



# INTERNAL AUDIT REPORT

Operational Audit  
Equipment Acquisition, Monitoring and Disposal

January 2015 – December 2019

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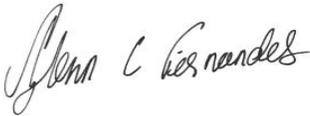
## Executive Summary

Internal Audit completed an audit of the acquisition, monitoring and disposal of equipment at the Port of Seattle's fire department for the period January 1, 2015 through December 31, 2019. The purpose of this audit was to follow up on a hotline complaint regarding the misappropriation of equipment and to assess the adequacy and effectiveness of internal controls over asset management.

**(Low)** Our work found that in several instances the disposal of certain assets did not follow Port policy AC-13, however, the value of these assets was de minimis and could have been due to a general unfamiliarity with the policy. The details of the complaint and Internal Audit's conclusion on each item is further detailed in the table on page six of this report.

**(Medium)** We also noted an opportunity for the fire department to work with Finance to enhance their tracking and disposal of small and attractive assets to assure that they comply with Port Policy AC-14. The policy provides guidance and Port requirements for management of small and attractive Assets. This issue is further discussed beginning on page eight of this report.

We extend our appreciation to fire department management and staff for their cooperation during the audit.



Glenn Fernandes, CPA  
Director, Internal Audit

### Responsible Management Team

Laurel Dunphy, Director Airport Operations  
Randy Krause, Fire Chief

## Background

As a government agency, the Port has an obligation to demonstrate public accountability for its operations and purchases. Every asset purchased, including small and attractive assets need to be 1) purchased for a valid business purpose, 2) tracked and safeguarded to assure continued usefulness for its intended purpose, and 3) properly disposed of.

Small and attractive assets, as implied by the name, are generally “small” in size and purchase price (i.e., \$5,000), and “attractive” as a degree of susceptibility to misuse (e.g., personal uses). In addition to this inherently higher risk of theft or misuse, there are other reasons such as legal compliance, grant-funding, potential liability and safety, etc., for a structured system of accountability. There are two Port Policies, Policy AC-13, *Disposition of Property*, and Policy AC-14, *Small and Attractive Assets* that address these assets.

The current agency system for purchasing, safeguarding, tracking and disposing of small and attractive assets is a decentralized process. Individual departments and their respective assigned custodians are responsible for: tracking and reporting small and attractive assets on an annual basis, certifying their existence, and assuring that the asset databases are accurate. Policy AC-13 requires that small and attractive assets are marked and identified, inventoried, and physically counted annually. The inventory count must be reconciled to inventory records and any discrepancies must be investigated by the controlling department/division and documented with annual inventory listings.

The fire department primarily utilized MS Excel to maintain an inventory listing of assets. The inventory list was not standardized or updated regularly and did not contain critical information such as date of acquisition, description of asset, location, disposal date, serial number, asset number, etc. Without a detailed inventory list, it is difficult for departments to maintain an adequate system to monitor assets with a high risk of theft.

During our audit, we learned that the fire department encountered difficulty in understanding the requirements of the Policies. The Port’s finance department has been tasked with updating the policies with clearer expectations. The new policies are in draft form awaiting executive approval. After the new policies are approved, Finance is planning on providing training to departments Port-wide. The new policies and training may help in decreasing the potential for misunderstanding of requirements and thereby may strengthen the monitoring process across the Port.

## **Audit Scope and Methodology**

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was January 2015 through December 2019 and included the following procedures:

### Equipment Acquisition and Monitoring

- Obtained an understanding of the fire department's processes over acquisition, receipting, inventory and monitoring of equipment.
- Selected assets that were of a higher risk of theft and misappropriation (generators, small tools, ladders, and large dollar value) and those reported to Internal Audit through the hotline.
- Traced selected assets to inventory control sheets and verified those through observation.

### Equipment Disposal

- Obtained an understanding of the fire department's process over disposal of equipment through inquiry and observation of inventory control sheets and disposition forms.
- Traced known assets that were not in the Department's possession to proper disposition forms.

## Schedule of Findings and Recommendations

### 1) Rating: Low

The following table summarizes the allegations that were brought to our attention and the results of our testing. Our conclusions were based on the information provided to us during the course of our audit.

<b>Allegation</b>	<b>Audit Testing</b>	<b>Conclusion</b>
Excess aluminum rods were kept at the west side aircraft rescue and firefighting tent after the tent was erected in 2015/2016. These excess beams disappeared without any record of where they went.	This was a Port Construction Services (PCS) project. We reviewed charges to the project in PeopleSoft and contacted the Manager of PCS who was onsite during the entire project.	The tent kit that was purchased did not include additional aluminum bars.
Employees were authorized to take surplus wall lockers home.	We interviewed fire department staff and management.	The wall lockers were given away to employees. Policy AC-13 was not followed. The value of the lockers was minimal.
P-card purchases were not properly made and accounted for.	We judgmentally selected seven assets, that were purchased with procurement cards, and posed a higher risk of misappropriation or loss.	All seven assets were accounted for.
Six aluminum tables were removed from the fire department for disposal but were never received by the Distribution Center.	We reviewed and noted that a disposition form for three aluminum tables was filled out, but not uploaded to the SharePoint site. The form listed the aluminum tables as scrap, with no residual value. However, the tables could have been recycled or sent to auction.	The tables were not forwarded to the Port's Distribution Center for proper surplus, and Department staff were unable to locate the tables during our audit. Policy AC-13 was not followed. The recycle value of the tables was minimal.
Seven ladders were donated to Northwest Disaster Search Dogs.	We contacted the organization and they confirmed that only one old disassembled ladder was donated in 2018. We interviewed fire department staff, and they verified that the Assistant Fire Chief pulled out one ladder from the dumpster at the Port's distribution center and loaded it in his truck to donate to Northwest Disaster Search Dogs.	One ladder was donated. Policy AC-13 was not followed. The value of the disassembled ladder was de minimis.
Equipment was donated to Peru that might include equipment purchased through federal grant money.	We conducted multiple meetings with fire department staff to get an understanding of what was donated to Peru.	Only old and retired bunker gear was donated. Policy AC-13 was not followed. The value of the bunker gear was de minimis.

Port Policy AC-13 provides guidance on the proper procedures to dispose of assets that no longer serve a useful purpose for the Port. Additionally, the policy states that, *“surplus property must NOT be sold/transferred to any Port Commissioner or Port employee or to members of their immediate families, unless specific approval of the Port Commission is obtained.”*

**Recommendations:**

Going forward, the fire department should follow Port Policy AC-13 when disposing of equipment. Disposition forms should be filled out, signed and uploaded to the SharePoint Site.

**Management Response/Action Plan:**

Beginning immediately the Fire Department will follow Port Policy AC-13 and fill out, sign, and upload appropriate forms into the SharePoint Site regarding dispositioning, transferring, or surplus equipment.

**2) Rating: Medium**

**The fire department has an opportunity to enhance their tracking of small and attractive assets. The existing processes were not adequate to assure that these assets were properly accounted for, tagged, tracked, periodically reconciled, and disposed of per Port policy.**

The Department's system for monitoring assets was assigned to managers within each division (i.e. one person was assigned to the monitoring of bunker gear). Individual department/divisions and their respective managers were principally responsible for each asset from purchase to disposal.

Port Policy AC-14, "Small and Attractive Assets Policy" establishes expectations and provides guidance regarding the inventorying, tracking and disposal of assets. Furthermore, Draft Port Policy EF-1 provides further guidance as to what is a small and attractive asset. Policy AC-14 says:

*"Each Port department must designate a custodian to be responsible for maintaining (additions and deactivation) the small and attractive assets tracking database, tagging assets, and conducting periodic physical inventories to verify assets existence."*

While the fire department has recently assigned an individual to be the custodian of small and attractive assets in substance, the process is still decentralized, thereby creating an opportunity to enhance these controls.

We selected 25 small and attractive assets from the Port's asset management system, PeopleSoft. We verified the existence of most of those assets, with a few exceptions. These exceptions were purchased beyond our record retention period, and accordingly invoices for those assets were not available.

We also noted that disposition forms were rarely filled out and/or uploaded to the SharePoint site. Since 2016, the SharePoint site had only nine disposition forms, none of which were for the exceptions. Additionally, we noted that neither the tool room or training supply room were properly secured to limit access.

**Recommendations:**

1. As required by Port Policy AC-14, the fire department should designate a custodian to be responsible for maintaining its small and attractive assets tracking database (additions and deactivations), tagging assets and conducting annual physical inventories to verify the existence and proper disposal of assets. The fire department should also leverage off the draft EF-1 & 2 policies as needed.
2. The tool room and training supply room should be properly secured to limit access to only authorized personnel.

**Management Response/Action Plan:**

Effective immediately, the Administration Team will take over the responsibility of "custodian" and will be responsible for maintaining small and attractive assets database (additions and deactivations), tagging of assets and coordinating annual physical inventories for accountability of assets and proper disposal of such assets. Once EF-1 & 2 are released, the Fire Department will ensure system is established and followed per these policies.

A database will be established for small & attractive assets by June 1, 2020. Once the database is established existing assets will be loaded into the database and as new assets are acquired they will be put into the database for monitoring and tracking.

## Equipment Acquisition, Monitoring and Disposal

The tool room and training supply room will be secured with limited access by June 1, 2020.

Policies, procedures or guidance documents will be written in support of this process improvement and comply with EF- 1 & 2 and will provide clear guidance for personnel regarding purchasing, accounting for, and dispositioning of small and attractive assets.

## Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
<b>High</b>	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
<b>Medium</b>	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
<b>Low</b>	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention