

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**




**Audit of the Fire Department  
Capital Assets and Inventories**

**July 2008 – March 2012**

## MEMORANDUM

**DATE:** April 18, 2013

**TO:** Honorable City Council

**FROM:** Mark W. Lockridge, CPA, CIA   
Auditor General

**RE:** Audit of the Fire Department Capital Assets and Inventories

**CC:** Mayor Dave Bing  
Donald Austin, Fire Commissioner  
Cheryl Johnson, Finance Director  
Kevyn Orr, Emergency Financial Manager

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Attached for your review is our report on the Audit of the Fire Department Capital Assets and Inventories. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Fire Department and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the agency shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Fire Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at <http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/default.aspx>

**Audit of the Fire Department  
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**July 2008 – March 2012**

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **AUDIT PURPOSE**

The Audit of the Fire Department Capital Assets and Inventories was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to audit the financial transactions of all City agencies at least once every two years, and report our findings and recommendations to City Council and the Mayor.

### **AUDIT SCOPE**

The scope of the audit was limited to transactions of the Fire Department's capital assets and inventories for the period July 1, 2008 through March 2012.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

### **AUDIT OBJECTIVES**

The overall audit objectives were to:

- Evaluate the adequacy of the Department's internal controls over capital assets and inventories and determine control weaknesses.
- Determine whether the Department is in compliance with Finance Directives, ordinances, policies, and procedures related to capital assets and inventories.
- Determine the status of prior audit findings pertaining to capital assets and inventories.

### **AUDIT METHODOLOGY**

To accomplish the audit objectives, our audit work included:

- Reviewing the prior audit report;
- Reviewing City Charter, City ordinances, year-end closing schedules, Detroit Resources Management System (DRMS) reports, and the Department's budget reports;
- Reviewing relevant Finance Directives;
- Comparing budgeted expenditures and revenues with actual expenditures and revenues as reported in DRMS;
- Developing questions regarding the Department's processing of financial transactions, internal controls, functions, records, and personnel;
- Interviewing staff to obtain details of financial transaction processing and answers to internal control and other questions;
- Identifying financial transaction risks and mitigating controls;
- Documenting and testing control processes;

- Examination of samples of transactions that we considered satisfactory to achieve our objectives; and
- Performing other general procedures deemed necessary.

## **CONCLUSIONS**

We conclude:

- The Fire Department has several internal control weaknesses related to capital assets and inventories.
- The Fire Department is not fully compliant with Finance Directives, ordinance, policies, and procedures related to capital assets and inventories.
- Two out of two prior audit findings related to capital assets and inventories have not been resolved and are included in the findings in this report.

## BACKGROUND

The mission of the Fire Department is to protect life and property through the efficient use of emergency, fire and rescue response resources.

Donald Austin was appointed Fire Commissioner in May, 2011. Mr. Austin is working on developing a finance division within the Fire Department to resolve the ongoing fiscal management problems and plans to take a focused approach to implement necessary changes, including implementing audit recommendations from the Office of the Auditor General.

The Fire Department's deployment of emergency vehicles respond from forty six facilities located throughout the City. Other units providing support services are facilitated at 250 W. Larned (Headquarters), 13331 Lyndon (communications), 1400 Erskine (Apparatus Repair and Supply), and 2775 W. Warren (Training Academy). The Fire Department has an Aircraft Crash Rescue Unit at Detroit City Airport and a fire boat located on the Detroit River.

Most Fire facilities are in excess of 75 years old with an average age of 81 years old. Facilities of this age require constant maintenance and expensive efforts to accommodate both equipment and assigned personnel. More specifically, door widening and floor reinforcements have become part of standard repairs due to the size and weight of fire apparatus.

The Fire Department had actual capital project expenses of \$1,543,640 in fiscal year 2008-2009, \$597,925 in fiscal year 2009-2010 and \$484,139 in fiscal year 2010-2011. Major renovations of Fire facilities were funded by City of Detroit General Obligation Bonds (not a General Fund). These renovations involve roof repair and replacement, the replacement of apparatus floors and widening of apparatus doors to accommodate the size and weight of the heavy movable equipment.

According to the Detroit Resources Management System's (DRMS) Capital Asset System (CAS), Asset Inventory Report as of October 24, 2011, the Fire Department had a net book value of asset inventory in the amount of \$30,319,315 with a current cost of \$83,987,739.

The following table shows medical supplies expense, general supplies expense, and capital expenditures of the Fire Department in City's General Fund for each fiscal year ended June 30, 2009 through June 30, 2011:

	Fiscal Years Ended June 30		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Medical Supplies	\$ 250,452	\$ 230,684	\$ 235,149
General Supplies	\$ 1,101,209	\$ 728,440	\$ 865,319
Capital Expenditures	\$ 477,657	\$ 0	\$ 222,567

## STATUS OF PRIOR AUDIT FINDINGS

The prior audit report on the Fire Department for the two years ended June 30, 2008 by the Office of the Auditor General included the following findings pertaining to the capital assets and inventories:

1. The Inventory System of the Fire Department Was Inadequate  
*This finding is unresolved and is discussed in Finding 2 on page 9 of this report.*
2. Record Keeping for Fixed Assets Was Inadequate and Did not Conform to the Capital Asset Policy  
*This finding is unresolved and is discussed in Finding 1 on page 6 of this report.*



## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. Record Keeping for Fixed Assets Was Inadequate and Did Not Conform to the Capital Asset Policy**

Our review of the internal controls over the Fire Department's capital assets revealed the following deficiencies:

- Out of 225 taggable items selected for testing in twenty Fire locations:
  - Eighty seven items (39%) were not tagged. Monitor radios, MDC laptops, generators, cascades, computer systems and many more were among the items without tags.
  - Seventy three items (32%) were with tags but not recorded in City's Capital Asset System (CAS). Portable radio chargers, LifePak monitors and chargers, chain saws and many more were among the items not recorded in Fire CAS.
  - Out of 59 items (26%) recorded in CAS, only fourteen items were located at the locations recorded in CAS
  - No one in the Fire Department filled out Asset Disposal/Transfer Form and recorded asset changes in DRMS. For example:
    - Six Segways transferred from the Department of Homeland Security to the Fire Department in 2011; however, no asset transfer form was filled out and no City tags were used for the assets.
    - Most portable radios were recorded in Southwest DET Emergency, but the actual locations of portable radios changed many times. Changes in location were not recorded in CAS.
    - The CAS recorded location for Engine Truck number 255 was at Engine 37, but the actual location was at Engine 53;
    - The CAS recorded location for a monitor radio was Fire Administration, but the actual asset location was Engine 40.
- No one in the Fire Department reconciled periodically the physical inventory of its capital assets to DRMS.
- Some assets costing more than \$5,000 were not capitalized in DRMS.
- Some assets were tagged but the Fire Research and Development Division did not input asset tag numbers into DRMS after seven months of purchases.
- Some staff members in Fire Department did not take a good care of City's property. The Fire Department lost at least five portable radios in 2010-2011 fiscal year costing \$19,672.80 (each radio costs \$3,934.56). The lost radios were still in the DRMS inventory list. No disciplinary actions were taken by the Fire Department for the lost portable radios.

The City's Capital Asset Policy requires that:

- All capital assets be recorded in the City's CAS and reported to the Finance Capital Asset Section within three business days from the physical receipt of the assets by the recipient department.
- Capital assets and controlled assets be tagged by the Department representative.
- All departments conduct an annual physical inventory of its capital assets as part of the year-end financial reporting requirements. During this process, any asset found without a tag is to be tagged and recorded in the CAS.
- Any changes of location of assets within a City Department be immediately followed by a corresponding change of location in the CAS. The asset paper trail at the department should also be changed to reflect the new location of the assets.
- A Disposal and Transfer Form be completed for capital assets slated for retirement. This includes any asset that is to be disposed of, sold, used for trade-in, reported as scrapped, stolen or missing. The department receiving the asset is responsible for changing the asset records in the CAS to reflect the asset transfer finalized on the Disposal and Transfer form.
- The completed physical inventory be reconciled to the CAS Asset Inventory Report.
- All changes arising from the conduct of the physical inventory be documented and entered into the CAS system.

Fire Department's Guidelines for Disciplinary Action requires that failure to properly care for assigned equipment be disciplined to one day duty suspension.

Failure to comply with the Capital Asset Policy reduces the effectiveness of the policy and the concurrent controls it is designed to impose. Non-compliance also impairs the City's ability to properly record all assets in the financial records of the City, and properly safeguard assets. The ability to detect theft, damage or obsolescence of assets is weakened when a physical inventory is not performed.

Failure to discipline employees for lost equipment might lead to improper care of City's property in the Fire Department.

According to the Fire Department's management:

- Staff shortage was the cause for not reconciling the physical inventory of capital assets to DRMS. The R&D Division started to record changes in DRMS after 2010-2011 physical inventory count. The updates have not been completed as of October, 24, 2011.

- The Fire Department Division should notify the R&D Division for the transfer of assets. However, it hasn't been done by the Fire divisions.
- Employees had some kind of excuses for lost portable radios.
- The Finance Department year-end closing instructions were contradictory to the City's capital asset policy regarding to tagging computers systems.

### **Recommendations**

We recommend that the Fire Department:

- Fully comply with City's Capital Asset Policy.
- Follow Fire Department Guidelines for Disciplinary Action for lost properties.

## **2. Inadequate controls over Medical and General Supplies Inventories**

The Apparatus Division is responsible for managing general supplies, such as bunker gear, fire fighting equipment, etc. The Emergency Medical Services (EMS) Division is responsible for managing medical supplies and equipment needed for the Division. Our audit of the Fire Department's process related to supplies inventories revealed the following instances of internal control deficiencies:

- There was no segregation of inventory management duties. The EMS Division medical supply coordinator selected vendors and ordered EMS supplies, received goods, distributed supplies to users, performed year-end physical counts, updated inventory records and reconciled inventory records to year-end inventory counts. The year-end inventory counts were the inventory quantity and amount that the Fire Department reported to the Finance Department for year-end closing entry. The Apparatus Division storage area is the responsibility of a General Service Department (GSD) staff person. That GSD staff person was responsible for the receipt and distribution of supplies, and the year-end inventory physical count.
- Perpetual inventory records were not maintained for supplies inventory. The EMS Division kept track of EMS inventory manually and updated a medical supplies Excel spreadsheet once a year only for year-end closing purpose. The Apparatus Division had manual records that were kept in date order to record disbursements and receipts of supplies.
- The EMS Division did not have a record of medical equipment (LifePak, LifePak chargers and so on) distributed to the medic units. The medical equipment was not tagged.
- The EMS Division did not have a record of inventory taken from the EMS store to the delivery truck for weekly medical supplies delivery to the medic units. The EMS store kept a paper record of disposable items delivered to the medic units from the delivery truck. No verification or any kind of reconciliation was performed before or after the delivery.
- Some obsolete inventories have been kept in the EMS store for more than five years. In addition, the Apparatus Division storage area had obsolete inventory items interspersed among new inventory items.
- The medical supplies were not always physically safeguarded in some medic units. For instance, the doors to the medical supplies cabinet in the medic units were not always locked and some items in the EMS ambulance truck kept missing.
- Written procedures addressing all aspects necessary to safeguard EMS medical supplies inventory items were not available.

*Accounting Procedure Manual for Local Units of Government in Michigan* requires that duties must be segregated among different people to reduce the risk of errors or misappropriation. No one person should have control over all aspects of the financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping.

The City's Capital Asset Policy requires:

- Any changes of location of assets within a City Department must be immediately followed by a corresponding change of location in the Capital Asset System. The asset paper trail at the Department should also be changed to reflect the new location of the assets.
- A Disposal and Transfer Form must be completed for capital assets slated for retirement. This includes any asset that is to be disposed of, sold, used for trade-in, reported as scrapped, stolen or missing.

Failure to maintain an adequate inventory system results in:

- Inability to efficiently manage the purchasing process through the monitoring of inventory and usage levels which may result in the purchase of supplies not needed or the failure to have critical supplies when needed;
- Inability to identify losses from fraud, theft, or damage;
- Inability to adequately safeguard assets; and
- Inability to identify and properly dispose of obsolete or surplus inventory.

According to the Fire Department staff:

- The Department did not have inventory software to track inventory receipts, disbursements, and could not provide information concerning the number of items in inventory along with prices paid.
- The EMS Division did not have inventory policies to handle medical supplies.
- Staff shortage was the cause for incompatible duties.

### **Recommendations**

We recommend that:

- A perpetual inventory system, either computerized or manual, be installed; staff be trained in how to use the system; and that records from the system be reconciled to annual physical inventory counts.
- Written procedures addressing all aspects necessary to safeguard inventory items and to maintain accurate inventory records be developed and implemented.
- Incompatible duties be assigned to different people.

- No withdrawals from inventory be allowed without appropriate supervisory authorization.
- A method within the inventory system to identify obsolete, unneeded and damaged inventory be developed and implemented. Procedures for the disposal and documentation of these inventory items should be established and implemented.

### **3. The Year-End Medical Materials and Supplies Inventory Was Understated**

Out of 201 inventory items the Fire Department reported to the Finance Department for the 2010-2011 year-end medical material and supplies inventory, the auditor selected eight kinds of items for internal control testing and revealed the following:

- The actual quantities of every selected kind of inventory item were understated. For example, the actual number of Lead EKG Monitors was forty four; however, the Emergency Medical Services (EMS) Division reported only four to the Finance Department. The actual number of SPO2 was forty one; the EMS Division reported only thirteen to the Finance Department.
- As a result of miscounting, the actual costs of eight kinds of items were understated by \$168,450.
- The medical materials and supplies already in the EMS ambulance trucks (twenty one ambulance trucks in service) were not counted in the year-end inventory count.
- The medical material and supplies stored in the EMS Medic Quarters (twenty one Medic Quarters in service) were not counted in the year-end inventory count.
- The medical supplies and equipment stored in the EMS Division Headquarters and the EMS Training Academy were not counted in the year-end inventory count.

City of Detroit Finance Department Year-End Closing Instructions for the Fiscal Year Ending June 30, 2011 requires:

- An actual physical inventory is the only legitimate method of accurately valuing inventory at the end of a fiscal year.
- Actual physical count of all material and supplies inventory must be conducted no later than June 30, 2011.

Failure to perform an adequate inventory count may lead to the year-end inventory being overstated or understated in the City's financial system.

According to EMS Division staff:

- There were errors in the Excel Spread Sheet for the Materials and Supplies Inventory and no one reviewed the work sheet before submitting to the Finance Department.
- By past practice, only inventories at the EMS Division medical supplies store were counted.

#### **Recommendation**

We recommend that the Fire Department follow the Finance Department Year-End Closing Procedures.

#### **4. Inadequate Controls over Take-Home Vehicles**

Our review of the internal controls over the Fire Department take-home vehicles revealed the following deficiencies:

- The Fire Department did not have written policies and procedures regarding take-home vehicles.
- No one in the Department was tracking the number of take-home vehicles. The Division heads had the autonomy to assign take-home vehicles to their staff but were not required to report that assignment to either the Apparatus Division or the Department's administration.
- The Fire Department had approximately 24 take-home vehicles. Eleven employees (one in the Apparatus Division, three in Communication Division, five in Fire Marshal Division, one in Research and Development Division and one in Emergency Management), were not required to respond to public safety emergencies after work hours; however, they had take home cars for many years. Upon recommendation of the Office of the Auditor General, the Executive Fire Commissioner eliminated eleven take-home cars on March 14, 2012, which represented 46% decrease in take-home vehicles.
- The Department did not require the staff that was assigned take-home vehicles to maintain written mileage logs differentiating between work and personal mileage.

A solid system of internal controls includes policies and procedures that safeguard capital assets. The maintenance of mileage logs indicates the need to service the vehicles in order to keep them in working condition. In addition, written rules and policies provide employees with guidelines for the use, operating, and maintenance of their assigned vehicles.

By not having any written policies and procedures for take-home vehicles, the Department does not provide the staff assigned with vehicles instructions on what they are required to do concerning the operation and maintenance of their assigned vehicles.

By assigning take-home vehicles unnecessarily, fuel, insurance, repair and maintenance expenses might be incurred unnecessarily, which increases financial hardship to the City.

The lack of maintaining a mileage log could cause the vehicle to miss necessary basic maintenance and the possible violation of warranties. Furthermore, the staff assigned take-home vehicles could be receiving unreported income under the IRS Code.

According to several staff members who were assigned take-home vehicles, they did not receive any written policies and procedures concerning take-home vehicles. Additionally, the staff members indicated they were not required to prepare and submit mileage reports.



According to the Fire staff, take-home vehicles might serve as perks for the management positions in the Fire Department.

**Recommendations**

We recommend the Fire Department:

- Develop written policies and procedures concerning the use, operation, and maintenance of take-home vehicles.
- Require staff members assigned vehicles to prepare and submit mileage reports to the appropriate Division.

## **5. Inadequate Controls over Department-Issued Cellular Telephones and Pagers Inventory Management**

Our audit of the Fire Department's process related to Department-issued cellular telephones and pagers inventory management revealed the following instances of internal control deficiencies:

- No year-end inventory count for Department-Issued cellular telephones and pagers. The Fire management did not know the total number of cellular telephones and pagers assigned to Fire employees. No Department-issued cellular telephones and pager lists were maintained.
- No policies or procedures for assignment, usage and cancellation regarding Department-issued cellular telephones. One employee in the Fire Marshal Division died in April 2005, his name was still on January 23, 2012 Sprint invoice. Another employee in the Apparatus Division retired in October 2011, his cellular telephone was turned in; however, no one cancelled his cellular telephone services and the phone was still sitting idle as of March 16, 2012 in the office desk drawer of the Apparatus Superintendent; moreover, the cellular telephone holder's name on the Sprint invoice for this employee was Battalion Chief 3. According to the Sprint invoices, total number of cellular telephone subscribers in the Fire Department was 190 and cost about \$9,414 a month.
- There were approximately 21 cellular telephone service and data plans and three different accounts from Sprint for Department-issued cellular telephones in the Fire Department. The employees who were assigned cellular telephones did not know the details of the phone service plan (data usage limits, maximum minutes, etc). Cost fluctuations from month to month might be \$939 due to usage overage charges.
- Telephone bills were not paid on time. As of October 23, 2011, past due amount to Sprint totaled \$12,824.54. For invoices due on October 3, 2011, November 3, 2011 and December 3, 2011, the Fire Department made the check request on Nov. 18, 2011; the Finance Accounts Payable Section made the payments on December 09, 2011.
- No policies or procedures regarding assignment, usage rules and cancellation for Department-issued pagers. According to the American Messaging invoices, total number of pagers for the Fire Department was 173. Out of the 173 pagers, 76 pagers with monthly cost of \$1,853.70 were no longer in use since August 2005; however, the Fire Department has not canceled the pager services as of Feb. 28, 2012. Total estimated money wasted from August 2005 to February 2012 was \$146,442.

*The Accounting Procedure Manual for Local Units of Government in Michigan* requires:

- Periodic inventory must be made to ensure that all recorded items are on hand and that all items on hand have been properly recorded.
- Equipment, inventories, cash and other property be secured physically, counted periodically, and compared with control records.

- Policies and operating procedures in every department be written down and communicated to employees.

Failure to properly manage inventories could lead to misappropriation of City funds and properties.

According to Fire Department management, no policies and procedures regarding cellular telephone and pagers and staff shortage led to the internal control deficiencies.

### **Recommendations**

We recommend the Fire Department:

- Count cell phone and pager inventory at least annually.
- Develop written policies and procedures concerning the assignment, use, maintenance and cancellation of Department-issued cellular telephones and pagers.
- Evaluate the need of cellular telephones and pagers and cancel the cellular telephones and pagers which were not in use.

## **6. Strengthen Controls over Fire Vehicles Risk Management**

Our audit of the Fire Department's process related to vehicle risk management revealed the following instances of internal control deficiencies:

- The Fire Department reported 74 vehicle accidents, which represented 11% of the City total vehicle accidents July 1, 2010 through March 31, 2011, had the second greatest number of vehicle accidents among City Departments. Out of 74 vehicle accident, 31 (41%) Fire Department drivers were 51% or more at fault.
- The Fire Department reported thirty vehicle accidents, which represented 14% of the City's 215 vehicle from July 1, 2011 through September 30, 2011, and the second greatest number of vehicle accidents among the City Departments. Out of thirty accidents, sixteen (53%) Fire Department drivers were 51% or more at fault. Out of 16 employees who were primarily responsible to the Fire vehicle accidents, only five employees were disciplined (including two employees who did not serve the Fire Department's disciplinary suspensions); eleven employees were not disciplined by the Fire Department.

Statistics show that most of accidents are avoidable, if each emergency vehicle were able to stop at every controlled intersection, 75% of Fire Department vehicle accidents could be prevented.

Fire Department's Guidelines for Disciplinary Action requires that failure to properly care for assigned equipment and vehicles be disciplined to one day duty suspension at the first offense.

Vehicle accidents often result in body injuries/death, vehicle/property damages and law suits, which cause financial hardship to the City.

According to Fire Department's management, high volume of transport runs, lack of drivers' training and drivers negligence contributed to the high number of accidents. No explanation was given regarding to failure to discipline Fire Department drivers.

### **Recommendations**

We recommend that the Fire Department:

- Train employees to ensure compliance with the Department's Safe Driving Procedures.
- Impose disciplinary actions to the responsible employees of the vehicle accidents.