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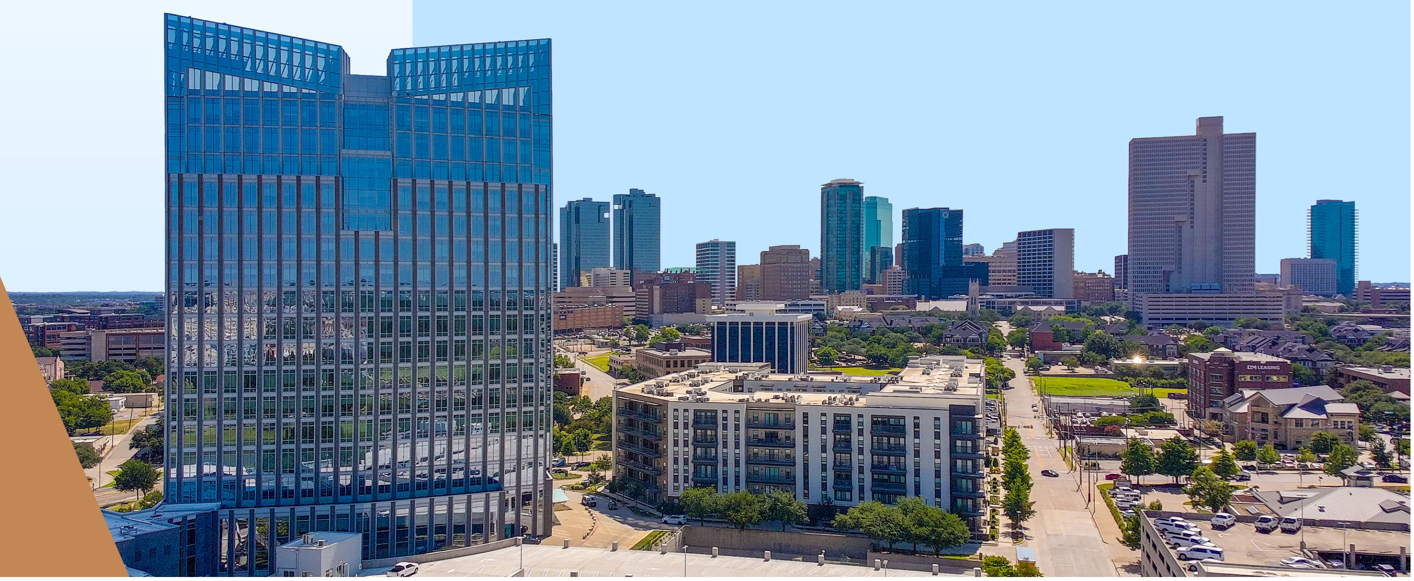
FORT WORTH®

AUDIT REPORT

INTERNAL SERVICE BILLING PROCESS AND COST ALLOCATIONS

SEPTEMBER 4, 2026



CITY OF FORT WORTH DEPARTMENT OF INTERNAL AUDIT

100 FORT WORTH TRAIL FORT WORTH, TX 76102

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AUDIT REPORT

INTERNAL SERVICE BILLING PROCESS AND COST ALLOCATIONS

The Internal Service Billing Process and Cost Allocations Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2026 Annual Audit Plan.

AUDIT OBJECTIVE

The objective of this audit was to determine whether internal service charges to departments are accurately calculated and allocated to properly reflect costs associated with the services provided.

AUDIT SCOPE

Our audit included a review of internal service charges allocated and recommended for the period October 1, 2024 through September 30, 2025. Activity beyond this period was reviewed as deemed necessary.

OPPORTUNITIES FOR IMPROVEMENT

E-mail communications clearly explaining the basis for cost allocations

Equitable cost distributions

Billing of radio services as required by contract

Properly calculated hourly labor rate

Comprehensive and up-to-date standard operating procedures

EXECUTIVE SUMMARY

As part of the Fiscal Year 2026 Annual Audit Plan, the Department of Internal Audit conducted an Internal Service Billing Process and Cost Allocations Audit. To achieve our audit objective, we reviewed cost allocation methodologies and calculations of indirect expenses charged across City departments. Based on our test results, we identified opportunities to improve the City's internal service billing and cost allocation process.

When testing cost allocations made by the Information Technology Solutions (ITS) and Property Management Departments, we concluded that email communications to user departments did not include details to sufficiently support calculation methodologies and/or amounts charged.

Salary and benefits costs related to radio and computer-aided dispatch (CAD) services were charged to all City departments, although not all City departments used those radio and CAD services. Additionally, when charging departments for hours worked on projects (e.g., combo-hours), ITS Department staff's total project hours were allocated to each department rather than proportionally distributing total project hours amongst benefiting departments.

Based on our audit results, the City billed user departments and third parties for radio services, with user department allocations being impacted by third-party billings. When reviewing third party billings, we concluded that City of Fort Worth radio service billings to those third parties did not fully align with contract terms. Additionally, the ITS Department did not process prorated billings to third parties for radios added throughout the year, and did not bill third parties for over-the-air rekeying services. We also concluded that the ITS Department did not have comprehensive SOPs to govern billings for radio services provided to third parties.

Since the administrative fee (i.e., a fixed amount) charged to a general ledger account designated for the Financial Management Services Department was included in the Fleet Service Division's hourly mechanical labor rate, we concluded that the mechanical labor rate charged by the Fleet Service Division was overstated. Alternatively, since the administrative fee should have been considered an administrative type cost, the Fleet Service Division's other allocation (Fleet Administration) was understated.

These audit findings are discussed in further detail within the Detailed Audit Findings section of this report.

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Background

Internal service funds are accounting devices used to accumulate and allocate costs internally among various City functions. The City, therefore, uses internal service funds to account for costs related to services such as electricity, information technology-related services, equipment-related services, group health insurance, etc.

Internal service charges result from one department allocating costs to benefiting departments. The costs are allocated based on actual consumption or distributing those costs proportionally, evenly, etc. based on drivers such as the number of full-time equivalents (FTEs). According to the City of Fort Worth's FY2025 Budget Reference Manual, allocations are preset amounts established by a department that provides a resource or service to another department. These allocated amounts are budgeted over a 12-month period and do not change throughout the fiscal year.

Some internal service charges are referred to as budget recommendations (versus allocations) and are determined by the charging/recommending department, based on historical trends and current drivers. Since these recommended amounts become a part of departmental budgets, the City of Fort Worth's FY2025 Budget Reference Manual indicates that departments are encouraged to work with the recommending department if there are questions. Additionally, departments being charged have some discretion as to whether and how much they incorporate in their departmental budget. During the year, actual costs are charged out to user departments on a monthly basis.

Several departments utilize the Internal Service Fund to charge other departments for shared services. The two departments that provide services to most departments are the Information Technology Solutions Department (e.g., laptops, desktops, and IT services) and the Property Management Department (e.g., vehicles and equipment, fuel, and repairs).

Information Technology Solutions (ITS) Department – The ITS Department allocates charges to user departments for the following services.

- *Computer-Aided Dispatch (CAD) Services* – The ITS Department charges for CAD operations and maintenance costs, excluding salaries and benefits which are recovered through the ITS Services (e.g., Administrative Fee) allocation. CAD allocations are based on department-specific costs and an agreed upon split (between the Police Department (e.g., 65%) and the Fire Department (e.g., 35%)) for line items not specific to an individual department (i.e., CAD services provided to both departments).
- *Computer Services* – The ITS Department charges all City departments for ITS Desktop Engineering operations and maintenance costs, excluding salaries and benefits which are recovered through the ITS Services (e.g., Administrative Fee) allocation. Computer Services allocations are based on computer and laptop count.
- *IT Direct* – The ITS Department charges user departments for software that is specific to those user departments. Since these are department-specific, all costs associated with the related software are billed to those user departments. In cases where the software is shared (e.g., eCitation used by the Municipal Court and the Police Department), the costs are allocated to each department based on software license count.
- *ITS Services (*e.g., *Administrative Fee)* – The ITS Department charges all City departments for ITS staff salaries and benefits (excluding contracted ITS employees and outside IT consultants) based on project hours and FTEs. ITS Divisions (e.g., Network Services) recover contracted ITS employee and outside IT consultant expenses by charging those related costs to a general ledger expenditure account (e.g., Consultants).

- *Network Services* – The ITS Department charges all City departments for ITS Network Services and Circuits operations and maintenance costs, excluding salaries and benefits which are recovered through the ITS Services (e.g., Administrative Fee) allocation. The Network Services allocations are based on computer and laptop count.
- *Radio Services* – The ITS Department charges user departments for ITS Radio Services operations and maintenance costs, excluding salaries and benefits which are recovered through the ITS Services (e.g., Administrative Fee) allocation. The Radio Services allocations are based on radio count. The ITS Department also bills third parties (e.g., local, state, federal, and private entities) to recover radio service costs. Based on the City's website, the Wireless Communications Division of the ITS Department supports a public safety radio system that provides communications for first responders across much of North Central Texas. The City's website further states that local, state, federal, and private entities access the radio system for either primary communications or mutual aid operations.
- *IT System Support* – The ITS Department charges all City departments for other ITS operations and maintenance costs, with allocations based on the number of FTEs.

Property Management Department – The Property Management Department (PMD) charges departments that utilize City of Fort Worth (CFW) fleet services and occupy CFW building space. A Fleet Administrative Fee is allocated for overhead costs, based on vehicle count, while an Electricity Fee is recommended for utility costs, based on prior year billings and the PMD's most recent space-usage survey. PMD allocations and recommendations consist of:

- *a Fleet Services Administrative Fee;*
- *fuel, oil, and lubricants;*
- *vehicle/equipment repairs and maintenance labor;*
- *vehicle/equipment repairs and maintenance parts;*
- *outside repair and maintenance; and,*
- *electricity.*

Allocations and Budgetary Recommendations, by Service-Providing Department

Allocations	
Department	**Description**
Financial Management Services	Administrative Fee
Human Resources	Claim Payments and Costs
	Commercial Insurance
	Lawsuits
	Retiree Health
	Workers Compensation
Information Technology Solutions	Computer-Aided Dispatch (CAD) Services
	Computer Services
	IT Direct
	IT Services (Administrative Fee)
	Network Services
	Radio Services
	IT System Support
Property Management	Fleet Services Administrative Fee
Transportation and Public Works	Storm Water Utility Fee

Budgetary Recommendations	
Department	**Description**
Financial Management Services	Debt Service
Human Resources	Tuition Reimbursement
	Unemployment Compensation
Property Management	Fuel, Oil and Lubricants
	Vehicle/Equipment Repairs and Maintenance Labor
	Vehicle/Equipment Repairs and Maintenance Parts
	Outside Repair and Maintenance
	Electricity

Source: FY2025 Budget Reference Manual

Objective

The objective of this audit was to determine whether internal service charges to departments are accurately calculated and allocated to properly reflect costs associated with the services provided.

Scope

Our audit included a review of internal service charges allocated and recommended for the period October 1, 2024 through September 30, 2025. Activity beyond this period was reviewed as deemed necessary.

Methodology

To achieve the audit objective, the Department of Internal Audit performed the following:

- interviewed staff within the FWLab and the ITS and Property Management Departments;
- surveyed all departments regarding the City's internal service allocation and recommendation process;
- performed recalculations of sampled internal service allocations billed by the ITS Department and the Fleet Services Division of the Property Management Department;
- reviewed relevant ITS and Property Management departmental policies and procedures;
- obtained and reviewed Government Finance Officers Association's (GFOA) best practices regarding internal service billing allocations; and,
- evaluated internal controls related to internal service billing and cost allocations.

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

To identify focal points for this audit, the Department of Internal Audit surveyed all City departments. Each department therefore received two surveys with questions about: 1) *being charged for* internal services provided by another department and 2) *charging other departments* for internal services provided. Since the majority of survey responses revealed departmental concerns regarding charges for information technology and fleet-related services, our audit focused on cost allocations and budgetary recommendations made by the ITS Department and the Fleet Services Division of the Property Management Department.

Based on our test results, the City of Fort Worth has processes in place to ensure that costs shared amongst departments are allocated across City departments. As stated within the Background section of this report, allocated amounts are budgeted over a 12-month period and do not change during the fiscal year. Allocated amounts can therefore exceed the charging department's actual expenses. For example, total FY2025 allocations by the ITS Department exceeded their actual expenses by approximately $289,000.00 (or 0.62%), whereas the Fleet Division's fleet administrative allocation exceeded their actual expenses by approximately $3,700.00 (or 0.17%) – both less than 1%.

Our audit testing resulted in the identification of cost allocation/recommendation practices that could be improved upon.

- E-mail communications sent to sampled departments lacked details that were necessary to clarify the basis of ITS Department and Fleet Services Division allocations and recommendations. For example, emails and supporting documents lacked explanations of the basis of charges and did not consistently identify cost components, allocation drivers, or department-specific allocation percentages.

- Internal Audit concluded that salaries and benefits for ITS' radio and CAD services staff were included in an allocation charged to all City departments, rather than limiting allocated charges to departments that specifically used radio and CAD services.

- An erroneous formula in the ITS Services (Administrative Fee) allocation workbook overstated "combo hours" assigned to departments benefiting from shared projects.

- Internal Audit also found that ITS' billing practices for external radio users were not aligned with contractual requirements. For example, ITS did not bill external users for all contractually authorized charges, specifically pro-rata radio increases and Over-the-Air Rekeying (OTAR) services (i.e., changing the radio communication key over the air versus bringing the radio in for physical rekeying). ITS also did not maintain current and comprehensive, standard operating procedures for external radio billings. When inquiring with ITS management about benchmarking practices for third-party pricing, ITS management indicated the ITS Department benchmarks with other cities.

- The Fleet Services Division included the finance administrative fee (allocated to all City departments, including the Fleet Services Division of the Property Management Department) when calculating the mechanical hourly labor rate. Since work order costs vary based on the total number of labor hours billed, Internal Audit concluded that the finance administrative fee (i.e., a fixed cost) should have been included in the fleet administrative allocation, which is also a fixed cost, rather than including it in the variable, mechanical hourly labor rate. Otherwise, the calculated mechanical hourly labor rate is overstated.

We also noted some clerical errors within the ITS Department's Allocation Statement. For example, numbers on some statements did not foot (i.e., did not add up), although the correct percentage was used in the calculation. We also identified instances where the department name on top of the statement was not the department to which the allocation related, indicating an oversight when updating the statement template. These did not rise to the level of a finding, but were verbally communicated to management.

Overall Risk Evaluation

High	Medium	Low
E-mail communications lacking clarifying details regarding cost allocations		
	Cost allocations not limited to departments using the services	
	Non-billing for use of additional radios	
	Non-billing for over-the-air-rekeying services	
	Mechanical hourly labor rate not properly calculated	
	Incomplete and outdated standard operating procedures	

Detailed Audit Findings

1. E-mails that communicated cost allocations to user departments lacked clarifying details.

GFOA's publication, entitled *Measuring the Full Cost of Government Service,* promotes transparency in cost allocation through the principles of fairness and communication. The guideline states that customers and internal users must understand how costs are calculated. However, we concluded that communications provided to user departments lacked necessary details for users to understand how allocated costs were determined.

For audit testing purposes, Internal Audit judgmentally selected a sample of 10 City departments, focusing on departments with the largest count of variables (e.g., assets/laptops) for which cost allocations would have been based, and departments whose survey responses revealed concerns with fleet and IT cost allocations.

- The FY2025 fleet services allocation workbook (emailed to user departments) included departmental allocation percentages and amounts, by cost center. However, the workbook did not provide details regarding projections on which the allocation (i.e., Fleet Services Administrative Fee) and budget recommendations (e.g., fuel, oil and lubricants) were based. For example, the workbook included a lump sum amount of expenditures to be allocated, but did not include what was used to arrive at that lump sum amount.

  Fleet Services' emails encouraged departments to work with the user department's Budget Analyst and Equipment Coordinator regarding budgetary recommendations. Although this helps ensure open lines of communication, lack of sufficient detail prompts informational requests from departments wanting to understand the basis for the allocation and budgetary recommendations.

- Once the ITS Department confirmed user department FTEs and number of IT assets, ITS calculated departmental allocations and sent supportive written statements to user departments. Although ITS's statements provided departmental allocations by fund and type, the statements did not include information necessary for the departments to understand how the allocations were calculated. For example, Allocation Statements included departmental asset counts, but not as a percentage of the City's total IT asset count, which is required to arrive at the percentage used in the calculation.

Excluding pertinent details within initial communications to user departments can result in unnecessary inquiries or confusion regarding cost allocations, budgetary recommendations, and/or methodologies. Lack of communicating such details could also reduce departments' abilities to assess the accuracy and fairness of charges, increase the risk of disputes, and erode trust in the internal service billing process.

Recommendation 1A: *The Property Management Department Director should ensure written communications include sufficient detail that allows user departments to obtain an understanding of the methodology and calculation used to arrive at allocated and recommended amounts, including but not limited to:*

- *cost components included in each charge;*
- *allocation basis and drivers used;*
- *department-specific vehicle reconciliation; and,*
- *year-over-year changes and key assumptions.*

Auditee's Response: Concur.

Target Implementation Date: June 30, 2027

Responsibility: Diana Carranza, Senior Administrative Service Manager

Applicable Department Head: Marilyn Marvin, Property Management Director

Applicable Assistant City Manager: Valerie Washington

Recommendation 1B: *The Chief Technology Officer should ensure written communications include sufficient detail that allows user departments to obtain an understanding of the methodology and calculations used to arrive at allocated amounts, including but not limited to:*

- *cost components included in each charge;*
- *allocation basis and drivers used;*
- *department-specific asset percentage and allocation percentage; and,*
- *year-over-year changes.*

Auditee's Response: Concur.

Target Implementation Date: January 1, 2027

Responsibility: Cynthia Tyree, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

2. ITS Services (e.g., Administrative Fee) costs were not distributed equitably.

GFOA guidance emphasizes that Internal Service Fund charges should be based on the principle of cost and benefit, which means costs should be allocated to departments that directly benefit from the service.

- As noted within the Background section of this report, the ITS Department's Administrative Fee is charged to departments for ITS staff salaries and benefits, excluding those of contracted ITS employees and outside consultants. Based on our test results, the ITS Department charged all City departments for radio and CAD services (salaries and benefits), although not all departments used those services. While only 11 departments used radio services and only two departments used CAD services, all City departments were charged for salary and benefits costs associated with the Radio and CAD Services Divisions. Internal Audit did note that charges other than salaries and benefits were properly allocated.

FY2025 Radio and CAD Service User and Paying Departments

City Department	Paid for Radio Services and CAD Salaries and Benefits	Use Radio Services	Use CAD
Aviation	X	X	
City Attorney's Office	X		
City Manager's Office	X		
City Secretary's Office	X		
Code Compliance	X	X	
Communications and Public Engagement	X		
Development Services	X		
Economic Development	X		
Emergency Management and Communications	(1)		
Environmental Services	X	X	
Financial Management Services	X		
The FWLab	X		
Fire	X	X	X
Human Resource	X		
Internal Audit	X		
Information Technology Solutions			
Library	X		
Municipal Court	X	X	
Neighborhood Services	X		
Office of the Medical Director	(1)		
Office of the Police Oversight Monitor	(2)		
Park and Recreation	X	X	
Police	X	X	X
Property Management	X	X	
Public Events	X	X	
Transportation and Public Works	X	X	
Water	X	X	

Source: CFW general ledger and ITS' cost allocation workbook

(1) To set budget allocations for the upcoming fiscal year, ITS' FY2025 cost allocation was completed in FY2024. Since the Emergency Management & Communications Department and the Office of the Medical Director were established after FY2025 cost allocations were calculated, radio and CAD service allocations were not charged to these two departments.

(2) In FY2025, the Office of the Police Oversight Monitor was part of the City Manager's Office.

The ITS Department budgeted $22,790,268 for total FY2025 salaries and benefits, excluding those of contracted employees and consultants. Internal Audit did not determine the financial impact to each department because in addition to a recalculation being tedious and time consuming, during our audit period, the manner in which combo project hours were tracked did not allow for a properly supported allocation by department. ITS' current methodology could potentially impact departmental budgets and decision-making.

- We also noted that ITS' FY2025 ITS Services (e.g., Administrative Fee) allocation contained an incorrect formula within the calculation of combo project hours, which are hours the IT team spent working on projects benefitting more than one department. Based on our test results, combo project hours were added to each department instead of being divided among the departments benefiting from the project (i.e., gross number of hours were duplicated). The ITS Services allocation is therefore distorted.

The following table provides examples of project hours totaling 5,145.50 and 302.00 that were added to each applicable department instead of being based on each department's percentage of benefit. Based on feedback obtained, management was aware of this practice but had not arrived at a proper solution.

Examples of Duplicated Project Hours

Project	Total Project Hours	Department	Allocated Hours in Full	Allocated Hours, if Distributed Equally	Variance
A	5,145.50	Police	5,145.50	2,572.75	2,572.75
		Fire	5,145.50	2,572.75	2,572.75
B	302.00	Park and Recreation	302.00	75.50	226.50
		Property Management	302.00	75.50	226.50
		Transportation and Public Works	302.00	75.50	226.50
		Water	302.00	75.50	226.50

Source: Auditor-Generated (from the CFW ITS' cost allocation records)

Recommendation 2A: *The Chief Technology Officer should ensure that radio service and CAD allocations are only charged to departments that specifically use the service.*

Auditee's Response: Concur.

Target Implementation Date: January 1, 2027

Responsibility: Cynthia Tyree, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Recommendation 2B: *The Chief Technology Officer should ensure that project combo-hour calculations are properly formulated.*

Auditee's Response: Concur.

Target Implementation Date: January 1, 2027

Responsibility: Cynthia Tyree, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

3. **The Information Technology Solutions Department did not bill external radio users as required by contract.**

Within the *Applicable Fees* section of Exhibit A of written radio-related agreements between the CFW and third parties, the City was to bill agreed upon fees which varied by third party based on service level.

- Invoicing for radio subscriptions was to occur at the beginning of each fiscal year (October 1), based on monthly rates for all active radio IDs issued at the time of the annual billing, and on a pro-rata basis for new radio issuances thereafter. No refunds or credits were to be processed for radios removed from service during the fiscal year.
- Invoicing to third parties for services such as tower leases and radio repairs were to be billed either monthly (e.g., for tower leases) or upon point of service (e.g., for radio installation and repairs).

During FY2025, the City billed 64 third parties a total of $3,242,445.86. This amount included $2,310,885.15 in charges related to subscriptions for 15,512 radios and $931,560.71 for other services such as trip charges, repairs, system upgrades, and installations. Based on our review of ITS' monthly Active Radio Reports (as of September 30, 2025), a total of 15,735 radios were active and labeled as billable. However, since the City only billed for 15,512 radios, Internal Audit concluded that pro-rata billings for the net additional 223 radios added throughout the year were not processed. As a result, based on the actual in-service periods noted as billable, we concluded that the City underbilled approximately $51,000.00. To ensure that the approximate $51,000.00 had not been billed in a subsequent year, Internal Audit reviewed FY2026 records, but found no indications that pro-rata billings had been made. It should be noted that the radio count may exceed 223 if any initial radios dropped during the year.

Revenue is missed when the City does not bill as contractually required and agreed upon. Based on discussions with management, the City has historically not billed for pro-rata radio additions. While Internal Audit's fieldwork was limited to FY2025, we observed contracts that included pro-rata billing requirements dating as far back as 2013. The total impact of radio service underbillings could have therefore existed as far back as, and possibly prior to, 2013.

In addition, CFW records indicated that as of March 2025, another third-party had approximately 300 active radios within the City's radio system. However, there was no evidence that the City billed this third party for those radios, as required by contract. For FY2026, CFW records indicate that this third party was billed for installation/programming services. However, they were not billed for the radio subscriptions. As a result, the City underbilled at least $68,000.00.

Recommendation 3A: *The Chief Technology Officer should consider billing third parties: a) the approximate $51,000.00 that went unbilled for radio IDs issued after the City's initial FY2025 billing (i.e., bill for missed pro-rata charges); and, b) the approximate $68,000.00 that was not billed for active radios.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Recommendation 3B: *The Chief Technology Officer should ensure that processes are implemented to ensure that external radio users are billed as required by contract.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Recommendation 3C: *The Chief Technology Officer should consider billing third parties for unbilled radio IDs issued after the City's initial billings, for periods prior to FY2025, provided the City of Fort Worth is within the statute of limitations, records exist to adequately support billings, and billing is financially feasible.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

4. The Information Technology Solutions Department did not have a process to ensure proper billing for Over-The-Air-Rekeying services.

Within the *Applicable Fees; Termination; Refunds* section of Exhibit A of written Communications System Agreements, users choosing to subscribe with the CFW for Over-the-Air Rekeying (OTAR) services shall pay the CFW an annual OTAR Administration Fee of $1.00 per month, per subscriber radio.

Internal Audit did not identify any FY2025 OTAR billings. Additionally, Radio Services Division staff confirmed there were no FY2025 billings. We did, however, observe:

- an Excel spreadsheet that included information related to subscription and system upgrade services with an "O" listed for four third parties;
- a legend indicating that "O" represented OTAR; and,
- two other agencies within the Motorola CirrusCentral system (used by the ITS Department to track Radio IDs) with "OTAR" in the name field.

Radio Services Division staff's response was that the "O" was noted only for internal reference and OTAR was not historically tracked.

Recommendation 4A: *The Chief Technology Officer should ensure that a process is implemented to properly track Over-the-Air Rekeying users.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Recommendation 4B: *The Chief Technology Officer should ensure that tracked Over-the-Air Rekeying users are billed as required by the contract.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Recommendation 4C: *The Chief Technology Officer should bill for FY2025 Over-the-Air Rekeying services, provided such billings are adequately supported and deemed financially feasible.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

5. The methodology used to calculate the fleet mechanical hourly labor rate is questionable.

GFOA's publication, titled *Measuring the Full Cost of Government Service,* states that allocations should reflect direct costs, including salaries. It also indicates that allocations should consider cause-and-effect relationships, benefit received, and fairness.

All City departments are charged a finance Administrative Fee to indirectly recover central services costs. This Administrative Fee is a fixed cost that the Fleet Services Division included in its calculation of the FY2025 mechanical hourly labor rate. Since this fee is not affected by the amount of mechanical work, including it in the mechanical hourly labor rate calculation distorts the cost of mechanical services and reduces transparency regarding the basis for charges to user departments. Additionally, the mechanical hourly labor rate is intended to recover labor-related repair and maintenance costs.

We therefore concluded that the mechanical hourly labor rate was overstated by $11.78/hour ($1,187,497/100,767 hours). Alternatively, since the allocation should have been considered an administrative fee, we concluded the Fleet Administration Allocation was understated by $258.32 per vehicle.

The current methodology could cause an unintended effect whereby departments could be more likely to delay repairs and maintenance, or circumvent City procedures and opt for outside repairs in an attempt to lower departmental costs.

The Property Management Department indicated that since the finance Administrative Fee covered administrative type costs (e.g., human resources), the finance Administrative Fee was included in the mechanical hourly labor rate that recovered the majority (83%) of salaries and benefits costs budgeted within the Fleet and Equipment Services Fund. As a result, the Property Management Department considered the mechanical hourly labor rate to have recovered the full cost of the finance Administrative Fee allocation.

Recommendation 5: *The Property Management Department Director should properly allocate administrative costs.*

Auditee's Response: Partially Concur (contingent on financial impact on increasing the fleet administrative fee to reflect administrative costs allocation).

Target Implementation Date: June 30, 2027

Responsibility: Diana Carranza, Senior Administrative Service Manager

Applicable Department Head: Marilyn Marvin, Property Management Director

Applicable Assistant City Manager: Valerie Washington

6. Standard operating procedures governing some internal service charges were outdated and not comprehensive.

GFOA's publication, *Policies and Procedures Documentation,* states that documentation of financial and accounting policies and procedures should be evaluated annually, updated at least every three years, and according to a predetermined schedule. GFOA further states that changes in policies and procedures that occur between periodic reviews should be updated in the documentation promptly, as they occur.

Based on our audit results, the ITS Department's Radio Division did not maintain current and complete written procedures for billing external radio users. For example, procedures provided to and reviewed by Internal Audit:

- referenced WAVE, a type of radio system that is no longer in use, and reportedly has not been used since September 2024;
- did not address the City's contractual requirement to bill radio increases on a pro-rata basis; and,
- was silent regarding billings required for Over-the-Air-Rekeying services.

Without updated standard operating procedures that are aligned with contract terms, the City risks inconsistent application of charges and missed or delayed billing of contractually authorized charges.

Recommendation 6: *The Chief Technology Officer should ensure that standard operating procedures are current, comprehensive, and aligned with authorized practices and contractual terms.*

Auditee's Response: Concur.

Target Implementation Date: January 30, 2027

Responsibility: Donlen Ruffin, Assistant IT Solutions Director

Applicable Department Head: Kevin Gunn, Chief Technology Officer

Applicable Assistant City Manager: Dianna Giordanno

Acknowledgements

The Department of Internal Audit would like to thank all City departments for their cooperation and assistance during this audit.