
**CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR**

**AVIATION DEPARTMENT &
FINANCE DEPARTMENT**
AUDIT OF CONSTRUCTION IN PROGRESS
CAPITALIZATION
PROJECT NO. AU23-003
MARCH 18, 2024

KEVIN W. BARTHOLD, CPA, CIA, CISA
CITY AUDITOR



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Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department and Finance Department, specifically the accounting of Aviation capital construction projects. The audit objective, conclusion, and recommendations follow:

Determine if Aviation capital construction projects are accounted for properly as completed and put into service.

Aviation capital construction projects are accounted for properly as completed and put into service. The Aviation Department has effective controls that ensure a Summary of Completed Projects form is submitted to the Finance Department to communicate when project costs should be capitalized. The Finance Department has effective controls for approving the appropriate project costs to be capitalized, creating new assets, and assigning the appropriate asset class and useful life to each asset.

In addition, the Finance Department has adequate procedures in place to verify assets created from Aviation construction projects are depreciating accurately. Lastly, the Finance Department has sufficient controls in place to ensure employees are not assigned to conflicting user roles in SAP.

We make no recommendations to the Aviation Department and the Finance Department; consequently, no management responses are required. Management's Acknowledgement of these results is in Appendix B on page 7.

Background

The San Antonio International Airport currently provides flights to more than 10 million passengers every year. In the next 20 years, as the San Antonio metro area's population continues to grow, the number of passengers may potentially grow to 15 million per year. To accommodate this growth and continue to generate prosperity for our region, the Aviation Department must keep up with these growing air travel needs. The Aviation Department is currently involved in numerous capital construction projects under the Strategic Development Plan, which includes a Terminal Development Program with a \$1.4 billion budget.

The Aviation Department oversees the design and the development of each capital construction project, and the Finance Department manages the proper accounting of the project costs. Project costs are accumulated in a Construction in Progress general ledger account until they are ready to be capitalized or expensed. The Aviation Department and the Finance Department meet regularly to discuss the status of each capital construction project and to determine if any project costs need to be capitalized at that time. These communications between Aviation and Finance continue through the life of the project. The Aviation Department Fiscal Administrator sends a Summary of Completed Projects form to the Finance Department when a project, or a phase of a project, is complete, or when an asset is in use, so the appropriate costs can be capitalized or expensed. The form also indicates the asset class to be assigned to the asset so it can be properly depreciated.

The Finance Department will calculate the appropriate amount of costs from the project to be capitalized or expensed. Once calculated and approved, the costs will be capitalized. The Finance Department will create an asset shell in SAP, assign the appropriate asset class, and setup the depreciation schedule.

Audit Scope and Methodology

The audit scope included the active Aviation capital construction projects from fiscal year 2021 through fiscal year 2023.

To gain an understanding of the accounting for capital construction projects, we interviewed Aviation Department and Finance Department personnel and conducted walkthroughs of the process of completing capital construction projects and placing them into service, including the timing, the calculation, and the approval of the construction project costs to be capitalized. Administrative Directives 8-7 Financial Management of Capital Assets and 8-9 Financial Management of Capital Projects were our primary criteria for this audit. We assessed internal controls relevant to the audit objective. This included a review of Finance policies and procedures, the approval of the capitalization costs calculation, and the creation of capital assets.

We reviewed assets created from capital construction projects to verify the project costs were properly communicated, calculated, approved, and posted in SAP. Additionally, we reviewed the Aviation asset classes and their useful lives were accurately setup in SAP to verify assets are being properly depreciated each month. Lastly, we reviewed user access to SAP to confirm staff members of the Finance Department had an appropriate level of access based on their job role and responsibility.

We relied on computer-processed data in SAP to validate the amount of capitalized project costs, the value of assets, depreciation schedules, and user roles. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. 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

The Aviation Department and the Finance Department have effective controls to ensure capitalized construction project costs are properly communicated, calculated, approved, and accurately posted in SAP. We reviewed a sample of 20 assets created from capital construction projects totaling \$83,052,640.74, and we determined Summary of Completed Projects forms had been submitted by the Department Fiscal Administrator of the Aviation Department, the costs to be capitalized were reviewed and approved by the Financial Reporting Manager of the Finance Department, the newly created assets were assigned the appropriate asset class and useful life, and the appropriate project costs were capitalized.


In addition, the Finance Department has adequate procedures in place to verify assets created from Aviation construction projects are depreciating accurately. We tested the automated depreciation schedule for Aviation assets in SAP and determined it was working as intended. We also reviewed 83 asset classes available for use for classifying Aviation assets, and we determined the asset classes and related depreciation schedules were properly setup in SAP.

Lastly, the Finance Department has sufficient controls in place to ensure employees are not assigned to conflicting user roles in SAP. We tested the SAP user roles for employees of the Finance Department involved in the capitalization of construction project costs, and we determined the employees had appropriate user roles based on their job roles and responsibilities.

Appendix A – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager
Michael Gutierrez, Auditor in Charge
Jeffrey Barrs, Auditor

Appendix B – Management Acknowledgement


CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

January 25, 2024

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

RE: Management's Acknowledgement of its Review of Aviation Construction in Progress Capitalization

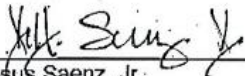
The Aviation Department and the Finance Department have reviewed the audit report and provided their comments to the auditors. As there are no recommendations for management, no management responses are required.

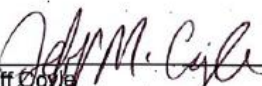
The Aviation Department and the Finance Department:

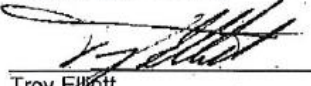
☒ Fully Agree

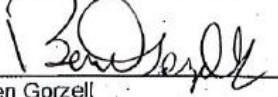
☐ Do Not Agree (provide detailed comments)

Sincerely,


Jesus Saenz, Jr.
Director of Airports
Department of Aviation


Jeff Doyle
Assistant City Manager
City Manager's Office


Troy Elliott
Deputy Chief Financial Officer
Finance Department


Ben Gorzell
Chief Financial Officer
City Manager's Office

2/14/24
Date

2/20/24
Date

2/5/2024
Date

2/22/2024
Date