CITY OF SAN ANTONIO

P.O. Box 839966
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December 14, 2022

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Councilman, District 2

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Councilman, District 8

John Courage
Councilman, District 9

Michael Gallagher
Councilman, District 10

SUBJECT: Audit Report of Finance Department Asset Capitalization

Mayor and Council Members:

We are pleased to send you the final report of the Finance Department Asset Capitalization. This audit began in January 2022 and concluded with an exit meeting with department management in August 2022. 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,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

Distribution:
Erik Walsh, City Manager
Ben Gorzell, Chief Financial Officer
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Judy Treviño, Audit Committee Member

CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance Department

Asset Capitalization

Project No. AU22-017

December 14, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically asset capitalization. The audit objectives, conclusions, and recommendations follow:

Determine if assets are properly accounted for (capitalized) in accordance with Finance policies and accounting standards.

We determined the Finance department can further improve the performance of physical inventory counts, related policies and procedures, and user access privileges.

We recommend that Finance management:

- Resume the performance and monitoring of physical inventory counts performed by departments.
- Reevaluate current policies and perform periodic reviews to ensure that department policies are consistent with department practices and City objectives.
- Remove excessive user access privileges for asset creation and modification within SAP and perform periodic reviews of user access.

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 6.

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Background

The Finance Department is responsible for the safeguarding of the City of San Antonio's (the "City's") financial assets and management of its financial resources. It is the policy of the City to properly account for all components of the process from the acquisition to the disposition of capital assets and tracked property. In FY 2021, total capital asset additions and deletions totaled $454 million and $61 million, respectively.

Capital and Tracked Property

Capital assets are items valued over $5,000 with a useful life of over one year which may be classified as Land and Land Improvements, Construction in Progress ("CIP"), Buildings, Improvements (other than buildings), Infrastructure, Computer Equipment, Computer Software, Machinery and Equipment, Automotive Equipment, or Intangibles.

Conversely, tracked property are items that do not meet the City's capitalization thresholds and are under $5,000. These items are tracked by their respective department for accountability and insurance purposes.

Physical Inventory Counts

The City maintains accountability for its assets by conducting physical inventories on a recurring basis. Asset listings provided by Central Finance are used by City Departments to account for each asset and reconcile to SAP asset records. All assets should have asset tags unless the physical attributes make it impossible to affix an asset tag. The required frequencies of inventory counts vary between annual counts for ITSD assets and two years for other assets.

SAP Access Security

The SAP Fixed Asset ("FA") module is the City's system of record used to account for all capital and tracked property. Within the FA module, end users use transaction codes to perform an action or activity in SAP, such as creating and modifying asset records. To reduce the City's risk exposure, end user access privileges may be customized through the modification of restrictions within transaction codes.

Audit Scope and Methodology

The audit scope included all assets acquired and disposed between October 2020 through January 31, 2022.

We conducted interviews of appropriate personnel, performed walkthroughs, and reviewed policies and procedures. We also reviewed asset additions and disposals, procedures for monitoring tracked property, physical inventory counts, calculations of asset depreciation, and user access. Testing criteria included City Administrative Directives 8.7 and 7.8d and best practices.

We assessed internal controls relevant to the audit objective. This included a review of written policies and procedures, asset acquisition and disposal approvals, inventory counts, and asset reconciliations.

We relied on computer-processed data in SAP, the City's accounting system, to validate asset data. 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 comparing SAP asset records against supporting documents such as invoices, department reports, and physical observations. 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. Performance of Physical Inventory Counts

Sufficient supporting documentation indicating the performance of physical inventory counts for 5 of 8 City departments was not obtained. *City Administrative Directive 8.7 Financial Management of Capital Assets and Tracked Property* states that physical inventory counts should be taken during their respective inventory cycle (with most inventory cycles being one year). However, due to limited staff resources after emergency deployment during COVID19, City departments were unable to perform consistent physical inventory counts. The inconsistent performance of annual physical inventory counts results in outdated asset listings, which in turn may increase the risk of lost or stolen assets.

Recommendation

The Deputy CFO or designee should resume the performance of physical inventory counts and monitor the implementation of physical inventory counts performed by departments.

B. Asset Disposal Policies and Procedures

Department asset disposal procedures are not consistent with City policies. *Administrative Directive 8.7 Financial Management of Capital Assets and Tracked Property* states that if capital assets are no longer in service the responsible department must submit a Capital Asset and Tracked Property Disposal Form to Central Finance that is authorized and signed by the Department Director or designee. However, we found that for 21 of 25 (84%) disposed assets selected for testing, no form was retained. As a compensating control to ensure the timely and accurate recording of asset changes, Central Finance conducts periodic meetings with departments that experience high volumes of asset turnover or transfers (such as CIP).

Recommendation

The Deputy CFO or designee should reassess policies and procedures to ensure that department policies are consistent with department practices and perform annual reviews of policies and procedures for capital and tracked property to ensure policies align with current practices and City objectives.

C. Excessive User Access Privileges

Access to City asset records is not appropriately restricted. Specifically, 38 users had excessive access to SAP transaction code AS01, to record asset acquisitions and two (2) users had excessive access to code ABAVN, to record asset disposals. *Administrative Directive 7.8d Access Control* states "access to COSA assets is based on an individual's membership in a group, job function, and/or role in their assigned City department. Access permissions will use the principle of least privilege." Inappropriate access to SAP transaction codes AS01 and ABAVN for asset acquisitions and disposals could lead to City financial losses and security breaches.

Recommendations

The Deputy CFO or designee should remove access privileges for users with excessive rights to transaction codes AS01 and ABAVN and perform periodic reviews of user access privileges to ensure compliance with City Administrative Directives.

Appendix A – Staff Acknowledgement

Gabriel Trevino, CISA, Audit Manager
Judith Flores, CPA, Auditor in Charge
Loretta Faxlanger, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 21, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Finance Department Asset Capitalization

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

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	**Performance of Physical Inventory Counts** The Deputy Chief Financial Officer should resume the performance of physical inventory counts and monitor the implementation of physical inventory counts performed by departments.	3	Accept	Melanie Keeton, Assistant Finance Director	December 22, 2022
	Action plan: Asset inventory observations were placed on hold during the past two years due to the remoting nature of City staff, closure of City facilities, and shift in departments focus city-wide in response to the pandemic. Finance re-instituted the mandatory bi-annual asset inventory observations earlier this spring. The Department Fiscal Administrators are working with their assigned departments to conduct the inventories and ensure necessary accounting adjustments (where applicable) are made in SAP. Departments have been provided a deadline to provide the results of their audits to Finance's Controller's Office no later than December 22, 2022.				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
B	**Asset Disposal Policies and Procedures** The Deputy Chief Financial Officer should reassess policies and procedures to ensure that department policies are consistent with department practices and perform annual reviews of policies and procedures for capital and tracked property to ensure policies align with current practices and City objectives.	3	Accept	Melanie Keeton, Assistant Finance Director	September 30, 2022
	Action plan: Finance agrees with the recommendation and will strengthen communication with departments to ensure that all asset disposals include the Department Director or designee's approval and authorization on the form or coversheet. We have coordinated with the respective departments to provide the appropriate disposal forms as required by Administrative Directive 8.7.				
D	**Excessive User Access Privileges** The Deputy Chief Financial Officer should remove access privileges for users with excessive rights to transaction codes AS01 and ABAVN and perform periodic reviews of user access privileges to ensure compliance with City Administrative Directives.	4	Accept	Melanie Keeton, Assistant Finance Director	August 31, 2022
	Action plan: Semi-annual user access role reviews were placed on hold during the past two years due to the remoting nature of City staff, staff absences or vacancies, and shift in departments focus city-wide in response to the pandemic. Finance re-instituted the mandatory semi-annual user access role reviews earlier this spring. The Department Fiscal Administrators are working alongside Compliance and Resolution to validate access roles for staff within their servicing departments and identifying those users who need to have their roles adjusted due to their current work assignments. All users with excessive access privileges noted in the report at the time of this audit have been delimited.				

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We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott
Deputy Chief Financial Officer
Finance Department

10/31/2022
Date

Ben Gorzell
Chief Financial Officer
City Manager's Office

11/19/2022
Date

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