



City of Phoenix

**Mission Statement**

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

**Project Team**

Cristina Preciado  
*Deputy City Auditor*

Leigh Ann Mauger  
*Deputy City Auditor*

Wendy Simeon  
*Internal Auditor*

**Project Number**

1240026

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

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## Water Services Department Position Cost Allocation

January 5, 2024

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### ***Report Highlights***

#### **Position Costs**

*Water used several costing and monitoring methods compared to other departments; however, an assessment to create greater consistency was in progress.*

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*City Auditor Department  
140 N 3<sup>rd</sup> Avenue Phoenix, AZ 85003  
602-262-6641 (TTY use 7-1-1)*

## **Executive Summary**

### **Purpose**

Our purpose was to determine if the process to allocate position costs to the Water Services Department (Water) were consistent, accurate, and authorized.

### **Background**

The City uses several methods to budget and charge position-related costs for work performed for one department but funded by another department. In fiscal year (FY) 2023, Water estimated it paid approximately \$3.6 million in costs, not including work order charges, for positions outside of the Department.

There is limited Citywide guidance on how to manage these costs; therefore, we met with Budget and Research (B&R), Finance, and Human Resources (HR) staff to learn the various methods departments use to fund positions and monitor costs. We identified the following four methods for charging position costs to departments:

- 1) Position Based – the position is tied, in the City’s accounting system (SAP), to a department’s cost center and fund; thus, the salary and employee-related expenses are charged directly in each payroll cycle.
- 2) Mapped – the position is in one department but mapped, through SAP, to another department’s cost center or fund.
- 3) Assessed – position costs are included in assessments in which one department assesses another department through an SAP transaction, either monthly, quarterly, or annually.
- 4) Work Ordered – positions that perform work for a specific department submit monthly charges, through SAP, for hours worked at predetermined hourly rates.

Administrative Regulation (AR) 2.25 establishes a system of position control specific to position based and mapped costs. The AR requires the use of a Position Management Form (PMF) which is approved by both department heads, B&R, and HR.

B&R and HR staff indicated that mapped positions are rare and that most departments submit work order charges. Staff explained that departments are aware of work order charges as it requires the sending department to obtain a cost center to charge the receiving department.

Finance staff explained that assessments can be created and run automatically until the sending department turns the assessment off. Staff reported that some of the assessments have been in existence since the 1990s. B&R and Finance staff advised that departments should review their assessments to ensure that they are accurate and authorized. B&R staff stated that when departments properly monitor their budgets, they should be aware of the allocated position charges, and if they are accurate.

Finance staff advised that the best practice for assessments is for the sending and receiving departments to create agreements or Memorandum of Understanding (MOUs) for each position assessment.

## Survey

In addition to discussing the position control with B&R and Finance, we conducted a survey of six departments to get a broader understanding of how position costs were being allocated. We surveyed Aviation, Community & Economic Development, Convention Center, Planning & Development, Public Works, and Public Transit. We asked the departments how they monitored their position charges and if they used MOUs for the assessed costs. Most departments advised that they reviewed mapped position charges during the B&R position cost review process. The departments also indicated that during the 3+9 budget process they would review their assessed and work ordered charges. In addition, survey respondents indicated that they monitored the specific position cost allocations through monthly budget reviews. All but one surveyed department used MOUs to establish either work orders and/or assessments with the sending department. Aviation had several best practices that would assist Water in the implementation of a detailed monitoring program.

## Results in Brief

**Water used several costing and monitoring methods compared to other departments; however, an assessment to create greater consistency was in progress.**

Prior to the beginning of this audit, Water had identified several positions that they were funding; however, they did not have a good understanding of what services were being performed or of the accuracy of the charges. In addition, Water staff advised that they did not have documented procedures specific to position cost allocations. We obtained and reviewed a current B&R position control report for Water. As a result, we identified 2 positions that were mapped to Water, 14 positions that were position based, and 16 positions that were potentially being assessed to Water. We provided the information to Water for further review.

Based on the survey results and the review of a B&R position control report, most survey respondents only receive position cost charges through assessments or work orders. Water had more mapped positions than any other department. In addition, survey respondents indicated that they were confident in the accuracy and authorization of their position costs due to detailed budgetary reviews and the MOUs that justify the charges.

During this audit, a new Water Services Deputy Director (over Fiscal Management) was hired and initiated a process to identify all the outside positions that were allocated to Water. In addition, staff advised that they were going to determine if the positions were properly allocated and if an MOU was required.

## **Recommendation**

- 1.1 Work with B&R and Finance to develop and formalize Department policy for position cost allocations, which include processes to: 1) identify position cost charges, 2) establish the use of MOUs when necessary, and 3) monitor charges to its budget to ensure accuracy.

## **Department Responses to Recommendations**

**Rec. 1.1:** Work with B&R and Finance to develop and formalize Department policy for position cost allocations, which include processes to: 1) identify position cost charges, 2) establish the use of MOUs when necessary, and 3) monitor charges to its budget to ensure accuracy.

**Response:** The Water Services Department will work with the Budget & Research and Finance Departments to develop and formalize a policy for position costs allocated to the Department, which will include identifying positions and monitoring charges on a regular basis to ensure accuracy and establishing MOUs when necessary.

**Target Date:**  
12/31/24

**Explanation, Target Date > 90 Days:** The target date is greater than 90 days due to the number of departments involved, including the recommended coordination between the Water Services, Budget & Research, and Finance Departments to develop and formalize a policy, and the potential creation of multiple MOUs between the Water Services Department and the various departments for which Water Services is paying for positions.

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

### **Scope**

We interviewed staff and reviewed FY24 position reports.

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

- Control Activities
  - Management should implement control activities through policies.

### **Methods**

We used the following methods to complete this audit:

- We reviewed A.R. 2.25 and PMF instructions.
- We interviewed appropriate staff.
- We obtained and reviewed position and expenditure reports.
- We reviewed SAP support to identify assessments and work orders.

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**

Data for this audit only provided context and did not present any other risks. We ensured that the data was from the best available source.

### **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.