



DATE: May 8, 2008

TO: RANDY BRUEGMAN, Fire Chief
Fire Department

THROUGH: RENENA SMITH, Budget Manager
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor
Budget and Management Studies Division – Internal Audit

SUBJECT: FIRE DEPARTMENT – CONTRACTS AND GRANTS AUDIT

Attached is the Final Audit Report for the Fire Department Contracts and Grants Audit. Although there are a few areas noted in this report for improvement in internal controls and record-keeping practices, the Fire Department should be commended for their efforts related to their contracts and grants.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that each recommendation has been implemented or that the issue documented in the finding has been resolved in a manner that addresses the weakness or risk identified. The follow-up audit is performed in accordance with AO 1-12 and Government Auditing Standards.

We wish to thank you and your staff for your assistance and cooperation during the course of this audit. If you have any questions or we can be of any further assistance to you or your staff, please do not hesitate to contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachment

cc: Alan Autry, Mayor
Council Members
Andrew T. Souza, City Manager
Bruce Rudd, Assistant City Manager
Joel Aranz, Deputy Chief/Operations, Fire Department
Cheryl Carlson, Budget Manager, Fire Department
Karen Bradley, Interim Finance Director/City Controller
Pedro Rivera, Senior Budget Analyst, BMSD



Internal Audit 08-0014

**Fire Department
Contracts and Grants Audit**

**Performed By
Bob Koury, Principal Internal Auditor
Budget and Management Studies Division – Internal Audit**

May 8, 2008

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EXECUTIVE SUMMARY

Internal Audit performed a limited scope audit of the Fire Department contracts and grants during the period February through March 2008. The audit was undertaken to determine whether adequate recordkeeping, administration, monitoring and compliance exists related to the Department's several contracts and grants they administer, and whether improvements could be made to strengthen existing internal controls and operations related to contracts and grants.

Key Issue Identified:

- Lack of formalized (written) Departmental policies and procedures related to the Department's various contracts and grants.

Risk Identified:

- Failure to provide employees with formalized (written) policies and procedures leaves much to individual interpretation and can affect job performance. Lack of such policies and procedures also does not provide for a smooth transition when key employees are absent or new employees are hired.

Key Recommendation to Management:

- Department Management should develop formalized (written) policies and procedures for consistent, standardized and documented record-keeping practices related to its various contracts and grants.

INTRODUCTION

Background

The Fire Department has several contracts and grants which they are responsible to administer, monitor, and document. (See **Attachment A** to this audit report for a schedule of all active contracts and grants which were included in this audit.)

Specific City Administrative Orders have been established to direct and assist City Departments in the proper processing, maintaining, and reporting on their Contracts/Agreements, as well as Federal and/or State Grants. These Administrative Orders are as follows:

AO 1-1 – Grant Administration;

AO 2-1 – Risk Allocation Policy for City Contracts;

AO 4-1 – Processing of Contracts to Which the City is Party; and

AO 6-22 – Contract Compliance System

Audit Objectives, Scope, and Methodology

The objectives of this limited scope audit were to determine whether adequate recordkeeping, administration, monitoring and compliance exists related to the Fire Department's many contracts and grants.

This limited scope audit was performed during the period of February through March 2008, in accordance with Administrative Order 1-12 and Governmental Auditing Standards.

To accomplish our audit objectives, we:

- Conducted interviews/meetings with appropriate Department management and staff;
- Reviewed applicable City policies, procedures, Administrative Orders, and Departmental policies and procedures related to contracts and grants, if available;
- Obtained and performed cursory review of sampled Department contracts and grants and related supporting documentation/records; and
- Evaluated the overall system of internal controls and oversight by the Department related to their respective contracts and grants.

An Audit Exit Conference was held with Department Management on April 28, 2008, to formally discuss the audit findings and recommendations included in this audit report.

Conclusion

In general, the Fire Department has a good recordkeeping system in place related to the many contracts and grants they are responsible for and administer. Management and staff are also knowledgeable and committed in their efforts to maintaining and monitoring their contracts and grants, and should be commended for their efforts in this regard.

Internal Audit concludes that the Fire Department adequately controls and monitors their contracts and grants. However, there are a few areas noted in this report where improvements in internal controls and record-keeping practices can be further strengthened. Internal Audit believes the complete implementation of our audit recommendations by Fire Department Management will aid in accomplishing the Key Objectives of Customer Satisfaction, Employee Satisfaction and Financial Management.

AUDIT FINDINGS AND RECOMMENDATIONS

Finding 1 – Lack of Current Formalized Policies and Procedures

At the commencement of our audit, it was noted that there were no current formalized (written) policies and procedures related to the Fire Department's many contracts and grants.

An essential element of internal control is a formal system of authorization and documentation procedures, which can be achieved through the establishment and implementation of a formal policies and procedures manual. Failure to provide employees with these guidelines leaves much to individual interpretation, and can adversely affect job performance. In addition, such documentation provides a means for a smooth transition when key employees are absent or new employees are hired and provide the necessary measure of accountability required of governmental entities.

Audit Recommendation 1

Fire Department Management should develop formalized (written) policies and procedures related to all Departmental contracts and grants for improved internal controls and standardization of procedures and processes. Upon approval by Management, these policies and procedures should be implemented and maintained on a current basis and monitored by Management to ensure adequate and consistent compliance by all applicable employees.

Subsequent to our audit field work, the Fire Department staff commenced the development of formalized policies and procedures related to their contracts and grants.

Management Response to Recommendation 1

The department is updating the existing sample reference binder for grants to include more detailed instructions, reference to existing Administrative Orders, and additional screen shots as samples so this manual represents a complete policy and procedures reference document. The department is also in the process of preparing the same type manual for contract processing. These procedure manuals will be completed and available for review by May 31, 2008, and will be updated on an ongoing basis as necessary.

Finding 2 – Partial Compliance by Department of Administrative Order No. 6-22 - Contract Compliance System

AO 6-22 was implemented on November 9, 2006, to assist City Departments in the monitoring and administration of their respective contracts. "Contracts", as defined in AO 4-1, includes contracts, leases, agreements and grants. The City Attorney's Office is responsible for maintaining the citywide contract database for all City Departments, which is based only on the contract data provided by City Departments to the City Attorney's Contract Compliance Coordinator.

As of our audit date, and as confirmed by the City Attorney's Office Contract Compliance Coordinator, several Fire Department contracts and all of their grants had not been provided to the City Attorney's Office for input into their contract database for accountability and monitoring purposes. The various contracts and grants which were not at the City Attorney's Office were communicated to the Fire Department during the audit for appropriate action.

Audit Recommendation 2

Fire Department Management should immediately work in a concerted effort with the City Attorney's Contract Compliance Coordinator to ensure that all of its contracts and grants are on file with the City Attorney's Office, for complete compliance with AO 6-22 and for improved accountability and oversight of such contracts and grants.

Management Response to Recommendation 2

The department will deliver to the City Attorney's Office the appropriate Executed Contract Change or Initial Submission forms for those contracts and grants identified in the audit fieldwork. The department will ensure all new and amended contracts and new grant awards are submitted more timely in the future.

Internal Audit Comment

As documented and reviewed by Internal Audit, on May 5, 2008, the Fire Department submitted all outstanding Departmental contracts and grants to the City Attorney's Contract Compliance Coordinator, as recommended above.

Finding 3 – Reimbursements from Mutual Aide Agencies

Various audit procedures were performed of invoices/claim reimbursements from the Mutual Aide Agencies, Office of Emergency Services (OES) and California Department of Forestry (CDF). Overall, the reimbursements from these two agencies to the Fire Department for mutual aide services appeared to be reasonable. However, as of March 31, 2008, the Fire Department was still awaiting reimbursement of \$9,693 from CDF for a July 2007 claim, and \$9,078 from OES for a December 2007 claim.

It was noted during the audit that the agreements between the Fire Department and these two agencies do not include any type of reimbursement due date from the date the claims are filed by the Fire Department. In other words, the Fire Department has nothing in writing that establishes a "time-specific" for reimbursements, e.g. 30 or 45 days from receipt of claim to process reimbursements to the Fire Department for services provided/costs incurred by the Department.

Audit Recommendation 3

Fire Department Management should immediately pursue reimbursement of the two outstanding claims totaling \$18,771 (\$9,693 - July 2007 – CDF and \$9,078 – December 2007 – OES). Management should also pursue the amendment of future Mutual Aide agreements with CDF

and OES to incorporate “time-specific” reimbursement due dates for services provided/costs incurred by the Fire Department to expedite the receipt of reimbursements due the Department.

Management Response to Recommendation 3

As noted in the meeting of April 28, the department has received the July 2007 invoice reimbursement of \$9,693 and a portion of the December 2007 reimbursement, which is apportioned between two agencies, and it is anticipated the balance of the \$9,078 reimbursement will be received by month end. As agreements with these state agencies for the new fiscal year are presented, the department will pursue the inclusion of time specific reimbursement language modifications (e.g., 30 or 45 days from receipt of claim) as recommended.