



City of Phoenix

**Mission Statement**

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

**Project Team**

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**Project Number**

1240035

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

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**Aviation Department  
Direct Charges from the Information Technology  
Services Department**

**February 6, 2024**

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***Report Highlights***

**Accuracy**

*Actual costs billed by the Information Technology Services  
Department (ITS) were accurate and complied with the Memorandum  
of Understanding. ITS maintained supporting documentation to verify  
that all costs were for aviation-related activities.*

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## **Executive Summary**

### **Purpose**

Our purpose was to audit the Memorandum of Understanding (MOU) between the Aviation Department (Aviation) and the Information Technology Services Department (ITS) to determine compliance with MOU requirements and to evaluate monitoring controls.

### **Background**

Aviation and ITS entered into an agreement in July 2019 for technology services at Phoenix Sky Harbor International Airport, using the Aviation Enterprise Fund to cover the costs of services. The agreement is effective through June 30, 2024. The MOU includes procedures to comply with the Federal Aviation Administration (FAA) *Policies and Procedures Concerning the Use of Airport Revenue*. The MOU outlines services provided, billing procedures, charging methodologies, and the fully costed and hourly rates for each position.

*Policies and Procedures Concerning the Use of Airport Revenue* implements the federal statutory requirements that pertain to the use of airport revenue, and the maintenance of an airport rate structure that makes the airport as self-sustaining as possible. The policy states that costs to the airport may include reimbursements to a state or local agency for the costs of services actually received and documented. Compensation for indirect services is also allowed, provided the charges provide a common benefit to more than one department, and costs are assigned using a consistent allocation method.

In a previous audit, Aviation requested that we review the documentation maintained by the following departments to support their charges to the Aviation fund: Community and Economic Development, Equal Opportunity, Finance, Fire, ITS, Law, Police, and Street Transportation. This audit is specifically focused on ITS.

During the review period of July 2021 through June 2023, Aviation paid \$1.76 million in charges to ITS. These charges were for:

- Direct Labor Charges for Services – ITS installs cable infrastructure, maintains the telephony system, provides line locator services, and provides helpdesk services. Three positions are based at Aviation offices: an Assistant Chief Information Officer (ACIO), Communications Engineer, and User Technology Specialist. Charges are based on hourly rates, except for the ACIO, which is actual payroll expense.
- Indirect/Overhead Charges for Payment Card Services – the City manages the relationship with the City's credit card processor and, among other compliance requirements, must conduct an annual security assessment. These costs are

allocated to Aviation based on their percent of total credit card processing revenues.

- Indirect/Overhead Charge for Geographic Information Systems (GIS) – the City manages the enterprise-wide GIS system. These costs are allocated to Aviation based on their percent of software use and number of users.

### ITS Charges

| Charges               | FY22      | FY23      |
|-----------------------|-----------|-----------|
| Direct Labor          | \$544,889 | \$792,511 |
| Payment Card Services | \$228,100 | \$114,000 |
| GIS Services          | \$38,000  | \$40,100  |
| Total                 | \$810,989 | \$946,611 |

**ITS charged Aviation \$1.76 million over the two fiscal years.**

## Results

**Actual costs billed by ITS were accurate and complied with the MOU. ITS maintained supporting documentation to verify that all costs were for aviation-related activities.**

We reviewed actual costs for ITS services charged from July 1, 2021, to June 30, 2023, to determine if the direct charges to Aviation were accurate and allowable. ITS staff documented their work activities in the online work order system, including the purpose and time spent on repairs or other services. All charges were for time spent on aviation-related activities. Additionally, the hourly rates were supported by a cost model and were updated annually.

**ITS maintained records in SAP to verify that all work order costs were for aviation-related activities.**

ITS staff documented their work activities in the work order system, including the purpose and time spent on a service. We reviewed transactions from the work order system to validate that all monthly assessments and work order costs were for time spent on aviation-related activities. No exceptions were noted.

**ITS maintained records to demonstrate indirect/overhead costs were appropriately allocated to Aviation.**

We reviewed the allocated cost sharing models for the Payment Card Services and GIS Services models provided by ITS and the Finance Department (Finance). For Payment Card Services, Finance annually updates the charges allocated to Aviation based on

Aviation's percentage of payment card revenues. For GIS Services, ITS annually updates the charges allocated to Aviation based on their percent of software use and user licenses. We found that both models were updated correctly and charges were correct. No exceptions were noted.

**Controls were in place for monitoring the MOU requirements.**

The MOU outlines services that ITS provides to Aviation, and includes allowable costs, billing procedures, charging methodologies, and the rates for each position charged to Aviation. While not specifically required by the FAA, written agreements (1) increase understanding between the parties on when, why, and how to charge the Aviation fund; (2) ensure that all parties are aware of the applicable FAA regulations; and (3) enable Aviation staff to better monitor compliance.

We noted that Aviation had documented procedures in place to monitor compliance with the MOU. On a monthly and annual basis, Aviation staff used SAP reports to monitor that the correct rates were charged.

## **Scope, Methods, and Standards**

### **Scope**

We reviewed compliance with MOU requirements for direct charges to Aviation between July 2021 through June 2023 and evaluated Aviation monitoring efforts.

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

- Monitoring Activities
  - Management should establish and operate activities to monitor the internal control system and evaluate the results.

### **Methods**

We used the following methods to complete this audit:

- We reviewed MOU requirements.
- We interviewed Aviation staff to identify monitoring efforts.
- We interviewed ITS staff to develop an understanding of the costs charged and the methodology for charging costs to Aviation.
- We reviewed documentation to substantiate that charges were for Aviation-related activities.

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**

Our data source was the City's financial management system, SAP. The SAP data we used was 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.