



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

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This report can be made available in alternate format upon request.

Aviation Department Aviation Capital Asset Management

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Report Highlights

Asset Management

Controls over purchases, transfers, retirements, and capital improvement project assets were sufficient. Aviation follows the City's annual inventory process.

Asset Maintenance

Processes for tracking maintenance could be improved. Aviation was aware of this and already had two improvement processes in place prior to the start of our audit.

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Executive Summary

Purpose

Our purpose was to determine that the Aviation Department (Aviation) had a complete list of capital assets and ensured assets were properly maintained.

Background

Administrative Regulation 5.13 – Accountability and Inventory Control for City-Owned Property (A.R. 5.13) defines capital assets as any asset with a value of at least \$5,000. A.R. 5.13 defines how these assets can be acquired, transferred, and disposed. A.R. 5.13 also defines that these assets must be tracked and annually inventoried. As of June 30, 2023, Aviation had approximately 4,700 capital assets with an approximate acquisition value of \$6.1 billion and a net book value of \$3.2 billion. These assets are tracked within SAP, the City of Phoenix's (City) financial management system, and a module of SAP, Supplier Relationship Management (SRM), the City's procurement system. Aviation's Financial Management Division staff (FMD) are responsible for ensuring asset ownership is properly tracked, and that any changes to asset ownership are forwarded to the Finance Department (Finance) for those changes to be made in SAP. Aviation's field staff (staff) in multiple divisions, such as Facilities & Services, Business & Properties, and Operations, are responsible for maintaining assets.

We reviewed the processes for tracking assets, including purchasing, transferring, and retiring assets, as well as the annual asset inventory process. We also reviewed the processes for asset maintenance.

Results in Brief

Controls over purchases, retirements, transfers, and capital improvement project (CIP) assets appear to be sufficient. Annual inventory processes could be improved.

We reviewed the processes for purchasing, retiring, and transferring assets. Purchases of assets through SRM appeared to be sufficient to ensure that all assets received an asset number in SAP and that non-assets were not marked as an asset. We also reviewed asset retirements and found supporting documentation for all retirements reviewed. Transfers reviewed were part of fleet retirements, which had a separate process. All fleet retirements had accurate supporting documentation. FMD also appeared to be tracking changes to assets related to CIP projects accurately.

We did note that some aspects of the annual inventory process could be improved to prevent items from needing to be updated over multiple inventories. However, Finance staff were aware of these issues and were working on solutions. Also, we did not note any issues from the 2022 inventory that should require to be reported again in the upcoming 2023 inventory.

Processes for tracking maintenance could be improved. However, staff were aware of this and already had two improvement processes in place prior to the start of our audit.

Asset maintenance was tracked in SAP. However, not all relevant information was stored within the same reporting areas in SAP, though all information was there. Staff believed this made asset management difficult and are undertaking two processes to improve management. The first process is hiring a consultant to review all aspects of asset management and provide a roadmap for improvement, which should be completed in 2024. The second is procuring a new asset management software that will have greater reporting and will allow for better asset tracking, that will hopefully be in place in 2025.

1 – Asset Management

Background

Capital assets are assigned an asset number and are tracked in the City's financial management system, SAP. SAP denotes which department owns the asset. Assets are acquired by a department and added to inventory through purchasing, acquiring at the end of a CIP project, or receiving as a transfer from a different department. Prior to a CIP project being completed, assets belong to the CIP project and are not entered into SAP. Assets are removed from the SAP inventory either by being transferred to a different department, or by being retired. Changes to assets can be made at any time, and departments perform an annual inventory check of assets at the start of each year for the prior calendar year.

Capital Assignments – as defined by A.R. 5.13, any asset valued at \$5,000 or greater that must be tracked in SAP.

We reviewed changes to asset inventories from July 1, 2021, through September 30, 2023, to ensure that assets were appropriately purchased, retired, and transferred. We reviewed FMD's processes for tracking CIP project assets and performed a review of the annual inventory for calendar year 2022.

Results

Controls over asset purchases correctly created and assigned asset numbers. Procurement staff accurately listed purchases as assets.

Purchases made through a module of SAP, Supplier Relationship Management (SRM), have an option to indicate during the purchase if they are an asset or not. When an item is marked as an asset, an automated process assigns an asset number in SAP. We reviewed all Aviation purchases made from January 1, 2023, through September 30, 2023. Of the 292 items purchased that were listed as an asset, we selected 15 to review. Fourteen of the items were correctly marked with an asset number. This included three items that all had the same description and were purchased on the same purchase order. Each item had a unique asset number. The one item that did not have an asset number was from a canceled purchase order, so the item's purchase was not completed, and this was not an exception.

We also reviewed the items that were purchased but not labeled as an asset. These items included fees for various services and miscellaneous parts. Based on the descriptions of the items purchased, it did not appear that any items that were not marked as an asset should have been. The procurement staff who made these purchases accurately assigned assets.

Asset retirements were processed correctly and had supporting documentation. Asset transfers were primarily used for accounting processes and fleet retirements.

We obtained a list of all asset retirements and transfers from July 1, 2022, through June 30, 2023. The list had approximately 300 asset retirements and 400 asset transfers. For asset retirements, we found that approximately 190 retirements were performed in four batches. We obtained the supporting documentation for these retirements and found that each one was properly authorized. We also selected an additional five retirements that were not from those four batches. There was supporting documentation for each of those five.

When reviewing asset transfers, we found that most transfers are either used as accounting processes or as part of retiring fleet vehicles. The accounting processes are when some portion of the original acquisition amount needs to be reallocated to a different cost center, which normally happened with CIP projects. As these were accounting processes and not actual transfers of ownership of the asset, there was no accompanying transfer form. Transfer forms were used in fleet retirements. The form would be used to transfer information to the auction vendor. However, the asset would still remain under ownership of the original department until the vehicle was sold. Changes to assets would then be made based on the sales reports from the vendor. We reviewed a sample of ten vehicles sold and each did have the correct sales reports to validate retiring the asset. We did not find any asset transfers where the asset transferred ownership between Aviation and a second department.

FMD accurately tracked assets as they moved from CIP projects to Aviation's inventory. Changes to their tracking were accurately reflected in SAP.

Assets can be acquired at the completion of CIP projects. FMD tracked CIP project status monthly. We reviewed their tracking from January through June 2023. We compared changes to asset status between each month. We identified seven assets that had status changes. Each asset had corresponding changes in SAP, which indicated that FMD accurately managed assets.

The annual inventory process was thorough. Due to Finance's processes, some assets need to be updated again from the prior year.

Each year, the Finance Department provides a list of all assets currently assigned to Aviation. FMD sends the list to each division, has the divisions report on any changes, and provides supporting documentation for the changes. We reviewed the inventory for 2022, which was performed in January 2023. We reviewed all items marked as either a retirement, transfer, or acquisition and validated that those changes were correctly made in SAP.

We found 26 items that were listed by Aviation as prior year retirements or transfers, but had not been updated in SAP. After meeting with FMD, we determined that the cause for this was due to Finance's process. Some assets require multiple sub-asset numbers to account for different funding sources for the asset. However, the inventory list consolidated the assets to be only shown once. When these changes were reported by Aviation, Finance did not apply the status change to every sub-asset number. Finance staff stated that they were aware of the issue and were training staff to review for this. They were also reviewing other options, such as adding fields to SAP reports that would indicate when an asset had multiple sub-asset numbers. All retirements and transfers

performed during the 2022 inventory process appeared to be completed with no missing sub-asset numbers, which could be a result of Finance staff's training previously mentioned. However, we did note this for future audits of asset inventories.

Recommendation

None

2 – Asset Maintenance

Background

Capital assets include a variety of assets such as vehicles, buildings, escalators, elevators, building automation systems, and other operating equipment. Each asset has different requirements for regular maintenance. Maintenance requirements, intervals, and methods should be tracked to ensure the maximum life of the asset and its usefulness.

Asset maintenance is the responsibility of the asset owner. Within Aviation, divisions may have their own assets and maintain them in their own manner.

We reviewed staff's processes for tracking maintenance requirements and completed maintenance for assets.

Results

Processes for tracking maintenance could be improved.

Staff can track aspects of asset maintenance in SAP. Staff can track maintenance by regularly scheduled preventative maintenance, and also by as-needed maintenance through work orders. Each maintenance type is categorized separately in SAP. Staff can run monthly scheduled maintenance reports and assign tasks to technicians. The assigned technician will then receive the steps necessary to complete the maintenance, which they will fill out as they complete the work. Those steps are created and maintained in SAP. When additional repairs are needed, work orders are created and completed.

However, staff noted concerns with this process. One concern is that the preventative maintenance and work order information is not stored in the same area. This can make it difficult for technicians to know if an asset might need additional work, as they only see the task assigned to them. Another concern is that one asset might have many different parts, each needing its own regular maintenance. Each of these parts are entered with a unique equipment number, but it is not easy to see which pieces of equipment are related to a single asset. Staff did note that all of the information is within SAP. It is just not kept in one central location, or is not viewable through a consolidated report. According to staff, this is because SAP, as it is currently configured, is not designed to be used for asset management.

Aviation staff are actively working to improve asset maintenance.

To address these concerns, staff are undertaking two separate processes. The first is that Aviation has hired a consultant to look at the entire asset management program within the department. The consultant began earlier in Fiscal Year 2024 and will review documentation, conduct assessments, and provide an asset management roadmap. Staff are expecting the consulting engagement to be done by the end of Fiscal Year

2024. The second process is the procurement of a new asset management system. This process is being conducted in coordination with multiple City departments. Aviation staff have indicated that they hope the new software will be in place in 2025, but that process is just starting. They hope that both of these steps will greatly improve their ability to manage assets.

Recommendation

None

Scope, Methods, and Standards

Scope

We reviewed asset changes between July 1, 2021, and September 30, 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Environment
 - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objective.
- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
 - Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

Methods

We used the following methods to complete this audit:

- We reviewed *A.R. 5.13 – Accountability and Inventory Control for City-owned Property* (A.R. 5.13) for City requirements regarding asset management.
- We interviewed staff responsible for tracking asset ownership.
- We interviewed staff responsible for asset maintenance.
- We reviewed lists of assets and obtained documentation to support ownership status changes.
- We reviewed plans for improvements to asset tracking.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The SAP and SRM data used in this audit were previously determined to be reliable through an independent audit review.

Standards

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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.