



City of Phoenix

Mission Statement

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

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Project Number

1240024

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

Aviation Department Consumer Price Index Adjustment Process

December 7, 2023

Report Highlights

Manual Adjustments

Improvements are needed to ensure that manual adjustments are calculated and processed in a timely manner.

Standard Adjustment Rules

Adjustment rules were not always correct in the City's financial system, affecting the amounts billed to vendors.

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Executive Summary

Purpose

Our purpose was to review the process for monitoring Consumer Price Index (CPI) adjustments in contracts. We selected a sample of contracts and reviewed adjustments to determine if they were properly calculated.

Background

Most Aviation Department (Aviation) contracts include language for CPI adjustments. The adjustments can be categorized as a standard adjustment or a manual adjustment. The standard adjustment is automatically calculated in the City's financial system (SAP), based on the information entered into SAP at the beginning of the contract. There are eight standard adjustment rules.

Manual adjustments don't follow any of the standard adjustment rules. They are manually calculated by a Business and Properties Division (B&P) program manager. The billing information is then processed by Aviation's Financial Management Division (FMD) staff.

We obtained a report from Aviation of valid contracts with their corresponding CPI adjustment rules from January 2020 through July 2023. The report showed that there were 2,085 contracts during this time period.

Results in Brief

Improvements are needed to ensure that manual adjustments are calculated and processed in a timely manner.

Manual adjustments are the responsibility of the B&P program manager for each contract. It is their responsibility to complete the adjustment accurately and timely, and to send the new amount to FMD for processing. Sometimes, the program managers send an Excel spreadsheet showing the calculation so FMD staff can confirm that the adjustment was calculated accurately.

There were 27 contracts where the rates needed to be adjusted manually. We selected 15 contracts to ensure that the adjustments were calculated correctly and timely. We traced the adjustments back to the contracts to ensure that the proper adjustment rule was entered in SAP.

The manual adjustments were not calculated correctly in 11 of the 15 contracts. Nine of these 11 contracts were for three rental car companies, and were related to special needs parking spaces assigned to the companies. Overall, Aviation should recover \$63,045 and should update the rates for impacted contracts.

Standard adjustment rules were not always correct in SAP. This can affect the amount billed to vendors. We noted that two vendors were undercharged by \$17,583.

At the beginning of a contract, B&P program managers complete a billing advice with the contract information. Based on information in the billing advice, FMD staff use SAP to enter the month when the rate should be adjusted and the CPI rule to use for the adjustment. Each month, FMD staff run a report which shows the contracts that need to be adjusted for the month. Each month, staff also update the tables for the Long Beach Anaheim 1967 index, Long Beach Anaheim 1982-1984 index, and the Phoenix Mesa Scottsdale 2001 index. Staff also check to ensure that the prior month indices were entered accurately.

We selected 28 contracts to ensure that the adjustments were calculated correctly and timely. For the 28 contracts selected, we validated that the adjustment rule matched the contract. For some of the contracts, we validated that adjustment histories were correct. We found that 4 of the 28 contracts had the incorrect rule entered into SAP, and that the adjustment for one contract was made late. Overall, Aviation should recover \$17,583.

Department Responses to Recommendations

Rec. 1.1: Recover the following amounts from the respective companies:

- Avis - \$28,489
- Custom Pipe - \$3,494
- DVT Hangars - \$3,114
- Enterprise - \$20,160
- Galaxy International - \$891
- Hertz - \$24,480

Response: Business & Properties – Rental Car section will work with Financial Management to research the correct rate adjustment related to the special needs parking and submit a billing advice to either invoice or credit the appropriate amounts from Avis, Enterprise and Hertz. The other issue regarding the CPI rule was adjusted in July 2023 and the appropriate amounts were recovered.

Business & Properties Real Estate Section will review the calculations for Custom Pipe, DVT Hangars and Galaxy International and create billing advices for FMD to correct and bill the amounts not previously invoiced.

Recovery Correction: For Custom Pipe the amount should be \$5,374.47.

Target Date:
2/12/24

Rec. 1.2: Update the rate charged to the rental car companies for special needs parking spaces to the current rate of \$14.

Response: Business & Properties – Rental Car section will work with Financial Management to update the rate charged to the rental car companies for special needs parking. Staff will research the adjusted rate and implement the change. The change will be initiated with a billing advice.

Target Date:
2/12/24

Rec. 1.3: Determine if the rental car company contracts need to be amended to include parking spaces at Terminal 2.

Response: Business & Properties – Rental Car section reviewed the agreement and determined the special needs parking spaces were eliminated from Terminal 2 on 03/29/17. This finding results in a credit back to the rental car companies, but no amendment will be required. Staff will work with Financial Management to calculate

Target Date:
2/12/24

the amounts to be credited and a billing advice will be routed afterwards.	
Rec. 1.4: Use the established SAP process, or develop another process, for tracking and processing Manual Adjustment contracts to ensure they are calculated and adjusted timely.	
<p>Response: Business & Properties – Rental Car section will work with the Parking section to develop a notification process where changes to the parking rates would be communicated to the Rental Car section. Staff will also develop a spreadsheet to track multiple contracts that require special rules such as manual adjustments.</p> <p>Business & Properties – Real Estate Section will develop a process for reviewing, tracking and calculating all manual CPI adjustments to make sure they are calculated and adjusted in a timely manner in accordance with individual lease agreements. Proposed process will be developed on an Excel spreadsheet and will be posted for Real Estate section staff to access on a continuous basis. Spreadsheet will include formatting to prompt timely adjustments without the need for staff to run periodic reports. The process for entering new contracts into SAP will include a step for adding new “non-standard” contracts to the spreadsheet so the list remains up to date.</p>	<p><u>Target Date:</u> 2/12/24</p>
Rec. 1.5: Review a random sample of 100 Standard Adjustment contracts to ensure they are correctly entered in SAP (correct rule and activated). Once that review is complete, determine if it is worthwhile to review all Standard Adjustment contracts to ensure they were correctly entered. Make any corrections and recover corrected amounts.	
<p>Response: Business & Properties staff will work with Financial Management to review a random sample of 100 Standard Adjustment contracts to ensure each contract is calculated and adjusted in accordance with individual lease agreements. Once this review is complete, staff will determine if there is a need for further review of all standard adjustment contracts. Staff will make the appropriate adjustments and credit/debit amounts as necessary.</p>	<p><u>Target Date:</u> 5/31/24</p>
<p>Explanation, Target Date > 90 Days: An effective review and validation of CPI adjustment rules for 100 SAP contracts will require staff time and coordination with staff in the Aviation Financial Management division which would likely impact staff’s ability to complete regular tasks in a timely manner. The additional time will allow staff to select random contracts and accurately evaluate the CPI adjustment rules without significant impact to daily functions. In addition, if significant numbers of</p>	

adjustments are found to be in need of correction, additional staff resources will be necessary.

Rec. 1.6: Review the remaining 12 Manual Adjustment contracts to ensure they are correctly entered in SAP. Make any corrections and recover corrected amounts.

Response: Business & Properties staff will work with Financial Management to review the remaining 12 Manual Adjustment contracts to ensure each contract is calculated and adjusted in accordance with individual lease agreements. Staff will make the appropriate adjustments and credit/debit amounts as necessary.

Target Date:
5/31/24

Explanation, Target Date > 90 Days: Staff wishes to ensure adequate time to correctly evaluate the manual calculations to: ensure the calculations are correct, ensure B&P and FMD staff agree on the methodology, and to make sure any corrections are sufficiently documented to avoid similar findings in future audits. Staff believes the additional time over 90 days is required to accomplish the above.

1 – Adjustment Testing

Background

Most Aviation contracts include language for Consumer Price Index (CPI) adjustments. There are two types of adjustments:

- Standard adjustments – are automatically calculated in SAP based on what is input into SAP at the beginning of the contract.
- Manual adjustments – these do not follow any of the eight standard adjustment rules and are manually calculated by the Business and Properties Division (B&P) program manager.

The billing information is processed by Financial Management Division (FMD) staff. We obtained a report from Aviation of valid contracts with their corresponding CPI adjustment rule from January 2020 through July 2023. The report showed that there were 2,085 contracts during this time. A list of the different adjustment rules, their quantity, and our sampling can be found at **Attachment A – Adjustment Rules**.

Results

Manual Adjustments

Manual adjustments were not calculated and processed timely. Improvements should be made to ensure that they are processed timely.

Manual adjustments are the responsibility of the B&P program manager for each contract. It is their responsibility to complete the adjustment accurately and timely and to send the new amount to FMD for processing. Sometimes, the B&P program managers send the Excel spreadsheet showing the calculation so FMD staff can ensure it is calculated accurately.

The billing advice is sent by the B&P program manager through SharePoint. FMD staff check SharePoint daily for any billing advices that have been entered and need to be processed. FMD staff use the contract screen in SAP to enter the amount manually and then save and activate the change. The new amount also needs to be entered in SAP so it can be billed correctly.

There were 27 contracts where the rates must be adjusted manually. We selected 15 contracts to ensure that the adjustments were calculated correctly and timely. We traced back to the contracts to ensure that the proper adjustment rule was entered in SAP.

The manual adjustments were not calculated correctly in 11 of the 15 contracts. Nine of the 11 contracts were for three rental car companies and related to special needs parking spaces assigned to the companies. The contracts related to parking spaces in Terminal 3 and 4. However, the companies have spaces in terminals 2, 3, and 4.

These contracts began in 2017. Special needs parking rates apply to the block of parking spaces reserved for rental car companies, as well as any private individual who chooses to park in other special needs spaces. Per the contracts, the companies are charged monthly and the rates can be adjusted each January. Since 2017, Aviation adjusted the parking rates in 2022 from \$12 to \$14. However, the \$14 change was not applied to these three rental car companies. We calculated that Aviation undercharged the three companies by \$59,040 for calendar year 2022 and through the first nine months of calendar year 2023.

Rental Car Companies – Parking Spaces Undercharge

	Total # of Spaces	Total Undercharge
Avis	10	\$14,400
Enterprise	14	\$20,160
Hertz	17	\$24,480
Total	41	\$59,040

Aviation undercharged companies by \$59,040.

The remaining two contracts related to DVT Hangars and Galaxy International. The DVT Hangars contract began in May 2021 and should have been adjusted in May 2023, but was not adjusted. The Galaxy International contract began in July 2021 and should have been adjusted in January 2023, but had not been adjusted. We informed B&P staff and they were in the process of calculating the adjustments. Based on our testing, Aviation undercharged DVT Hangars \$3,114 and Galaxy International \$891.

FMD staff stated that there was an established process in SAP that was previously used to remind contract managers to check the CPI or rate adjustments. However, recently, this process has not been used by staff.

Standard Adjustment Rules

Adjustment rules were not always correct in SAP. This can affect the amount billed to vendors. We noted that two vendors were undercharged by \$17,583.

At the beginning of a contract, B&P program managers complete a billing advice with the contract information. Based on information in the billing advice, FMD staff use SAP to enter the month when the rate should be adjusted and the CPI rule to use for the adjustment. Each month, FMD staff run a report which shows which contracts that need to be adjusted for the month. Each month, staff also update the tables for the Long Beach Anaheim 1967 index, Long Beach Anaheim 1982-1984 index, and the Phoenix

Mesa Scottsdale 2001 index. Staff also check to ensure the prior month indices were entered accurately.

We selected 28 contracts to ensure that the adjustments were calculated correctly and timely. For the 28 contracts selected, we validated that the adjustment rule matched the contract. We also validate that:

- For 10 contracts, the entire adjustment history was correct.
- For 5 contracts, the most recent adjustment was correct.

We identified the following exceptions in the 28 contracts tested; overall, Aviation should recover \$17,583:

- 4 had the incorrect rule in SAP:
 - Swissport USA, Inc. – SH WAC PDS, Contract #156961
 - Avis Budget Car Rental, Contract #112518
 - Mesa Airlines, Contract #134356
 - Enterprise Leasing, #113048
- 2 were adjusted late but they were corrected during the audit
- 1 used the wrong month of the index:
 - Custom Pipe and Fabrication, Contract #151989

Recommendations

1.1 Recover the following amounts from the respective companies:

- Avis - \$28,489
- Custom Pipe - \$3,494
- DVT Hangars - \$3,114
- Enterprise - \$20,160
- Galaxy International - \$891
- Hertz - \$24,480

1.2 Update the rate charged to the rental car companies for special needs parking spaces to the current rate of \$14.

1.3 Determine if the rental car company contracts need to be amended to include parking spaces at Terminal 2.

1.4 Use the established SAP process, or develop another process, for tracking and processing Manual Adjustment contracts to ensure they are calculated and

adjusted timely.

- 1.5 Review a random sample of 100 Standard Adjustment contracts to ensure they are correctly entered in SAP (correct rule and activated). Once that review is complete, determine if it is worthwhile to review all Standard Adjustment contracts to ensure they were correctly entered. Make any corrections and recover corrected amounts.
- 1.6 Review the remaining 12 Manual Adjustment contracts to ensure they are correctly entered in SAP. Make any corrections and recover corrected amounts.

Attachment A – Adjustment Rules

Adjustment Rule	# of Contracts	Selected for Testing	Type of Adjustment
CPI-Urban Phoenix-Mesa Base Dec 2001	1,948	10	Standard
No CPI adjustment assigned to the contract in SAP	42	4	Standard
CPI-Urban Phoenix-Mesa Base Dec 2001 plus .5%	26	3	Standard
CPI-Greater of 3% or Urban Phx-Mesa Dec 2001	21	2	Standard
Variable Adjustment	10	3	Standard
CPI-Urban Phoenix-Mesa Base Dec 2001 (5% cap)	7	2	Standard
CPI-Urban LA-Riverside-Orange Co 1982-84 (5% cap)	2	2	Standard
CPI-Greater of 3% or Phx-Mesa Dec 2001 plus .5%	1	1	Standard
CPI-Urban LA-Riverside-Orange Co 1982-84	1	1	Standard
Contractual Rate Chg (CRC)-Add Manual Conditions	22	14	Manual
CPI-Offline Calculation (Avg CPI & Others)	4	1	Manual
Contractual Rate Change (CRC)-Fair Market Value	1	0	Manual
Total	2,085	43	2%

Scope, Methods, and Standards

Scope

We reviewed Aviation contracts from January 2020 through July 2023.

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

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
- 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 interviewed Aviation staff to obtain an understanding of the consumer price adjustment process.
- We obtained an SAP report of valid contracts to select a sample for testing.
- We judgmentally selected a sample of contracts to ensure that the price adjustments were calculated properly and adjusted timely based on contract requirements.

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 reliability of SAP reports RESISDCNAJ and RECN was previously determined 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.