

FIRE STATION BOND PROGRAM:
Citizen oversight in place and spending
matches voter intent

A REPORT FROM THE CITY AUDITOR
October 2006



Office of the City Auditor
Portland, Oregon



CITY OF
PORTLAND, OREGON

OFFICE OF THE CITY AUDITOR
Audit Services Division

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October 16, 2006

TO: Tom Potter, Mayor
Sam Adams, Commissioner
Randy Leonard, Commissioner
Dan Saltzman, Commissioner
Erik Sten, Commissioner
Dave Sprando, Fire Chief, Bureau of Fire, Rescue and Emergency Services
Ken Rust, Interim Chief Administrative Officer, Office of Management and Finance

SUBJECT: *Audit – Fire Station Bond Program: Citizen oversight in place and spending matches voter intent, Report #338*

Attached is Report #338 containing the results of our audit of the Fire Station Bond Program, and the results of the voter approved General Obligation Bond to improve some existing fire stations, and to build some additional stations. The audit was included in our annual audit schedule and was conducted in accordance with generally accepted government auditing standards.

Response letters to this audit from the Fire Chief, and the Senior Business Operations Manager from the Office of Management and Finance are included at the back of the report.

As a follow-up to our recommendations, we ask the Chief Administrative Officer to provide a status report in one year, detailing steps taken to address the report's recommendations. This status report should be submitted to the Audit Services Division and coordinated through the Commissioner in Charge of the Office of Management and Finance.

We appreciate the cooperation and assistance we received from personnel in Portland Fire & Rescue, and the Office of Management and Finance in conducting this audit.


GARY BLACKMER
City Auditor

Audit Team: Drummond Kahn
Kristine Adams-Wannberg

Attachment

FIRE STATION BOND PROGRAM:

Citizen oversight in place and spending matches voter intent

Introduction

This audit covers our review of selected spending on emergency facilities projects supported by the 1998 General Obligation Emergency Services Bond. It also reviews the decision-making structure in place to approve budget changes to those projects. The audit was approved by the City Auditor and placed on our audit schedule for FY 2006-07.

Station 3 – Northwest Pearl District



Photo courtesy of Portland Fire Bureau

Background

In November 1998, the citizens of the city of Portland passed Ballot Measure No. 26-72. This measure authorized the City of Portland to issue \$53.8 million in general obligation bonds (GO bonds) to support a \$70.9 million program to improve the City's fire, rescue, and

emergency facilities. Primarily focused on fire stations, the bond was to be spent over ten years to accomplish the following:

- Undertake seismic upgrades of Portland Fire & Rescue facilities to allow the firefighters and their equipment to effectively respond to an earthquake in the metropolitan area.
- Relocate and build new facilities to meet the goal of a four-minute response time to emergency calls.
- Renovate facilities to be consistent with the changing mission of Portland Fire & Rescue. For instance, a major segment of the work now is for emergency medical services, yet few of the stations were well equipped to handle drug storage and pathogen cleanup.
- Respond to new requirements for Americans with Disabilities Act (ADA) accessibility and female firefighter accommodations.
- Expand facilities to allow the City to accommodate growth.
- Expand the City's 9-1-1 center to accommodate growth in 9-1-1 and the City's radio system.

The bond program is now in its eighth year, and as of the end of June 2006, approximately \$42.7 million in bond proceeds had been spent on emergency facilities projects, in addition to about \$1.9 million from other funding sources. Through FY 2005-06, the bond program has resulted in the expansion of the Portland Communications Center, upgrades to 19 fire stations and the construction of five new fire stations. For FY 2006-07, three fire station remodels should be completed, and one new station and major remodel will be underway.

The Fire GO Bond Oversight Committee provides advisory oversight over the bond program through recommendations to the Fire Bureau's Commissioner-in-Charge regarding budget changes and project adjustments. The Office of Management and Finance, primarily the Facilities Services Division, and the Portland Fire Bureau are staff to the committee and manage the day-to-day work of the bond program.

Because of the significant amount of bonds approved and because of the public trust voters provided the City of Portland in achieving the results mentioned for the City's emergency facilities, we placed this performance audit on our annual schedule.

**Audit scope, objectives,
and methodology**

Our audit was a high-level review of the decision-making structure that oversees the capital projects and bond spending. We examined the decision making structure to determine if there was adequate supervision over changes to project budgets as well as to verify whether there was Commissioner approval to authorize project changes. We reviewed change order spending on seven of the 35 GO bond projects to determine if costs were consistent with the stated intentions of Ballot Measure No. 26-72. In addition, we reviewed the change orders to see if they were authorized by the appropriate staff and/or managers. We did not review specific information related to the Station 1 project because of on-going work being undertaken by the Office of Management and Finance, the Portland Fire Bureau, and the Portland Development Commission on that project.

To accomplish our objectives, we collected information from the City's budget documents; financial information from the Facilities Division based on the City's accounting system; official bond statements; project records, such as contracts and change order details; and information from Multnomah County's Elections Division. We conducted 18 interviews. These included staff from the Office of Management and Finance and from the Portland Fire Bureau, in addition to some members of the Fire GO Bond Oversight Committee.

We conducted our work in accordance with generally accepted government auditing standards.

Station 16 – Sylvan



Photo courtesy of Portland Fire Bureau

Summary audit results

During our audit we found that the decision-making structure in place to review change orders appears appropriate. In addition, spending appears, with the exception of one project, to be in-line with purposes of the bond. The exception involved the construction of a security fence at the Portland Communications Center for which the Emergency Services Bond ended up paying \$26,000. While this may be a valuable project, using bond money for the project is questionable.

Decision making structure appears appropriate

We found that the overall decision making structure and controls on spending appear to be appropriate. We performed a high level review of selected internal controls for the GO bond program. Internal controls are policies, procedures, and activities designed to help an organization achieve its management objectives, safeguard resources, report reliable information and comply with applicable laws. Controls provide reasonable assurance but not absolute assurance that an organization is meeting its objectives.

Internal controls encompass a number of elements, such as the control environment, monitoring, and control activities. The control environment sets the tone for the organization. Some facets of this include competency, communication between management and staff, and operating style. Monitoring includes on-going review of processes and separate evaluations of issues and staff activities. Control activities are policies and procedures that help ensure that management directions are being carried out. They include activities such as record keeping, authorizations, and preparation of management information and reports.

Control Environment and Monitoring

The control environment and monitoring of the public safety GO bond program appears to be appropriate. There are a number of points of review in place over the activities and spending of the GO bond program. The Office of Management and Finance and the Fire Bureau administer the program, monitor the day-to-day progress of the bond projects, and provide information to the Fire GO Bond Oversight Committee on the need for "trade offs". Trade offs include but are not limited to project budget adjustments, project prioritization, schedule changes, and methodology changes for spending projections. The Committee reviews the staff recommendations for trade offs and either approves or disapproves. The Committee's recommendations are then forwarded to the Fire Bureau's Commissioner-in-Charge. The Commissioner provides high level oversight over the policies and spending, and the City Council reviews the budget and significant spending changes through the budget process.

The Fire GO Bond Oversight Committee has been in place since the ballot measure was passed by the voters. As of June 2006, the Committee was composed of nine members -- eight of whom were citizens and one of whom was a member of the Portland Fire Bureau.

Staff and the Fire GO Bond Oversight Committee members we interviewed were complimentary overall of the Committee, the decision-making process, and staff work. They felt it provided oversight over how taxpayer funds were spent and dealt with important policy issues. For example, one Committee member had provided good

information on industry trends regarding construction inflation. Staff also felt that the bureaus involved in managing the projects had developed good working relationships.

Because of the City's satisfaction with the committee and because it provides a good means of additional citizen oversight, the City may want to consider having citizen advisory committees on general obligation bond supported capital programs in the future.

Control Activities

Control activities appear to be in place and were largely being followed. As mentioned before, one of the control activities the Oversight Committee performs is to make trade off recommendations to the Fire Bureau's Commissioner-in Charge. As of mid-August 2006, there were 26 trade-off analyses that had been processed through the Committee and forwarded to the Commissioner. We reviewed the 26 trade offs and found that 19 of the 26 (73 percent) had the Commissioner's signature. Staff indicated that although seven of the signed copies could not be located, the trade offs had been approved.

We also reviewed 33 change orders to construction contracts for seven projects and found that all of them had been signed by the appropriate parties, such as the project manager, or, where needed, by the project manager and Facilities Manager, or by the City Council.

Station 26 – University of Portland



Photo courtesy of Portland Fire Bureau

With one exception, project costs appear to be in accordance with objectives

We performed a high level review of seven of the 35 projects in the bond program to look at construction contract expenditures. The seven projects included Station 16 and Station 28 (new stations); Stations 3, 25, and 26 (remodels); and the Portland Communication Center (PCC) expansion and security fence projects.

We focused our review on change orders to the construction contracts. Construction contract costs represent the biggest category of expense in the bond program. A change order is a written order by the owner’s representative to the contractor to modify the work required by the contract. Some examples of reasons for change orders are schedule adjustments, contract extensions, or additional work. Change orders go through an approval process that varies depending on the cost of the original contract and the increased cost generated by the change order.

There were 33 change orders in the seven projects we reviewed, totaling \$4,553,772. The most significant single change order was for approximately \$3.5 million (77 percent of total change order expense), for the Portland Communications Center expansion project. According to the Office of Management and Finance, the contract for the project was set up in two phases. Phase one was for pre-construction services, and a change order for phase two for construction services was added through the change order process. This change order was approved by the City Council. The remaining change order expenses were largely due to changes requested by the City of Portland (approximately \$314,000 – 7 percent) and unforeseen conditions at the project site or structure (approximately \$430,000 – 9 percent).

Of the seven projects we reviewed, six appeared to support the bond objectives. The exception was the security fence project for the Portland Communications Center. See the table below.

Figure 1 Change order spending and authorization

Project	Station 16	Station 28*	Station 3, 25, & 26**	Portland Com. Center Expansion***	Portland Com. Center Fence	Total
Project type	New station	New station	Remodels	Expansion/Remodel	Security Enhancement	N/A
Total Project Cost (actual)	\$ 2,879,984	\$ 2,626,394	\$ 2,897,609	\$ 2,849,740	\$ 457,847	\$ 11,711,574
Project purpose in line with ballot measure language	Yes	Yes	Yes	Yes	Questionable	6 of 7
Change orders in line with ballot measure language	Yes	Yes	Yes	Yes	N/A	6 of 6
Total original construction contract(s) cost	\$ 1,418,500	\$ 1,214,760	\$ 1,888,000	\$ 15,000	\$ 357,200	\$ 4,893,460
Total final construction contract cost	\$ 1,654,812	\$ 1,491,257	\$ 2,249,656	\$ 3,667,147	\$ 384,360	\$ 9,447,232
Total cost of change orders	\$ 236,312	\$ 276,497	\$ 361,656	\$ 3,652,147	\$ 27,160	\$ 4,553,772
Total number of project change orders	5	8	9	7	4	33
Change order cost as a % of original contract	17%	23%	19%	3.9%***	8%	N/A
Change orders appropriately authorized	Yes	Yes	Yes	Yes	Yes	N/A

Source: Project and financial records from the Office of Management and Finance and Audit Services analysis

* Station 28 had more than one general contractor.

** These projects had the same construction contractor, so the costs have been combined.

*** The original contractor was awarded a Phase 2 contract, which the City Council approved in an alternate contracting process. Change order thresholds are based from Change Order #1.

The Portland Communications Center security fence project had been part of a security master plan for the center. The project was to install a fence around the perimeter of the facility to improve safety. Staff indicated that the events of 9/11 brought a greater sense of urgency for the Bureau of Emergency Communications to get the project underway. The project cost about \$486,000, and bond proceeds ended up supporting about \$26,000 of the project.

While the security fence may be a valuable project, funding any of the project with bond money appears questionable. The project was not envisioned when the public safety bond was approved by voters, and it is questionable as to whether the project meets the objectives laid out in the ballot measure or as explained in the bond statement. To keep the voters' and bond holders' trust, the Auditor's Office recommends that the City's General Fund or an appropriate, alternate revenue source reimburse the BFRES GO Bond Fund for the \$26,000.

Portland Communications Center security fence



Photo courtesy of Office of Management and Finance, Facilities Division

During our review, we also found that documentation of the reasons behind the change orders could be improved. There was written documentation in the project files for about half of the projects. For those not recorded, staff in the Office of Management and Finance was largely able to determine the reason behind the change orders. According to management, however, the reason should be recorded. It appears this practice is not uniformly being followed, and the Auditor's Office recommends this be improved. This record-keeping is important in case there is a dispute on the reason behind the change order. It is also important when staff changes occur and the institutional memory of the project manager is not available.

Recommendations

Our review found that an adequate decision-making structure is in place to address trade-offs for the bond projects. In addition, with we found that the change orders for the projects we reviewed met the objectives outlined to voters and bond holders. To keep the voters' and bond holders' trust and to improve management practices, we recommend that the Office of Management and Finance:

1. Recommend to bureaus with general obligation bond programs that a citizen advisory committee be established to help oversee the bond program.
2. Reimburse the BFRES GO Bond Fund \$26,000 for the security fence project with one-time General Fund money or an appropriate, alternate funding source.
3. Improve record keeping for project change orders by identifying the condition and/or requestor behind the change order.

RESPONSES TO THE AUDIT



WE RESPOND
Always Ready
Always There


PORTLAND FIRE & RESCUE



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October 5, 2006

TO: Gary Blackmer, City Auditor

FROM: Dave Sprando, Fire Chief 

CC: Commissioner Erik Sten

RE: Portland Fire & Rescue response to Auditor's Report: "Report on Fire General Obligation Bonds"

Portland Fire & Rescue (PF&R) would like to thank the Audit Services Division for conducting an audit of the General Obligation (G.O.) Bond program which funded seismic and ADA retrofits, and privacy accommodations at existing stations, as well as the construction of new stations to meet service demands. The G.O. Bond program has been successful in meeting the needs of PF&R, while ensuring that the spirit and intent of the Bond is met.

PF&R is supportive of the recommendations from Audit Services. PF&R concurs that the Bond program has been well-managed, with the necessary checks and balances in place to ensure fiscal responsibility of taxpayer dollars. As Audit Services acknowledged, PF&R has established a positive working relationship with the various neighborhood groups through the Station Advisory Committees (SAC). PF&R believes this collaboration with the citizens adds value to the new station construction and station retrofitting processes.

PF&R acknowledges and supports the recommendation to reimburse the Bond fund for construction costs associated with the installation of a security fence at the Portland Communications Center (PCC). PF&R will work with the Office of Management and Finance (OMF) to remedy this situation through an interfund transfer.

PF&R and OMF will also collaborate to establish a more effective records management system to better document change order origination and justification.

PF&R appreciates the recognition from Audit Services for conducting a well-managed and fiscally responsible G.O. Bond program. The G.O. Bond program has enabled significant improvements to emergency response capabilities and the safety of the city's fire fighters. PF&R will continue to expend funds within the spirit of the Bond through the completion of the remaining projects.

Thank you for the opportunity to review and comment on this report, as well as the opportunity to submit a written response.



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

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October 10, 2006

Gary Blackmer
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Dear Gary,

Thank you for the opportunity to respond to the final draft of your audit of the Fire Station Bond Program. We want express our gratitude to you and your staff for conducting this audit. OMF Business Operations and the Office of Management and Finance are always open to a fair and impartial review of our practices and operations. We find the results of this audit to be a positive reflection on the work that OMF Business Operations has done.

We agree with your recommendation that bureaus with general obligation bond programs establish citizen advisory committees to help oversee the programs. As your audit points out the committee set up for the Fire Station Bond Program has contributed to the success of the program.

We agree that the General Fund should reimburse the GO Bond Fund \$26,000 for the portion of the costs of a security fence at the Portland Communications Center it funded. In our Fall BUMP report we will include a request for \$26,000 for funding this expense from the one-time money available from the General Fund.

We also agree that we can improve record keeping for project change orders by identifying the condition and/or requestor behind the change orders. We will develop standard procedures for documenting change orders and work with staff to implement for all projects.

Sincerely,

Tom Feely
Senior Business Operations Manager

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Report #338, October 2006

Audit Team Members: Kristine Adams-Wannberg

Gary Blackmer, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

*Street Paving: City work not meeting pavement quality
standards (#324D, October 2006)*

*Street Paving: Current contract management practices put
asphalt price and supply stability at risk (#324C, September
2006)*

*Financial Transaction Review: Few results identified for
further study (#334, August 2006)*

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