

FRAUD HOTLINE REPORT:

Civic Life's mismanagement of the Kenton Firehouse was wasteful and inefficient

March 2024



SUMMARY

The Auditor's Office found evidence of waste and inefficiency due to the lack of a formal agreement and Civic Life bypassing City financial policies in the management of the Kenton Firehouse. The Auditor's Office also found that the lack of documented rental transactions risked the appearance of fraud.

TIP TO THE FRAUD HOTLINE

A November 2022 tip raised concerns about the former arrangement between the Office of Community and Civic Life and the nonprofit North Portland Community Works. This arrangement had North Portland Community Works performing the upkeep and maintenance of the Historic Kenton Firehouse. The tip alleged waste and inefficiency because there was no lease or formal agreement between Civic Life and North Portland Community Works and because Civic Life didn't receive rental revenue for the Kenton Firehouse, even though the City owns the property and rental revenue was collected by North Portland Community Works. The tip expressed concern for the lack of transparency for the accounting of funds and noted concerns about potential fraud.

BACKGROUND

The Office of Community and Civic Life owns the Kenton Firehouse building located in North Portland. The community has used this City asset since the 1970s. Starting in 2000, the nonprofit North Portland Community Works collected rental fees and stated that fees were used for paying operating expenses for the Kenton Firehouse and that activities were overseen by City staff. During this time, North Portland Community Works collected rental fees from public officials for office space in the building and collected rental fees from the community for event space. North Portland Community Works stopped operating in 2022.

Civic Life's position is that it does not have City Code authority to collect rental fees. Since North Portland Community Works stopped operating, Civic Life has not collected rental revenue to use for the maintenance of the Kenton Firehouse. Requests from the community for renting the space have been waitlisted by Civic Life and office space previously rented by public officials is currently being used for free by a public official.



Figure 1: Photograph by The Historic Kenton Firehouse, 2016. Facebook, <https://www.facebook.com/photo/?fbid=1066695133380482&set=a.1066695266713802>.

INVESTIGATION FINDINGS

We found evidence of waste and inefficiency in the management of the Kenton Firehouse

Our investigation found that the Office of Community and Civic Life mismanaged the Kenton Firehouse by delegating responsibilities for operations and maintenance to a nonprofit partner without a formal agreement in place. We found that management of the Firehouse was inefficient because there were unclear responsibilities and requirements for the nonprofit partner and that asset management and revenue policies were bypassed. Bypassing these City controls also led to waste since the asset management and revenue policies are meant to ensure sufficient support of services for the property. We also found that the mismanagement of the Firehouse and lack of documentation risks the appearance of fraud because the City did not have records to show that rental fees were appropriately used for the maintenance and restoration of the Firehouse.

The lack of a formal agreement was inefficient because of unclear responsibilities and requirements and reduced transparency to the public

There was no contract or lease between the City and North Portland Community Works documenting requirements for the operation of the Kenton Firehouse. For example, there were no documented requirements for maintenance responsibilities, accurate and complete records of business transactions, or the use of proceeds from rental revenue. The lack of these formal agreements reduced transparency to the public for the use of one of the City's assets.

Without accurate and complete records of business transactions, there are lingering questions about whether there was any rental revenue remaining when North Portland Community Works stopped operating. The City will not be able to get back any potentially remaining rental revenue because there were no documented requirements for the use of proceeds from rental revenue. There were also no documented requirements and unclear responsibility for determining rates for rental fees that could have resulted in insufficient fees being collected for the maintenance and operation of the building. This is especially concerning because there is not a permanent source of funding for the maintenance of the Kenton Firehouse. Instead, the City has temporarily budgeted \$30,000 per year for the Kenton Firehouse Maintenance Fund for the past two fiscal years and has not yet identified a permanent source of funding.

City controls for asset management and revenue were bypassed, resulting in waste and inefficiency and potentially insufficient funding for operations and maintenance

The Kenton Firehouse is the only asset that belongs to the Office of Community and Civic Life. Civic Life's inexperience with asset management and potential attempt to avoid red tape may have resulted in asset management policies and procedures being avoided. Asset management and revenue policies have changed over the 20+ years the Firehouse has been rented out. However, there have been asset management and revenue requirements in place since 1992 that Civic Life should have followed but did not. Additional asset management and revenue policies were added in 2008 and 2021 that Civic Life should have also followed. The goal of asset management policies is to ensure the City obtains the best financial return for the public while delivering required service levels, at the least life cycle cost, and at an acceptable level of risk. One of the principles of revenue policy is for services providing private benefits to be paid by fees as much as possible. Potentially insufficient funds collected from the private use of the building could result in increased long-term maintenance needs that could increase costs to taxpayers.

Potentially insufficient fees to support maintenance could have resulted in deterioration of the building and increased long-term maintenance needs. The inability to consistently fund the building's maintenance needs of \$30,000 annually and any additional long-term maintenance needs is noted by Civic Life as most likely to result in the collapse of this community space. If this asset were to collapse, the public would not have access to the space that has been used by the community for almost 50 years.

Civic Life did not fully follow City policy to plan for the types and levels of investments necessary to ensure sustained and equitable delivery of public services to the community. Civic Life does not have a Capital Improvement Plan for meeting planned levels of service for the Firehouse and does not appear to be included in the Citywide Asset Managers Group. A maintenance fund was not established for the Kenton Firehouse until FY 2022-23 during the Fall Budget Monitoring Process. Civic Life is discussing setting aside funding for major maintenance of the facility, but there are no formal plans and there is no permanent source of funding.

There are remaining questions about whether the fees collected for event and office rental of the building conformed to City policy meant to ensure that private usage of the asset provides a larger public benefit. Before 2014, City financial policy required that services that benefit a specific user should recover full costs, with limited exceptions. City policy has also required either cost-of-service studies or fee studies for bureaus that charge fees since 1992. Current policy requires that fee studies take into account the degree to which a service provides a general or private benefit, the true cost of providing a service, the impact of fees on economically at-risk populations, and the overall achievement of City goals. Civic Life should have conformed with these policies, but the lack of clear documentation of roles, responsibilities, and requirements makes it unclear who determined rental fees and how they determined appropriate rates. For example, North Portland Community Works charged a public official \$200 per month in 2020 for a small office space, described by City staff as around the size of two cubicles. According to a market analysis performed by Newmark Group, Inc, asking rent for commercial office space in North Portland in 2020 averaged \$15 per square foot. One small cubicle is around 36 square feet, which would equate to an average asking rent of \$1,080 per month for a similarly sized space. Given the stated size of the office space, the rate charged to public officials was below the average asking rate for other North Portland office rentals in the same year. The office space is also currently being used for free by a public official. Civic Life may have been providing a private benefit to public officials by charging below market asking rate and allowing free use of the space. Civic Life may also have been collecting insufficient fees for maintenance while leaving the space unavailable for public use.

We found that lack of documentation of rental transactions risks creating an appearance of fraud

The City did not have accurate and complete records of business transactions for the rental of the Kenton Firehouse. Due to this lack of documentation, we were not able to find evidence of fraud. However, a lack of documentation has the potential to create an appearance of fraud. Without documentation, the City and North Portland Community Works are not able to show that rental income was appropriately used to fund the maintenance and restoration of the historic building.

OUR RECOMMENDATIONS

The Kenton Firehouse has a long history. Here are actions that can be taken to address waste and inefficiency associated with this property and, more generally, improve efficiency and effectiveness within the City.



- 1) Civic Life should resolve the issue of asset management and revenue policy not being followed for the Kenton Firehouse in a timely manner and ensure that the community has access to this historical site. Approaches Civic Life could consider are:
 - i) Determining if City Code authority is needed for leasing and permitting and seeking authority from Council as appropriate. Also, developing policies and procedures that comply with City financial policy for asset management and revenue;
 - ii) Transferring the Kenton Firehouse to another bureau, like Parks or the Office of Management & Finance, that has the authority and policies and procedures already in place for asset management and revenue; or
 - iii) Disposing of the asset.
- 2) Civic Life should address the issue of the lack of a formal agreement. While the relationship between Civic Life and North Portland Community Works has ended, Civic Life has other relationships with partners that can benefit from clear roles, responsibilities, and requirements. Civic Life should determine if any other agreements with partners are missing formal documentation and address any detected issues.

RESPONSE FROM THE BUREAU

The Office of Community and Civic Life responded to the investigation with a statement agreeing with our recommendations and providing additional context. Civic Life says that there is work underway to pursue the options outlined in our first recommendation.

ABOUT PORTLAND'S FRAUD HOTLINE

The Auditor's Office administers the Fraud Hotline to enable the public and City employees to confidentially report suspected fraud, waste and abuse of position by or against the City. The Hotline also serves to identify and prevent losses of City funds and act as a deterrent to fraud, waste and abuse of position. Hotline tips can be submitted online at www.PortlandFraudHotline.com or by phone by calling 866-342-4148.

When the Auditor's Office finds waste, inefficiency or abuse of position via the Hotline, it is required by law to notify the Portland City Council of the findings. This report, which is delivered to the City's mayor and commissioners, serves as that notice. It is also released publicly to inform about substantiated Hotline tips.

