINANCE DEPARTMENT
AUDIT OF UNAPPLIED DEPOSITS ACCOUNT
PROJECT NO. AU25-015
SEPTEMBER 30, 2026

BUDDY VARGAS, CPA, CIA, CFE
CITY AUDITOR

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Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically Unapplied Deposits. The audit objective, conclusion, and recommendation follow:

Determine if funds in the unapplied deposits account are managed effectively to include timeliness and proper posting to customer accounts.

Finance is not effectively managing funds in the unapplied deposits account. While Finance documents the unapplied incoming deposits in a log (which includes the information provided by the customer/vendor) and then distributes it to the departments, the departments are not reviewing them and responding timely. Additionally, the unapplied deposits account is not being reviewed periodically to ensure deposits are reclassified to the appropriate accounts. Lastly, procedures do not include guidance for the management of unapplied deposits at either the department or Finance level.

We provided recommendations to management to strengthen controls and resolve identified issues. Finance management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 9.

Background

The Finance Department created an unapplied deposits account in 2018 to help manage the influx of mailed deposits received. By creating this account, Finance has been able to record incoming checks, while allowing the departments time to review receipts daily and identify the appropriate account (e.g., revenue) for recording. Additionally, this allows for the creation of necessary entries to move and apply the deposits to their corresponding accounts.

For a deposit to be applied to the correct account, it must include identifiable information that will allow for proper application such as a vendor number, customer number, and/or SAP invoice number. For deposits that do not include this information, Finance creates a daily research log. This log is sent out daily and includes the payer's name, amount, date, and any additional information included on the check or cash equivalent. This provides department fiscal staff an opportunity to review, identify any items that belong to their respective departments, and communicate to a cashier so it can be applied to the appropriate account.

If the departments do not identify the deposit items on the research log by the deposit deadline, they are deposited in the bank so the check can be recognized and the transaction is recorded in the unapplied deposits account, which is a holding account. These deposits should be reviewed periodically and reclassified by the departments so they can be applied to the appropriate account. The unapplied deposits account has experienced fluctuations over the years. As of May 2025, the balance was over $3.3 million.

Audit Scope and Methodology

The audit scope was October 2023 through September 2025 and included: procedures; review of the account balance; communication to departments for incoming unapplied deposits and department responses for identified deposits; and reclassification efforts.

To gain an understanding over unapplied deposits, we interviewed Finance personnel and performed walkthroughs over the receipt and recording process, Finance oversight, procedures, training, and communication efforts. The City Administrative Directive (AD) 8.4 Financial Management of Accounts Receivable was our primary criteria for this audit.

Our testing included a review of AD 8.4 and procedures for a sample of City departments to confirm if they existed and addressed unapplied deposits. Additionally, we reviewed communication efforts from Finance to departments as well as department responsiveness. Furthermore, we reviewed the daily research logs to confirm timely distribution and responses by departments as well as the information provided with the deposit to determine if they included identifiable information. Finally, we reviewed the balance of the account for the last 10 quarters through June 2025.

We relied on computer-processed data in SAP. 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 using SAP to review account entries, evaluate account fluctuations, and review reclassifying journal entries. 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. Account Guidance and Oversight

Finance is not effectively managing funds in the unapplied deposits account. This is attributed to: departments not reviewing daily research logs or communicating identified deposit items; no effective controls in place to periodically review the account and reclassify items; and not having established procedures that provide guidance.

Daily Communication of Incoming Deposits

Incoming deposits are appropriately recorded and deposited into the City's bank account by Finance. Further, Finance is sending out a list of incoming deposits via the daily research logs to all departments for deposits that cannot be applied due to missing information (e.g., customer or invoice number). We reviewed a sample of 52 daily research logs and confirmed all the deposit items from the logs were deposited into the City's bank account. Additionally, we confirmed a sample of 25 daily research logs were all sent out by Finance to the departments for research.

Daily Department Review

Departments are not reviewing and claiming their respective deposits despite available identifiable information timely. We reviewed 52 daily research logs with a total of 246 deposits. 63 of 246 (26%) items were claimed timely and applied to the appropriate account. However, the remaining 183 deposits were not claimed timely and were subsequently deposited in the unapplied deposits account. We reviewed the 183 unapplied deposits and determined 105 (57%) had identifiable information which may have allowed the respective departments to claim these deposits timely. Examples of identifiable information include program and department name.

Furthermore, response rates to the daily research logs were low. We reviewed email correspondence for 6 dates to verify department responsiveness to the daily research logs (with a total of 32 deposits). There was a response for one item per date (6 total). Furthermore, of those responses 3 of the 6 did not provide sufficient information to Finance and therefore were recorded in the unapplied deposits account.

Periodic Account Review and Reclassification

Additionally, while Finance does send out reports to department fiscal staff periodically, they are not specific to the unapplied deposits account and do not outline expectations, due dates, or responsible individuals. Finance provided a sample of 10 reports produced and sent out for outstanding items between May 2024 and October 2024, but they did not pertain to the unapplied deposits and did not provide any specificity for action.

Procedures

Currently, there are no procedures in place that establish requirements for the unapplied deposits account at either the Finance or department level. We reviewed AD 8.4 Financial Management of Accounts Receivable which outlines the responsibility for departments to have documented procedures that define steps for recording routine and non-routine accounts receivable deposits and annual reviews thereafter. However, the AD does not provide guidance specific to the unapplied deposits account such as: required communication to and from departments, reclassification efforts, or periodic account maintenance.

Additionally, we selected 10 departments for review to determine whether they had written procedures that established expectations for identifying and reclassifying entries in the unapplied deposits account. While all 10 departments provided procedures related to accounts receivable, only two departments had established procedures that provided guidance for the unapplied deposits account. The two departments that had documented procedures appropriately included steps for department staff to review the research logs daily, use the additional information provided in the log to identify possible department payments, and communicate to Finance if deposits are identified.

Impact on Account Balance

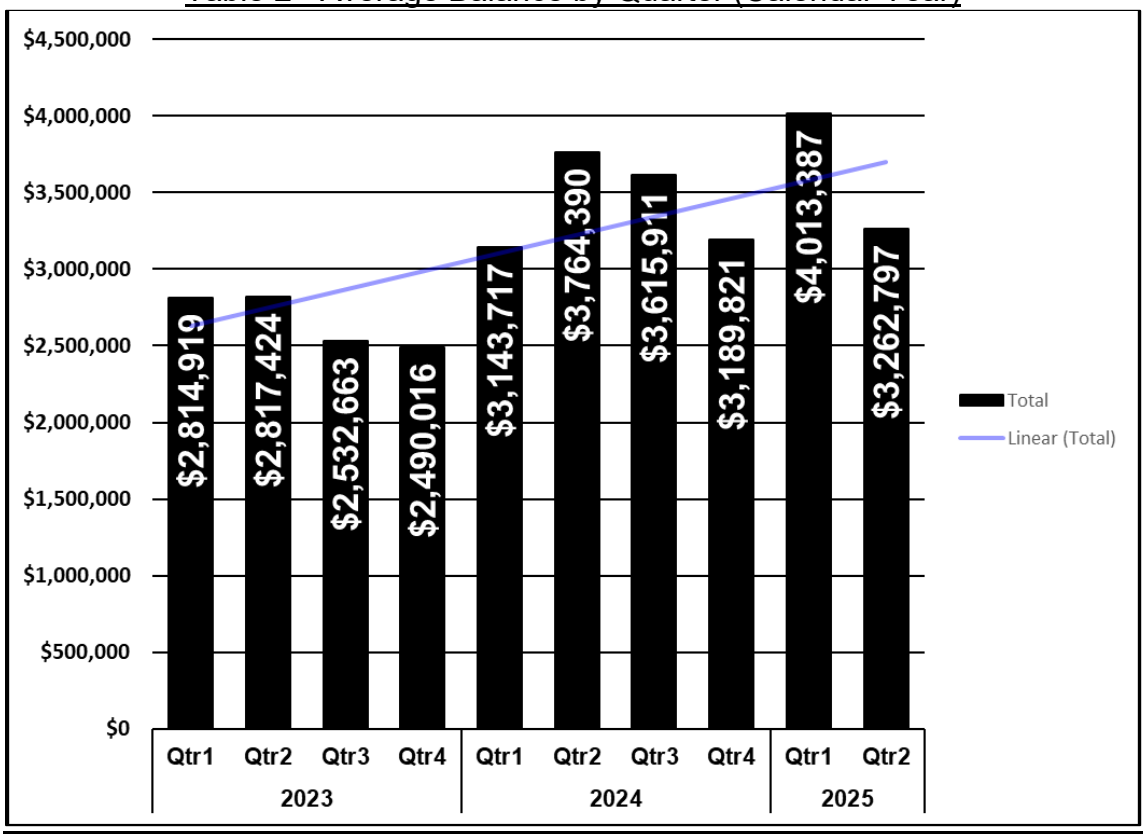
Lack of procedures at both the Finance and department levels have contributed to an overall increase in the unapplied deposits account balance. As of May 2025, the account balance was at $3.3 million with 2,509 pending deposit items. Additionally, there are deposits dating as far back as 2018 that have not been claimed. As a best practice, procedures should be developed and the deposits in the unapplied deposits account should be reviewed and reclassified to the appropriate account so maintenance does not become unmanageable. Refer Table 1 for outstanding deposit items and Table 2 for average account balance.

Table 1 - Outstanding Deposit Items by Calendar Year

Year	Number of Outstanding Items	Dollar Value
2018	172	$ 112,923
2019	289	$ 238,835
2020	325	$ 314,339
2021	283	$ 524,558
2022	390	$ 510,996
2023	368	$ 452,343
2024	527	$ 692,196
2025	155	$ 488,049
Totals	**2,509**	**$3,334,239**

Source: SAP as of 5/14/2025

Table 2 - Average Balance by Quarter (Calendar Year)



Source: SAP as of 6/30/2025

Additional Contributing Factors

Furthermore, there are additional factors contributing to deposits being recorded in the unapplied deposits account. We requested feedback from 10 Department Fiscal Administrators to identify the most commonly encountered issues that result in incoming deposit items being recorded in the unapplied deposits account. The issues identified included: the customer/vendor has not been informed of the necessary information to include along with the payment; the customer/vendor does not communicate incoming payments to the department(s); deposits are for partial payments and therefore are more difficult to match to an outstanding receivable; and the payment applies to more than one department. These factors contribute to the balance of the unapplied deposits account.

Recommendation

The Chief Financial Officer ensure Finance and City departments develop written procedures establishing expectations for the unapplied deposits account to include required communications, reviews by departments, proper guidance on research efforts, and addressing contributing factors. Further, provide training to departments and staff over these written procedures. Lastly, develop controls to periodically review the unapplied deposits account and reclassify the entries to the appropriate accounts.

Appendix A – Staff Acknowledgement

Abigail Estevez, CPA, CIA, CISA, Audit Manager
Yadira Valenzuela, CFE, Auditor in Charge
Ty Myers, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

September 22, 2026

Buddy Vargas, CPA, CIA, CFE
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Finance Unapplied Deposits Account

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

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	**ACCOUNT GUIDANCE AND OVERSIGHT** The Chief Financial Officer ensure Finance and City departments develop written procedures establishing expectations to include: • Required communications, • Reviews by departments, • Proper guidance on research efforts, and • Addressing contributing factors. Further, provide training to departments and staff over these written procedures. Lastly, develop controls to periodically review the unapplied deposits account and reclassify the entries to the appropriate accounts.	7	Accept	Victoria Roeder/Deputy Finance Director	September 30, 2026

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: The City frequently receives checks submitted without sufficient identifying information to determine their intended purpose or proper account posting. Prior to 2018, the City lacked a formalized process for handling such payments, resulting in inconsistent practices across departments. In many cases, checks were held in safes or desk drawers until City staff could contact customers to clarify the purpose of the payment, delaying deposit and increasing the risk of misplacement or error. Recognizing these challenges, the City implemented revised procedures in 2018 requiring departmental accounting staff to promptly deposit unidentified payments into an unapplied deposits account. This approach improved transparency and allowed for centralized tracking of funds pending research and proper allocation. The City processes more than $149 million in check deposits annually, and while the amount of deposits not recorded at any given time has fluctuated between approximately $1 million and $3 million, this represents a relatively small percentage of the City's overall annual check deposits. Many of these open deposits are timing differences that are subsequently researched, reconciled, and recorded. The Finance Department agrees with the recommendation to strengthen accounting guidance and oversight related to unidentified deposits as identified in the internal audit and will be implementing the following: On September 30, 2025, the Finance Department issued Standard Operating Procedures (SOP) for Unidentified Deposits. The SOP establishes procedures for the receipt, review, and recording of deposits that cannot be immediately applied, and provides guidance to ensure consistent handling and timely resolution. The Finance Department will also provide training to departmental fiscal staff to reinforce the procedures for identifying, researching, and recording unapplied deposits in a timely manner. The training will include guidance for both internal staff and external parties on the key information required when submitting payments to help ensure accurate and efficient application of funds. As noted in the City Auditor's report, the unidentified deposits account contained a number of relatively small unapplied items as of May 2025, with an average deposit value of approximately $1,300 per item. Since that time, City staff have continued researching both the existing unapplied items and new deposits added to the account. As of August 7, 2026, the account balance was approximately $777,000, consisting of 1,504 items, with an average deposit value of approximately $500. The Finance Department, in coordination with the applicable City departments, will continue researching the remaining items to identify the source and appropriate disposition of the outstanding deposits.				

We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,

Troy Elliott, CPA
Chief Financial Officer
Finance Department

9/22/2026
Date

Ben Gorzell Jr., CPA
Chief of Financial & Administrative Services
City Manager's Office

9/22/2026
Date