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PORTLAND, OREGON

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October 1, 1997

TO: Mayor Vera Katz
Commissioner Jim Francesconi
Commissioner Charlie Hales
Commissioner Gretchen Miller Kafoury
Commissioner Erik Sten
Fire Chief Robert Wall

SUBJECT: Audit of Portland Fire Bureau Internal Controls, Report #241

Attached is our report #241, on the Portland Fire Bureau's Internal Controls. The audit was conducted in accordance with our Fiscal Year 1996-97 audit schedule.

We have reviewed a draft of the report with staff from the Bureau of Fire, Rescue and Emergency Services, and with Commissioner Kafoury's Office. A written response from Commissioner Kafoury is at the back of the report. We ask the Fire Chief to provide us with a status report in six months detailing actions taken to address recommendations we have made. The status report should be distributed to the Commissioner in Charge and to the Audit Services Division.

We appreciate the cooperation and assistance we received from staff at the Bureau of Fire, Rescue and Emergency Services in completing this report.

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Portland City Auditor

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Audit of the Portland Fire Bureau's Internal Controls

October 1997

A Report by the Audit Services Division
Report #241



Office of the City Auditor
Portland, Oregon

Table of Contents

| | |
|--|----|
| Introduction | 1 |
| Audit objectives | 1 |
| Scope and methodology | 2 |
| | |
| Audit Results and Recommendations | 5 |
| Summary | 5 |
| Control Environment | 6 |
| Controls reviewed | 6 |
| 1. Purchasing | 6 |
| 2. Cash handling | 8 |
| 3. Property and equipment | 9 |
| 4. Inventory controls | 13 |
| 5. Out-of-town travel | 16 |
| | |
| Appendix | |
| Control matrix: process, key risks, and control procedures | 17 |
| | |
| Responses to the Audit | |
| Commissioner Gretchen Miller Kafoury | 23 |

Introduction

At the request of Fire Chief Robert Wall, the Audit Services Division performed a review of various internal control procedures in the Bureau of Fire, Rescue, and Emergency Services. We conducted the review during April, May, and June of 1997, and limited the scope of our review to specific internal control procedures listed below. We conducted the review in accordance with generally accepted government auditing standards.

Audit objectives

The objective of our review was to determine 1) if adequate controls were in place and working as intended, and 2) that controls provide reasonable assurance that assets, materials, and equipment are acquired and used in accordance with established policies. The specific control procedures reviewed included:

- Purchasing
- Cash handling
- Equipment and property
- Inventory
- Out-of-town travel

**Scope and
Methodology**

Our review was comprised of three phases:

- an overall review of the control environment,
- an assessment and identification of risk areas, and
- an analysis of the adequacy of internal control procedures.

To evaluate the control environment, we interviewed bureau managers and staff to assess the ethical climate of the organization and understand employee perceptions about how rules and procedures are followed. We also determined how the Bureau communicates ethical and control expectations to its employees.

To identify current internal control requirements, we reviewed State and City legal requirements, city-wide administrative procedures, and Fire Bureau written policies and procedures. We interviewed Fire Bureau managers and staff in the Administrative, Emergency Services, and Training Divisions in order to clarify control methods and evaluate the general control environment. We reviewed various transactions during the period from July 1, 1995 through June 1997.

We assessed the risk of problems occurring in various areas and visited several Bureau locations to determine if controls were working as required. We reviewed purchasing documents, traced equipment and materials to user locations, performed surprise cash counts, and checked inventory records and surplus property disposal. We also reviewed a sample of travel authorizations and expense forms to determine appropriate authorizations and to reconcile travel

advances and expenses. During the course of our review, we checked for opportunities for waste, mismanagement, and abuse of City resources.

We recognize that control systems cannot provide complete assurance that fraud or waste is prevented. Well designed and operated internal control systems are still subject to collusion and control overrides. However, good control environments and reasonable operating controls can minimize occurrence of errors and abuse.

We did not review internal controls over donations made to the Fire Bureau by outside individuals, companies, or nonprofit organizations. Experiences in other cities has shown that these activities offer a high risk of abuse and fraud. We believe that fund raising and donations to the Fire Bureau should be addressed in a separate audit.

Audit Results and Recommendations

Summary Based on the results of our review of the Bureau's control environment and specific control procedures, we conclude that the control environment is basically sound and the Bureau has developed and implemented a satisfactory system of internal controls. Specifically, procedures for controlling the purchase of goods and services, handling petty cash, and authorizing and approving out-of-town travel provide reasonable assurance that activities are controlled against fraud, waste, and abuse.

However, we found some weaknesses in control procedures in a few areas. For example, stronger controls are needed to ensure that Bureau equipment and material is not used inappropriately. In addition, we believe improvements are needed to provide more assurance that appropriate prices are paid for purchased goods.

We make several recommendations that should improve control procedures and reduce risks in the Bureau.

Control Environment

We found the control environment at the Fire Bureau to be satisfactory. Managers we spoke to commented on the high integrity of employees that is fostered by on-going training and team work. In addition to the Bureau's general rules of conduct, ethics and values are discussed at meetings and in memos to staff. Bureau staff are well-trained, knowledgeable, and supportive of the organization's goals and objectives. In addition, the Bureau has recently prepared and issued a revised accounting manual to clarify and strengthen controls.

The Bureau places a great emphasis on the integrity and ethical behavior of its employees. While decentralization of control is a sign that ethical behavior is expected, significant delegation of control authority increases risks to the organization.

Controls reviewed

1. Purchasing

Purchasing controls should provide reasonable assurance that all goods and materials purchased are authorized, priced appropriately, received in good condition, and paid at the correct price.

Our review of various types of purchasing transactions found controls in place and working as intended. Specifically, we found:

- general compliance with formal purchasing procedures
- adequate competition for higher priced goods and services

- appropriate supervisory authorization for purchase orders and contracts
- appropriate receipts and payment

Our review of 13 purchase orders processed over the two year period from FY 1995-96 through FY 1995-96 showed that purchase orders are approved and authorized by appropriate supervisory personnel, that sufficient competitive bidding is received for capital purchases to ensure good value to the city, that goods and equipment are received, and that appropriate payments are made to vendors. The Bureau also used the Oregon State Price Agreement when appropriate and justified the use of sole source vendors.

However, the Bureau's current procedures delegate purchasing authority to a wide range of managers within the Bureau. While we did not find evidence of mismanagement in any of the items tested, good internal controls suggest that such decentralization of purchasing authority could result in a lack of purchasing coordination, failure to obtain the lowest reasonable cost for goods and services, and purchasing of items in excess of the Bureau's needs.

During the course of our review, the Bureau implemented several revisions to their purchasing procedures which require the Bureau Administrative Manager to approve and/or review more low cost purchases.

Recommendations: 1. We recommend that the Bureau appoint the Management Services Division Manager as final authority in the purchase of all items \$500 or more, and all items exceeding \$10,000 be personally approved by the Fire Chief. In addition, we recommend that all such purchases be coordinated on a bureau-wide basis.

2. Cash handling

Cash controls should provide reasonable assurance that petty cash is safe from loss, used for appropriate purposes, and accounted for accurately.

City Code 5.52.010 authorizes petty cash and change cash accounts if approved by Council ordinance. The Fire Bureau established a petty cash fund of \$6,000 from which four smaller satellite accounts, including one change cash account, are operated within the Bureau. We found that controls over the accounting of the petty cash fund are adequate. The account is reconciled and verified on a monthly basis by independent staff persons, and all funds were accounted for during two surprise cash counts we performed. As of June 1997, petty cash purchases are \$56,000 for the fiscal year.

We also found petty cash had been used to purchase items that may be questionable under guidelines established by the Office of Finance and Administration. For example, we found several receipts for bottled water for office use. According to Bureau officials, payment for water has been discontinued, unless the water at a location has been tested and found unfit for drinking. Petty cash was used to pay for modem service for bureau computers assigned to employees

at home. City policies prohibit petty cash payment for invoices applicable to services rendered by an individual or a vendor unless no other means of payment is acceptable to the vendor. We also found that petty cash was used to purchase various office supplies that might have been obtained at a lower price through volume purchase of frequently used items.

- Recommendations:**
- 2. Review City policies on miscellaneous expenditures to ensure that petty cash is only used for allowable purposes.**
 - 3. Review opportunities to save money by ordering routine office supplies from annual supply contracts. Use petty cash for emergency and non-routine items.**

3. Property and equipment

Internal control procedures should provide reasonable assurance that City property and equipment are safe from loss and misuse. Property records should be prepared and updated, use should be monitored, and personal use should be controlled.

We reviewed controls over three types of equipment that offer a relatively high risk of abuse – cell phones, take-home vehicles, and personal computers.

Cell phones: The Bureau maintains a record of cell phone assignments and use. Our review of cell telephone reports

over an 18 month period showed that 34 percent of employees reimbursed the Bureau for personal use of cellular phones.

During the course of our review, new city policies on cell phones further restricted the number and use of cell phones in the Bureau and throughout the City. Cell phones may now be used only for family emergencies, work schedule problems, and when other phones are not available. As a result of budgetary restrictions, the Fire Bureau voluntarily deactivated 53 cell phones and surplused 17.

Take-home cars: City Code 5.60.110 requires that all employees who are authorized to drive City vehicles to and from their place of residence shall pay a rental charge to the City based on Internal Revenue Service guidelines. This rental charge is automatically deducted from an employee's pay each accounting period by the Payroll Section of the Office of Finance and Administration.

Take home vehicles are authorized by the Bureau manager, and the Mayor or Commissioner who is assigned to oversee the bureau. Although there is no written policy, Fire Bureau employees may be assigned vehicles if they are required to keep emergency equipment in the vehicles for alarm call backs, respond to emergency situations after hours, attend night meetings and recruitment activities at different stations, or be on 24 hour call-out. The bureau is responsible for reporting the vehicles and names to the Office of Fiscal Administration payroll section.

We reviewed Personal Use of City Vehicle lists provided by the Payroll Section with the lists provided by the Fire

Bureau. We also compared these two lists with an annual report of the number of Fleet take home vehicles by individual bureau, prepared by the Fleet Services Division of the Bureau of General Services. Comparison of these lists showed that some employees may not be charged a rental charge as required by City Code.

Computers: We reviewed personal computers in the Bureau to assess purchasing methods and inventory control. In general, the control of personal computers is largely delegated to each Division within the Fire Bureau. Although the Bureau maintains a master list of all computers owned by the Bureau, Division managers are given authority to determine what equipment meets their needs. At the time of our review the Bureau owned 176 computers assigned to various office locations, 12 personal computers assigned to employees at their homes, and 20 laptop portable computers assigned to individual employees.

According to management we spoke with, the Bureau acquires most of its personal computers through the Oregon State Price Agreement program, but purchases its laptop computers through the City's regular process of obtaining three quotes or bids depending on the purchase price of the item. During our review of the purchase of laptops, we noted one instance where only two quotes were obtained.

We also performed a physical inventory of a limited sample of computers and assigned laptops. Although the location of some office computers differed from the inventory listing, we were able to identify and locate all of the sampled items. Some computers listed as assigned to home locations

had been returned to the office, but still continue to be reflected on the inventory list as being used at home by the individuals. Laptops we inventoried were accounted for.

The Bureau's Information Services Manager told us that the Bureau is in the process of revising its software to restrict staff from loading any software not approved by the Information Services Unit on to individual computers. In addition, procedures will facilitate bureau-wide review and updates of needed software. We believe that more central review of personal computer needs and acquisition would help control computer costs through volume purchasing and more efficient use of available computer assets.

- Recommendations:**
- 4. Ensure that rental charges are made for all assigned vehicles in accordance with City Code and applicable labor contracts.**
 - 5. Centralize the personal computer acquisition, inventory control, and software purchasing in the Information Services Division of the Bureau.**
 - 6. Review policies on assigning computers to employee homes to ensure home assignments can be justified.**

4. Inventory controls

Inventory controls help ensure that equipment and supplies are received in good condition, recorded and accounted for, stored in a safe place, and used for approved purposes.

The Bureau maintains several different inventories at various sites. Because of the size and importance of the fire apparatus inventory, we concentrated our review in the Apparatus Maintenance Unit of the Logistics Division. This Division is responsible for repair and maintenance of all Fire Emergency apparatus including 75 fire trucks, 3 fire boats, 13 assigned vehicles and other fire related vehicles.

In order to service the emergency equipment and fire trucks in a timely and efficient manner, a necessary level of inventory must be maintained including tires, engine and truck parts, small hardware items, and lubrication supplies.

The Fire Apparatus maintenance area also includes a self contained breathing apparatus (SCBA) repair room used for repair and testing of breathing apparatus, oxygen masks, and also testing of other related equipment, both for the Portland Fire Bureau and other local jurisdictions.

We were told that because of budget constraints, the Apparatus Maintenance Unit does not have a storekeeper. The unit attempts to provide ongoing control over inventory supplies by restricting access to the storeroom to staff mechanics. However, the unit does not conduct periodic physical inventory of its supplies. Without a storekeeper and other inventory control procedures there is considerable risk of inappropriate use of supplies and materials.

Because the Division is currently unable to determine the total dollar amount of its inventory or the number of items on hand, the loss or theft of goods would not be easily detected.

As of June 1997, the Logistics Division had prepared a draft of new policies and procedures regarding inventory, acquisition, and recording of supplies and equipment. In our opinion, the new procedures adequately address many areas of control, except for items costing \$500 or less.

Disposing of surplus property: Controls over surplus property and equipment are needed to provide assurance that unused items are sold, destroyed, or donated to third parties in accordance with policies that are in the best interest of the City.

In July 1994, the City entered into an agreement with the State of Oregon to dispose of its unclaimed and surplus property. Based on the terms of the agreement, City bureaus are required to deliver all surplus items of value and other unclaimed property to the State of Oregon property disposal warehouse. Once disposed of, the Bureau is responsible for reporting all capital items to the Fixed Assets Section of the Office of Finance and Administration.

We reviewed the policies and procedures used by the Bureau in its disposal of surplus items for compliance with the City's policies. We visited the locations where surplus items are kept and reviewed records pertaining to the disposal of such items.

The Bureau has a significant amount of surplus items at two locations that exceed available storage space. At the

Logistics Division's location, items are kept in several locked areas including a shipment container on the grounds. The surplus shed at the Training Division location is also very full of surplus items. We were told that many of the items have been surplus for many years. According to the current disposal manager, some of the items are saleable, other items will be used at new Fire Bureau locations, and some will be offered to other bureaus. Once this is done, the remaining items which cannot be used should be given away to nonprofit agencies or disposed of.

It was difficult to determine when items were turned over to the surplus areas, since no records are prepared and kept on file, or given to individuals when picking up items. However, the recent sale of surplus items, and the intended disposal of the remaining items is an indication of the Bureau's intention to dispose of its surplus items in a more timely manner.

- Recommendations:**
- 7. Develop inventory control procedures to ensure Bureau supplies and equipment are adequately safeguarded.**
 - 8. Review current surplus materials and establish a plan to use, dispose, or donate property with the next six months.**
 - 9. In order to determine that the Bureau's assets are not being used inappropriately, we recommend that the Fire Bureau perform and maintain a physical inventory of all its non-capital items.**

5. Out-of-town travel

Travel expenses within the Bureau are well monitored by management and spending is being kept within budget. We found that travel requests are authorized and approved, and all travel is reviewed by the Bureau's Chief. However, business travel by the Fire Chief is not reviewed and approved by the Commissioner in Charge. We also found that the Bureau monitors expense reports on a timely basis and outstanding travel advances are monitored by the accounting staff of the Office of Finance and Administration.

Recommendations: **10. We recommend that all business travel for the Fire Chief be approved by the Commissioner in Charge or the Commissioner's designated executive staff.**

Appendix

Control matrix: process, key risks, and control procedures

| Process | Key Risks | Control Procedures |
|----------------------------|---|---|
| <u>PURCHASING</u> | | |
| Purchasing goods | High price paid Unneeded purchases Overspend budget Items purchased for personal use | Obtain competitive quotes/ advertise for bids Supervisory review and approval |
| Receipt of purchased items | Incorrect amounts, item, price Goods in poor condition | Review goods and sign receiving report |
| Payment | Improper or double payment requested | Match receiving report to vendor invoice Periodically verify accuracy and existence of vendors |

| Process | Key Risks | Control Procedures |
|--|---|--|
| <u>CASH HANDLING</u> | | |
| Petty cash request | Unauthorized requests for cash | Supervisors review and approve requests |
| Processing cash receipts | Cash diverted, lost, or not reported accurately | Segregate approval and payment activities Require original receipts for reimbursement Reconcile check book and/or cash periodically |
| Safeguarding cash | Theft of cash/alteration of records | Store cash and records in a safe, restricted area |
| <u>EQUIPMENT & PROPERTY</u> | | |
| Asset acquisition, transfer and disposal | Assets lost, stolen, misused | Maintain inventory of assets. Restrict access/maintain physical security Conduct periodic inventory Record the transfer and disposal of surplus items |

| Process | Key Risks | Control Procedures |
|-----------------------------------|---|--|
| <u>OUT-OF-TOWN TRAVEL</u> | | |
| Travel Authorization and approval | Unauthorized or unneeded travel | Supervisory review and approval Verify benefit to City |
| Reimbursement of travel expenses | Overpay expenses/pay unallowable expenses | Require expense documentation Review and approve travel expense amounts |

Responses to the Audit



CITY OF
PORTLAND, OREGON

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September 24, 1997

Barbara Clark
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Dear Auditor Clark,

I have reviewed the Working Draft of the Audit of Portland Fire Bureau Internal Controls. I want to commend you and your staff for the timely response to Chief Wall's request for this review. It has been helpful and reassuring to have your professional perspective on the Bureau's management of this public resource.

The Bureau has already implemented a number of actions in response to the audit recommendations. I am particularly interested in tighter review of equipment purchases. We need to be aware of the potential to use surplus equipment as we develop additional emergency response facilities in the future. However, the bureau should heed your recommendation to inventory this property and dispose of equipment that cannot be used by BFRES or other city bureaus. In addition, my office will be reviewing travel requests from Chief Wall, as you recommend.

I appreciate the Audit's observation that there is always potential for abuse of public resources, despite our best internal control mechanisms. For that reason, I am still interested in pursuing an audit of fund raising and donation activities by outside organizations. As you observe, these offer a higher risk opportunity for abuse. I believe our community partners could benefit from your review and recommendations regarding these activities.

Thank you again for your quick response to the audit request and for your valuable observations.

Sincerely,

Gretchen Miller Kafoury
Commissioner-in-Charge
Bureau of Fire, Rescue, and Emergency Services

