



CITY OF RENO
AUDIT REPORT

FIRE DEPARTMENT
STRIKE TEAM REIMBURSEMENTS
JANUARY 2021

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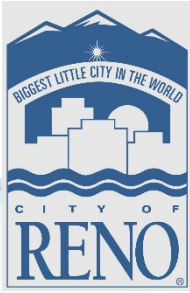
OBJECTIVES

The audit objectives include a review of the invoicing and accounting process of the Strike Team reimbursements from partnering jurisdictions. Specifically, objectives include:

- To determine if the billing and invoicing process is adequate and supports best business practices;
- To determine if program data communicated agrees to supporting source documentation;
- To review account activity for unusual transfers;
- To determine if procedures are reasonable and in compliance with established policies;
- To evaluate the risk of fraud, waste, and abuse relative to the audit objectives.

INTERNAL AUDIT MISSION STATEMENT

To provide the City of Reno with an independent appraisal function designed to assist the Reno City Council, citizens, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations.



Executive Summary

Fire Department Strike Team Reimbursements Audit

Purpose of Audit

To determine if the Fire Department Strike Team reimbursement billing and invoicing process is appropriate and supports best business practices. Also, to determine if procedures are reasonable and in compliance with established policies. We also evaluated the risk of fraud, waste, and abuse relative to the audit objectives.

Audit Recommendations

Recommendations include:

- ✧ Revenue management adjustments including: processing invoices through the financial software, include additional personnel to implement appropriate levels of segregation of duties, conduct reconciliations for the account, and perform data validation procedures.
- ✧ Document the standard operation procedures for Strike Team reimbursements to enhance equity, accountability, and succession planning purposes.

Detailed recommendations are included in the body of the report for each of the seven audit findings. Management agrees with the recommendations and departmental actions are being taken.

For more information on this or other City of Reno Internal Audit reports, contact InternalAudit@reno.gov.

KEY FINDINGS

- ✧ A considerable amount of trust and autonomy were provided to a key employee that previously managed the process without supervisory review or additional oversight.
- ✧ An appropriate level of segregation of duties was not in place as a single employee had the ability to calculate the billing amount, issue an invoice, make billing adjustments on the tracking sheet, and receive physical checks for City services for Strike Team reimbursements, increasing the risk of City revenue misappropriation.
- ✧ Questioned information was reported regarding the Strike Team efforts during the audit scope.

BACKGROUND

The Fire Department participates in multi-jurisdictional support of fire suppression efforts including sending personnel and equipment to other jurisdictions to combat wildfires. These teams of firefighters are termed Strike Teams. Personnel administration criteria for these teams are detailed in collective bargaining agreements, City resolutions, and agreements with external jurisdictions.

Administration of the Strike Team program is managed by personnel in the Fire Department's Administrative Offices in City Hall and is overseen by the Fire Department's Administrative Services Manager.

AUDIT RESULTS

Multiple jurisdictions participate with the City of Reno Fire Department on regional fire suppression efforts. Cooperators include Bureau of Land Management (BLM), U.S. Forest Service (USFS), Nevada Division of Forestry (NDF), and California Office of Emergency Services (Cal O.E.S.).

Audit sampled thirteen named fires for Strike Team reimbursements, testing at least one from each of the jurisdictions listed for a total of seventeen separate invoices completed during the audit scope. We tested for accuracy of invoicing, review process, accounting processes, and best business practices.

The audit resulted in seven separate exceptions and practices identified for improvement. An exception is noted when audit testing identifies an area of noncompliance with documented policies or best practices. Simply put, exceptions identify areas of risk. It should be noted that the key employee mentioned in reporting is no longer employed with the City of Reno. The findings categorized as *Revenue Management* or *Best Business Practices* and are itemized in those sections below.

Revenue Management

Invoice Management Improvements

1. The financial procedures for the Strike Team reimbursement program were highly manual, without a validation process, and lacked an appropriate level of supervisory oversight. Per examination of documents provided by the administrative manager and those pulled from systems during audit fieldwork, multiple inaccuracies were noted on the manual tracking sheet. Accurate billing and collection is compromised with the billing and collection methodologies that were in place. City Policy 304, *Cash Handling*, states, in part, “Proper procedures and security measures should be designed to protect the assets of the City from loss, and to ensure that errors/wrongdoings are detected and corrected in a timely manner.” A considerable amount of trust and autonomy were provided to the previous manager without supervisory review or additional oversight. It is unknowable if the payments received from the partnering jurisdictions were accurate and received in full.

Recommendation:

We recommend Strike Team invoicing be processed through the formal financial software and that process include a validation process and supervisory review.

Lack of Segregation of Duties

2. A single employee had the ability to calculate the billing amount, issue an invoice, make billing adjustments on the tracking sheet, and receive physical checks for City services for Strike Team reimbursements without supervisory review or oversight. Invoicing was not integrated

into a computerized system nor the formal financial software and there was no oversight process in place during the audit scope. In addition, key departmental tasks were conducted independently by the employee including budget augmentations. Together with the improper management identified previously, it is unknowable if the payments received from partnering jurisdictions were accurate and received in full. City Policy 304, Cash Handling, states, in part, “No single employee is to handle a cash transaction from beginning to end. Duties shall be segregated ...” Without appropriate segregation of duties, funds owed to the City could be misappropriated.

Recommendation:

We recommend executive management determine a process that includes appropriate segregation of duties for the financial elements of Strike Team reimbursements to include a supervisory review of reconciliations and routing checks directly through the City Clerk's Office for deposit (as required by citywide policy 304, Section VIII,C).

Reconciliations Not Performed

3. Proper reconciliations were not being performed, rather, a spreadsheet was used to track the invoices issued by the department. The document was updated with actual revenues that were received and other information was removed from the document over time. These processes do not constitute a reconciliation of revenues. Without systematic and proper reconciliations, it is unknowable if revenues received and posted to the account are complete and accurate. Per the job description for the Administrative Services Manager, the manager is to "Reconcile reimbursement/revenue accounts for strike team operations and prepare budget adjustments/revisions as needed." A considerable amount of trust and autonomy were provided to the previous manager without supervisory review or additional oversight.

Recommendation:

We recommend a proper reconciliation be performed of the financial documents with an appropriate level of segregation of duties and oversight. In addition, we recommend the reconciliations be reviewed periodically by supervisory management and maintained in accordance with document retention schedules.

Invoices Not Issued Timely

4. Of the 17 Strike Team invoices sampled for testing, twelve (71%) were not invoiced timely. Three were invoiced more than 60 days after the last date of the fire and nine were invoiced between 30 and 60 days later. The *California Fire Assistance Agreement* indicates invoicing documents

should be submitted to the mutual aid system agency within 30 calendar days and City Policy 304, *Cash Handling*, states, in part, “Proper procedures and security measures should be designed to protect the assets of the City from loss, and to ensure that errors/wrongdoings are detected and corrected in a timely manner.” In addition, when reimbursements are not invoiced timely, staff knowledge of Strike Team details are more difficult to recall, revenue adjustments may be more difficult to reconcile, and the risk of revenue misappropriation increases.

Recommendation:

We recommend Strike Team reimbursements be invoiced more timely for best business practices and in compliance with working agreements.

**Questioned Information
Reported**

5. Reported data for the Strike Team efforts for the 2018 fire season are different than the information on the manual tracking sheet used to manage the Strike Team reimbursements owed to the City. The Reno Fire Department Annual Report and also information presented to City Council at the February 22, 2019 meeting communicated that the Strike Team reimbursement total for the year 2018 was \$1.6 million. However, documentation provided to Internal Audit for the purpose of this audit in December 2019 convey the Strike Team reimbursements for 2018 totaled \$1.37 million, a variance of \$230,000.

Per examination of the manual, self-generated invoice/reimbursement tracking spreadsheet, there was different data included at different points in time. A version of the tracking sheet dated December 2018 lists 34 outstanding invoices, some with a different dollar amount when compared to the spreadsheet provided to Audit in December 2019. Specifically, there were 18 variances of *billed cost* and two invoices listed, and presumably billed, that were not included on the spreadsheet provided to Audit. Inquiries with a representative from a partnering agency regarding fires with billing discrepancies, provided some validation that the fire reimbursements for the City of Reno in 2018 were received in full. However, together with the improper management identified previously, it is unknowable if the payments received from partnering jurisdictions were accurate and received in full or, if those funds were misappropriated.

Recommendation:

We recommend validated data, such as that within the reviewed reconciliations (detailed in finding #3) be used when reporting Strike Team reimbursement information.

Best Business Practices

Lack of Documented Policies

6. Departmental policies detailing internal controls and procedures for management of the Strike Team reimbursements do not exist. Establishing written policies detailing cash handling controls is the first step to clarify processes and employee expectations when carrying out their day-to-day functions. Documented policies support procedures that are conducted consistently and in an equitable manner and, when in use, also assist with succession planning. In addition, conducting departmental operations without documented internal controls and process standards is not within management best practices.

Recommendation:

We recommend procedures be developed, documented, communicated to applicable staff, and include the internal control procedures recommended in this audit report.

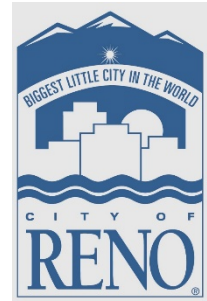
Documents Maintained Longer Than Necessary

7. Per inquiry with key personnel, documents for Fire Department Strike Team reimbursements are maintained in the Fire Administration offices and date back to 2007. Maintaining documents longer than the state's record retention requirements may increase staff research time and workload. Management maintains these documents in perpetuity because they are uncertain of the document retention times with the various fire agencies involved. Document retention times for local governments are detailed in the Nevada State Administrative Manual and fire agencies' retention times are outlined in their individual agreements.

Recommendation:

We recommend stored documents that exceed the record retention requirements be disposed of and, going forward, documents be disposed of on a rolling basis per the record retention schedules.

**Fire Dept. Strike Team Reimbursements Audit - Management Responses
- Fire Department**



Findings' Conditions, Recommendations, and Management Responses

(Numbering Convention: Sequence corresponds to the audit findings as listed in the report.)

Invoice Management Improvements

1. The financial procedures for the Strike Team reimbursement program was highly manual, without a validation process, and lacked an appropriate level of supervisory oversight. A considerable amount of trust and autonomy were provided to the previous manager without supervisory review or additional oversight.

We recommend Strike Team invoicing be processed through the formal financial software and that process include a validation process and supervisory review.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will implement the use of the City's financial software, New World, for the necessary oversight, validation, and supervisory review of the department's Strike Team reimbursements.

When will the measures be taken?

November 2020.

Lack of Segregation of Duties

2. A single employee had the ability to calculate the billing amount, issue an invoice, make billing adjustments on the tracking sheet, and receive physical checks for City services for Strike Team reimbursements without supervisory review or oversight. Invoicing was not integrated into a computerized system nor the formal financial software and there was no oversight process in place during the audit scope

We recommend executive management determine a process that includes appropriate segregation of duties for the financial elements of Strike Team reimbursements to include a supervisory review of reconciliations and routing checks directly through the City Clerk's Office for deposit (as required by citywide policy 304, Section VIII,C).

What measures are planned to address this finding?

Currently, RFD's Management Assistant is responsible for calculating and issuing the Strike Team invoices, and the RFD Administrative Services Manager is responsible for review and oversight of the Strike Team reimbursements. Additionally, the implementation of the City's financial software, New World, will provide an extra level of oversight with the necessary transparency of Strike Team reimbursement tracking and reconciliations. Finally, the RFD has converted all Strike Team partnering agencies to

Electronic Funds Transfer (EFT) payments which is handled by the City's Finance Department so no physical checks will be handled directly by the department.

When will the measures be taken?

November 2020.

Reconciliations Not Performed

3. Proper reconciliations were not being performed, rather, a spreadsheet was used to track the invoices issued by the department. The document was updated with actual revenues that were received and other information was removed from the document over time. These processes do not constitute a reconciliation of revenues.

We recommend a proper reconciliation be performed of the financial documents with an appropriate level of segregation of duties and oversight. In addition, we recommend the reconciliations be reviewed periodically by supervisory management and maintained in accordance with document retention schedules.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will implement the use of the City's financial software, New World, for the necessary reconciliations and supervisory review of the department's strike team billings.

When will the measures be taken?

November 2020.

Invoices not Issued Timely

4. Of the 17 Strike Team invoices sampled for testing, twelve (71%) were not invoiced timely. Three were invoiced more than 60 days after the last date of the fire and nine were invoiced between 30 and 60 days later.

We recommend Strike Team reimbursements be invoiced more timely for best business practices and in compliance with working agreements.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will process Strike Team billings within 30 days when applicable. In some instances there are extenuating circumstances (receipt of necessary paperwork, fire timelines, Paying Agency backlogs, department staffing) that are outside of the department's control and may prolong the invoicing timeline.

When will the measures be taken?

November 2020.

Questioned Information Reported

5. Reported data for the Strike Team efforts for the 2018 fire season are different than the information on the manual tracking sheet used to manage the Strike Team reimbursements owed to the City. The Reno Fire Department Annual Report and also information presented to City Council at the February 22, 2019 meeting communicated that the Strike Team reimbursement total for the year 2018 was \$1.6 million. However, documentation provided to Internal Audit for the purpose of this audit in December 2019 convey the Strike Team reimbursements for 2018 totaled \$1.37 million, a variance of \$230,000.

We recommend validated data, such as that within the reviewed reconciliations (detailed in finding #3) be used when reporting Strike Team reimbursement information.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will implement the use of the City's financial software, New World, to ensure validated data, such as that within the reviewed reconciliations be used when reporting Strike Team reimbursement information.

When will the measures be taken?

November 2020.

Lack of Documented Policies

6. Departmental policies detailing internal controls and procedures for management of the Strike Team Reimbursements do not exist. Establishing written policies detailing cash handling controls is the first step to clarify processes and employee expectations when carrying out their day-to-day functions. Documented policies support procedures that are conducted consistently and in an equitable manner and, when in use, also assist with succession planning. In addition, conducting departmental operations without documented internal controls and process standards is not within management best practices.

We recommend procedures be developed, documented, communicated to applicable staff, and include the internal control procedures recommended in this audit report.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will develop, document, and communicate the Strike Team reimbursement procedures (including the internal controls recommended in this audit report) prior to the 2021 fire season.

When will the measures be taken?

March 2021.

Records are Maintained in Excess

7. Per inquiry with key personnel, documents for Fire Department Strike Team reimbursements are maintained in the Fire Administration offices and date back to 2007. Maintaining documents longer than the state's record retention requirements may increase staff research time and workload.

We recommend stored documents that exceed the record retention requirements be disposed of and, going forward, documents be disposed of on a rolling basis per the record retention schedules.

What measures are planned to address this finding?

The RFD agrees with the recommendation and will dispose of stored documents that exceed the record retention requirements and, going forward, dispose of Strike Team billing information on a rolling basis per the record retention schedules.

When will the measures be taken?

December 2020.

Scope

The audit scope included a review of a sample set of reimbursements to the City of Reno's Fire Department and related matters from January 1, 2018 through December 31, 2019.

Methodology

The audit review included tests of the accounting records, inquiries with key personnel, and other auditing procedures as was considered necessary. Conclusions were reached by:

- Testing a sample set of reimbursements to the department for reasonableness, accurate calculations, and proper supporting documentation;
- Examining accounting procedure documentation for the Strike Team reimbursement account for appropriateness and compliance with established policies and best practices;
- Reviewing policies and procedures and other documents related to staffing and cost recovery for the City's Strike Team efforts; and
- Evaluating the risk of fraud, waste, and abuse relative to the audit objectives.

Audit Standards

We conducted this audit in accordance with standards of The Institute of Internal Auditors, sans Standards 1310-1 through 1321. 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.