

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit Of
The Fire Department Revenues
Accounts Receivable and Cash Receipts
July 2008 – March 2011**



City of Detroit
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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: September 30, 2011

TO: Honorable City Council

FROM: Loren E. Monroe, CPA
Auditor General *Loren E. Monroe*

RE: Audit of the Fire Department Revenues, Accounts Receivable and Cash Receipts

CC: Mayor Dave Bing
Donald Austin, Fire Commissioner
Cheryl R. Johnson, Group Executive/Finance Director

Attached for your review is our report on the Audit of the Fire Department Revenues, Accounts Receivable and Cash Receipts. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; noteworthy accomplishment; our audit findings and recommendations; and the responses from the Fire Department and Finance Department.

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.aspx>

**Audit of the Fire Department
Revenues, Accounts Receivables and Cash Receipts**

July 2008 – March 2011

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Fire Department 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 audit transactions of the Fire Department's revenues, accounts receivables and cash receipts for the period July 1, 2008 through March 31, 2011. Our agency will issue two separate audit reports on the Fire Department's disbursements and capital assets (including inventory) following this report.

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 revenues, accounts receivable and cash receipts processes, and determine the control weaknesses.
- Determine whether the Department is in compliance with Finance Directives, policies, plans, and procedures regarding the revenues, accounts receivable and cash receipts.
- Determine the status of prior audit findings pertaining to the revenues, accounts receivable and cash receipts.

AUDIT METHODOLOGY

To accomplish the audit objectives, our audit work included:

- Reviewing the prior audit report;
- Reviewing reference materials to gain an overview of information regarding the operation of the Fire Department including prior audit work-papers, City Charter, City ordinances, year-end closing schedules, Detroit Resource Management System (DRMS) reports, and the Department's budget reports;
- Reviewing relevant Finance Directives;
- Performing an analytical review of the Fire Department's budgeted expenditures and revenues compared 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; and
- Performing other general procedures deemed necessary.

CONCLUSIONS

- The Fire Department has several internal control weaknesses over the financial transactions of revenues, accounts receivable and cash receipts processes.
- The Fire Department is not fully compliant with Finance Directives, policies, plans, and procedures.
- Three of four prior audit findings related to revenues, accounts receivable and cash receipts have not been resolved and are included in the findings in this report. One prior audit finding is no longer applicable.

BACKGROUND

The mission of the Fire Department is to protect life and property through the efficient use of emergency, fire and rescue response resources. It does this by enforcing all laws, ordinances and regulations relating to fire prevention, providing pre-hospital medical service, and maintaining a high state of readiness through shared planning, training and sustained coordination with other agencies.

The Department's goals are:

- Enhance customer services, through an evaluation process that will review and assess customer needs, in order to provide a higher level of professionalism and service delivery to the citizens.
- Improve revenue collections through the recovery of delinquent accounts.
- Improve employee development through continuous training and educational opportunities.
- Reduce department expenses by streamlining operational processes and redundancies thus ensuring cost savings to the City of Detroit.

The Department has the following divisions: Administration, Apparatus, Communications, Community Relations, Emergency Medical Services, Fire Fighting, Fire Marshal, Medical, Research & Development and Training. The Department maintains and operates 50 facilities throughout the City of Detroit.

Tyrone Scott and James Mack served as Fire Commissioners during the initial part of the audit period, which commenced July 1, 2008. Fred Wheeler was appointed Interim Deputy Fire Commissioner in January 2011. Donald Austin was appointed Fire Commissioner in May, 2011.

The following table shows the budgeted appropriations and revenues of the Fire Department for fiscal years ended 2009 through 2011:

	Fiscal Years Ended June 30		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Budgeted Appropriations	\$192,695,995	\$185,902,973	\$173,247,253
Budgeted Revenues	<u>23,816,083</u>	- <u>19,726,948</u>	<u>21,351,225</u>
Net Tax Cost	<u>\$168,879,912</u>	<u>\$166,176,025</u>	<u>\$151,896,028</u>
Budgeted Staff	1,535	1,480	1,424

STATUS OF PRIOR AUDIT FINDINGS

The prior follow-up audit of 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 revenues, accounts receivables and cash receipts:

1. The EMS Division Fails to Manage Revenues and Accounts Receivable
This finding is unresolved and is discussed in Finding 1 on page 5 of this report.
2. The Fire Marshal Division Fails to Manage Revenues and Accounts Receivable
This finding is unresolved and is discussed in Finding 2 on page 8 of this report.
3. The License Permits Billing System of the Fire Marshal Division Was Inadequate
This finding is no longer applicable because a new system replaced the License Permits Billing System.
4. The Fire Marshal Division Did Not Adequately Conduct and Bill Special Inspections
This finding is unresolved and is discussed in Finding 3 on page 11 of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

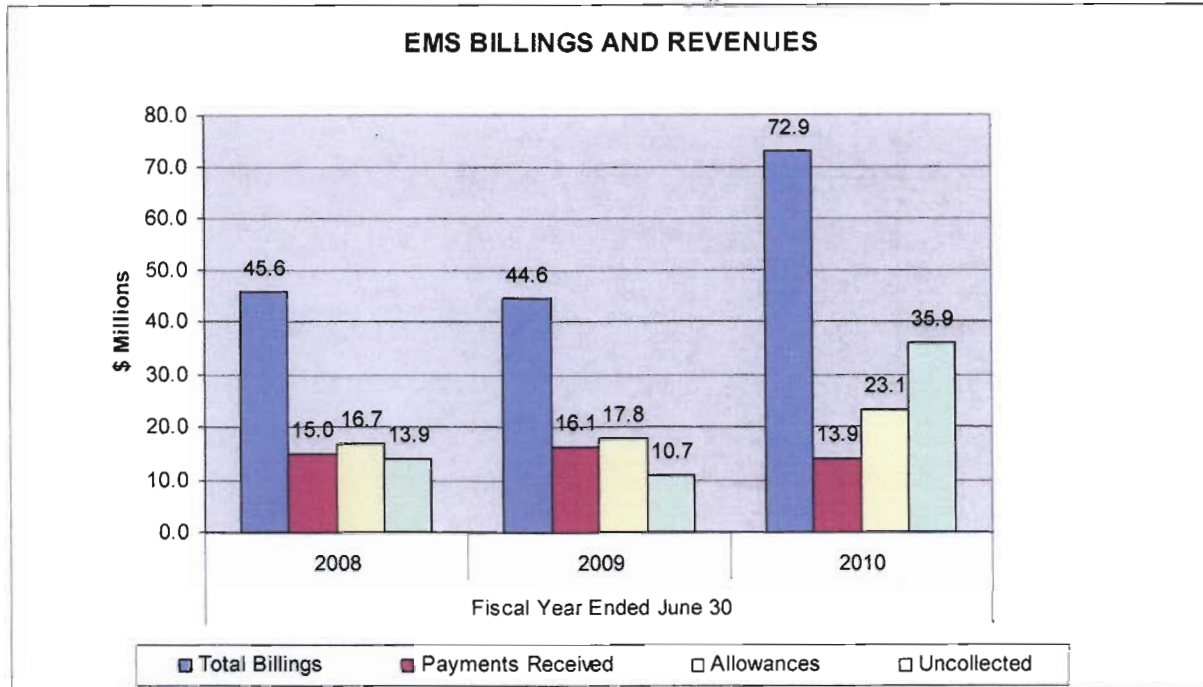
1. The Emergency Medical Services Division (EMS) Failed to Effectively Manage Revenues and Accounts Receivable

The Fire Department's medical billing and collection vendor provides billing and collection services for EMS that includes, but is not limited to lock-box operation, public services operation, information verification, insurance billing, private pay billing, follow-up billing, payment collection, payment reconciliation and preparing closeout reports. As of December 31, 2010, the vendor's Aging Summary Report showed an accounts receivable balance of \$84.6 million for EMS billing, which included \$3.3 million in current receivables (thirty days old or less) and \$81.3 million in aged receivables (over thirty days old). Of the \$81.3 million in aged receivables, only \$7.3 million has been identified by the Fire Department and Finance Department as collectible. Collection on the \$7.3 million began in November 2010; as of February 28, 2011, \$21,158 has been collected. No action has been taken to collect or otherwise address the \$74.0 million that remains as delinquent accounts receivables in the vendor's database. The Fire Department had not instructed the vendor as to what course of action to take regarding the delinquent accounts. Some of the accounts are beyond the statute of limitations for collection. While other accounts are for individuals for which there are no names and/or addresses.

In conjunction with the above issues, our audit of Fire Department's process related to EMS revenue and accounts receivable revealed the following instances of internal control deficiencies:

- Inadequate oversight of the contract with the vendor providing billing services. The Fire Department did not monitor fluctuations in billing from year to year. A 63.5% increase in billing in fiscal year 2009-2010 was not reviewed or investigated;
- Inadequate management oversight of receivables;
- Failure to pursue collection action against delinquent accounts and to refer delinquent accounts to the City Treasurer and the Law Department for collection action;
- Failure to write-off uncollectible accounts in accordance with Article VI (Uniform Procedure for Accounts Receivable) Section 18-6-6 of the Detroit Municipal Code or to process accounts related to the provision of medical services to indigent persons in accordance with Section 18-6-7;
- Failure to record receivables in Detroit Resources Management System (DRMS). Revenues are recorded only if invoices are paid;
- Failure to reconcile receivables and collections as recorded by the billing vendor with City financial records; and
- Failure to charge fees for non-sufficient fund (NSF) payment checks.

The chart below reflects the total EMS billings for the past three fiscal years, payments received, the contractually mandated allowances (the amounts disallowed by Medicare, Medicaid and Blue Cross Blue Shield under the terms of their contracts), and the amounts uncollected.



During the three year periods July 1, 2007 through June 30, 2010, a total of \$163.1 million was billed for EMS services. However, only \$45.0 million or 27.6% of the billings were collected. After subtracting the contractually mandated allowances, the uncollected balance was \$60.5 million or 37.1% of billings.

An effective internal control system requires that all procedures be in place and implemented that ensure that there is adequate control over billings and collection of revenues. This includes monitoring those portions of the receivables process that have been outsourced to a vendor.

Article VI (Uniform Procedure for Accounts Receivable) of the Detroit Municipal Code requires:

- Departments use diligent effort for a period not to exceed thirty days from date of issuance to effect collection of accounts receivable (Section 18-6-3).
- After thirty days, unpaid accounts become the responsibility of the City Treasurer's office (Section 18-6-3).
- After reasonable periods of time and after all efforts have been exhausted by the City Treasurer to collect the accounts, the accounts are to be submitted to the Corporation Counsel (Law Department) for the necessary legal proceedings. (Section 18-6-4).

- Accounts, which are determined by the Corporation Counsel to be uncollectible, may be adjusted or cancelled upon the approval of the City Council. The department originating the account shall forward the accounts to City Council (Section 18-6-6).

Article VI specifies a special procedure for handling accounts for medical services to indigent persons. These accounts may be reclassified by the Department rendering the service as a public charge after collection procedures, as approved by the Finance Director, have been exhausted (Section 18-6-7).

Failure to effectively manage EMS revenue and receivables reduces the amount of revenue available to the City to pay for EMS services. Public knowledge of the lack of collection efforts by the City encourages people who have the ability to pay for EMS services, and who may not be taxpayers of the City, to refuse to pay.

According to the Fire Department representatives, the EMS Division has no access to the contractor's database for EMS billing. Consequently, the EMS Division management cannot effectively oversee the contract for billing services or oversee the receivables. Lack of staff and expertise also are reasons for the internal control deficiencies.

Recommendations

We recommend:

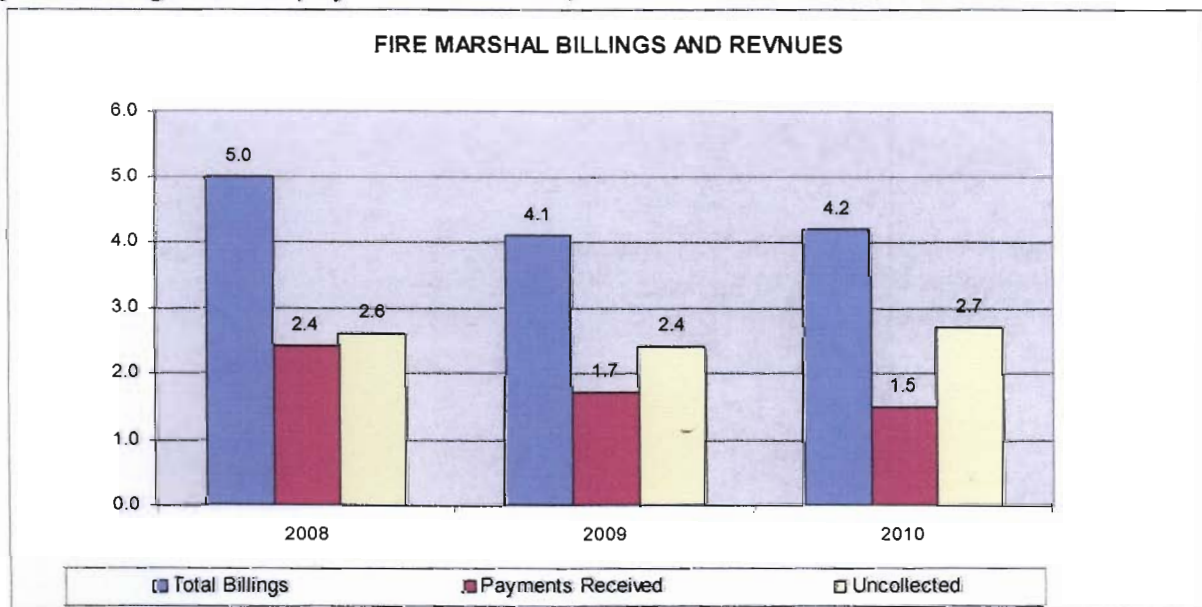
- The EMS Division actively monitor its receivables by reviewing and analyzing information provided by the billing vendor in report format or through accessing data directly in the vendor's database.
- A method for allowing the billing contractor to accept credit card payments for EMS accounts be instituted in cooperation with the Finance Department.
- The EMS Division Comply with Article VI (Uniform Procedure for Accounts Receivable) of the Detroit Municipal Code.
- All accounts receivables be recorded in the DRMS system.
- Receivables and collections as recorded by the billing contractor be reconciled to City financial records at least on a monthly basis.
- The Fire Department employs staff who has a background in accounting or bookkeeping to handle its financial transactions.

2. The Fire Marshal Division Failed to Effectively Manage Revenues and Accounts Receivable

The Fire Marshal Division failed to effectively manage revenues and accounts receivable by:

- Failure to send out invoices timely.
 - The License Permits Billing System (LPBS), which is the billing system used by the Fire Marshal Division, has six billing cycles annually. Our review of the accounts receivable process revealed that invoices for three billing cycles that should have been mailed in 2010 were still not mailed as of February 22, 2011. The 12,451 invoices that comprised the three late billing cycles, totaled \$1,736,815. Historically, if these invoices are mailed timely the successful collection rate is seventy to eighty percent, or \$1.2 to \$1.4 million.
 - Our auditor discussed the invoice backlogs with the Interim Deputy Commissioner and recommended immediate action be taken to mail invoices out. Fire clerical personnel were assigned to work overtime to clear up the invoice backlogs. The auditor confirmed that all invoices were finally mailed on February 26, 2011.
- Failure to pursue collection action against receivables within the first thirty days of issuance.
- Failure to refer delinquent accounts to the City Treasurer for collection action.
- Failure to write-off uncollectible accounts in accordance with Article VI (Uniform Procedure for Accounts Receivable) Section 18-6-6 of the Detroit Municipal Code.

The chart below shows the total Fire Marshal Division billings for the past three fiscal years along with the payments received, and the amounts uncollected.



Although the Fire Marshal Division billed approximately \$4.1 million in revenue for fiscal year 2008-2009, it only collected \$1.7 million, a collection rate of 41%. For fiscal year 2009-2010, the Fire Marshal Division billed \$4.2 million in revenue and collected \$1.5 million, a collection rate of 34%. When compared to the collection rate of 48% for fiscal year 2007-2008, we found that the collection rates declined by 7% for both fiscal years 2008-2009 and 2009-2010.

The Fire Marshal Division transferred accounts receivables that were delinquent through December 31, 2009 to the Finance Department for collection in February 2010. The total amount transferred was \$1.6 million. This was the first and only time during the audit period the Fire Marshal Division transferred delinquent accounts to the Finance Department. A collection agency contracted by the Finance Department began collecting the Fire Marshal Division receivables in March, 2010. Of the \$1.6 million transferred to Finance, a total of \$168,204 or 10% has been collected as of February 28, 2011.

Article VI (Uniform Procedure for Accounts Receivable) of the Detroit Municipal Code requires:

- Departments use diligent efforts for a period not to exceed thirty days from date of issuance to effect collection of accounts receivable. (Section 18-6-3)
- After thirty days, unpaid accounts become the responsibility of the City Treasurer's office. (Section 18-6-3)
- After a reasonable period of time and after all efforts have been exhausted by the City Treasurer to collect the accounts, the accounts are to be submitted to the Corporation Counsel (Law Department) for the necessary legal proceedings. (Section 18-6-4)
- Accounts, which are determined by the Corporation Counsel to be uncollectible, may be adjusted or cancelled upon the approval of the City Council. The department originating the account shall forward the accounts to City Council. (Section 18-6-6)

The failure to effectively manage revenues and accounts receivable reduces the amount of revenue available to the City to pay for the Fire Department and other City operations. Public knowledge of the lack of collection efforts undermines the City's efforts to collect revenues.

According to Fire Marshal staff:

- Invoices were not being sent out in a timely manner due to lack of staff.
- LPBS does not provide late notices or accounts receivable aging reports making the management of delinquent accounts difficult.

- The Fire Marshal Division is not a collection agency and does not have manpower to do collections.
- There are no defining job responsibilities between the Research and Development Division and Fire Marshal Division regarding the transferring of uncollectible accounts.
- Fire Marshal is not aware of Article VI of the Detroit Municipal Code to transfer delinquent accounts to the Finance Department and write off accounts receivables.

Although the Fire Marshal asserts that a lack of staff is the primary cause for inadequate billing, the Division staff mailed 12,451 invoices when prompted by our agency.

Recommendations

We recommend that the Fire Marshal:

- Develop and implement procedures to ensure that Fire Marshal management periodically reviews receivables.
- Fully comply with Article VI of the Detroit Municipal Code.
- Investigate the cost effectiveness of requiring businesses prepay for annual inspection renewals that are required by the Fire Marshal.

3. The Fire Marshal Division Did Not Adequately Conduct and Bill for Special Inspections

Special inspection service billings are charges for fire sweeps, special plan reviews, fire alarm tests, hydrostatic tests, hazardous material (HAZMAT) controls, etc. On average, the Division handles one to two HAZMAT incidents a month. If there is an incident which leads to a gas leak or other HAZMAT spill, the Fire Marshal Division hires a HAZMAT vendor to clean up the incident. The HAZMAT vendor is paid by the Division. To recoup its cost, the Fire Marshal Division bills the individuals or company responsible for the HAZMAT incident. Our audit of the Division's process related to special inspections revealed the following instances of internal control deficiencies:

- We selected four HAZMAT incidents, which occurred from June 2010 to February 2011 for testing. We found that three or seventy-five percent were not billed to the parties who were responsible for causing the incidents. Upon the request of our agency, the three invoices totaling \$8,465 were created and mailed by the Fire Marshal Division on April 14, 2011.
- The budgeted amount for HAZMAT billing for fiscal year 2008-2009 was \$200,000 but only \$17,803 was collected. The budgeted amount for HAZMAT billing for fiscal year 2009-2010 was \$200,000, but only \$30,010 was collected.
- None of the HAZMAT costs are recorded as receivables or included in year-end accruals.
- The Division does not actively seek services for special inspections. The inspections are only performed upon customer requests.

A good system of internal control requires that there is a system to bill approved fees, follow-up to collect the fees, and ensure the accurate accounting for the revenues and expenses.

Failing to bill and collect for special inspections reduces revenues from parties receiving the service and transfers the costs to Detroit taxpayers. In particular, the cost of HAZMAT cleanups should be borne by the party responsible for creating the hazardous situation. Failing to perform inspections such as the inspection of tanker trucks carrying hazardous or flammable materials that travel through the City of Detroit may jeopardize the safety of the City's residents and others.

The representatives from the Fire Department stated:

- Lack of staff and training are the reasons for not sending out HAZMAT invoices.
- The HAZMAT billing has never been recorded into DRMS as receivables.
- The Fire Marshal Division does not have manpower to actively seek services for all special inspections.

Although the Fire Division asserts that a lack of staff and training is the primary cause for inadequate billing, the Division staff created and mailed invoices when prompted by our agency.

Recommendations

We recommend that:

- A system to bill and collect fees for special inspections and HAZMAT cleanups be developed and implemented.
- Accounting procedures be analyzed and modified as necessary to provide for accurate accounting of revenues, expenses and accruals.
- A plan to maximize the number of inspections performed each year be developed and implemented.

4. Controls Over Cash Receipts Are Inadequate

Both the EMS Division and the Fire Marshal Division receive cash for services rendered such as issuing EMS run sheets and fire reports to customers.

Our review of the internal controls over cash receipts revealed the following deficiencies:

- One cash bag containing \$519 in cash and \$1,328 in checks was missing in the Fire Marshal Division. The incident happened on December 3, 2009. The case was reported to the Detroit Police Department, however, after an investigation conducted by the DPD's Internal Affairs Division the case was closed in April 2010. The investigators were unable to prove or refute a larceny occurred; however the money was never found. The incident was not reported to the Mayor's Office, Finance Department, or Office of the Auditor General in accordance to the City's Finance Directive.
- No segregation of duties for the Fire Marshal Division's cash receipts process. Fire Marshal Principal Clerk receives checks in the mail, receives cash over the counter, enters the cash receipts in DRMS, and applies payments in LPBS. Four employees have the combination to the safe; moreover, the combination has not been changed for several years.
- No segregation of duties for EMS cash receipts. EMS senior clerk opens the mail, keeps the cash receipts log, and receives cash over the counter.
- Cash received in the Fire Marshal Division and EMS Division is not consistently deposited within 48 hours. Out of thirty one cash deposits selected for review, from the Fire Marshal Division, twelve were not deposited within 48 hours of receipt. Out of ten cash deposits selected from the EMS Division, none were deposited timely. The number of business days that cash was held by the EMS Division before being deposited into the City's bank account ranged from four to seventeen days.

A primary internal control is the appropriate segregation of responsibilities or duties. The four general categories of responsibilities are: custody, authorization, record keeping and reconciliation. Ideally, a different employee should perform each of these four major functions.

Finance Directive 20 – Cash Handling Procedures requires that:

- All employees handling cash will be held strictly accountable for cash shortages and overages. It shall be the department's responsibility to review carefully all reported variances and take appropriate action warranted by the circumstances, including requiring the restitution of funds. Unusual variances are to be reported to the Police Department, the Mayor's Office, Finance Department, and the Office of the Auditor General.
- Cash should not accumulate. All City departments should immediately institute procedures to insure that all cash and checks are deposited in the bank and recorded in DRMS within 48 hours after receipt.

Failure to maintain adequate controls over cash receipts can result in multiple abuses including theft or misappropriation of receipts, inaccurate financial records.

Representatives of the Fire Department stated that lack of staff and proper training are the reasons for the internal control deficiencies over cash receipts. The Fire Department did not offer a cause for the misplaced cash bag.

Recommendations

We recommend that the Fire Department:

- Segregate incompatible duties for cash receipts.
- Periodically change the combination for the safe. Change the combination known to an employee upon termination (or transfer) of the employee.
- Develop and implement standard operating procedures over the cash receipts process, which includes safeguarding cash at all times.
- Fully comply with the Finance Directive 20.
- Provide training for the employees handling cash receipts.

5. The Various Financial Functions of the Fire Department Are Not Centralized Resulting in Inefficient Operations and a Lack of Uniformity

The City has centralized most of the accounting and financial positions under the Finance Department. The job description for a Manager II, which is similar to many of the management level jobs at the Fire Department, requires a bachelor's degree in a related field of study. However, many of the financial related functions in the Fire Department are not centralized or under the control of the Finance Department.

The Research and Development Division performs some financial functions for the Fire Department such as preparation of budget request and year-end closing, coordinating activities relative to DRMS and tracking of the annual operational budget. This division is commanded by a Chief with a staff consisting of a Captain and a Lieutenant. None of the positions requires an accounting degree or background and all three of the current employees were from the Fire Fighting Division and are members of Detroit Fire Fighters Association.

The EMS Division and the Fire Marshal Division are responsible for collecting revenues generated by the Divisions. However, the main responsibility of the EMS Division is to provide pre-hospital medical services and the main responsibility of the Fire Marshal Division is to enforce laws, ordinances and regulations relating to fire prevention and suppression. Therefore, the job description of the Superintendent of the EMS Division and the Fire Marshal does not require any financial background.

Good internal control mandates that qualified personnel with the necessary accounting or financial background perform analytical procedures of the accounting processes to ensure that the financial records are correct.

The current management structure is the main reason for the findings related to: no oversight of EMS and Fire Marshal revenues and cash receipts; the lack of adequate management of accounts receivable; and incorrect revenue accrual entries being made.

The structure of the Fire Department, in accordance with its union contract, contains provisions that promotions in the Fire Department shall be based on length of service therein. The officers or employee thereof having served the longest period in any position shall be advanced to fill any vacancy in the next higher position. No written qualifying examinations, competitive or non-competitive, shall be required as a condition of promotion.

Recommendations

We recommend that the Fire Department:

- Consolidate all of their financial functions under a qualified Finance Department management employee.
- Review all of the job descriptions and work assignments of the staff assigned finance duties at the Fire Department, evaluate each position, and assign the appropriate functions to the Finance Department.

FINDING RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department Failed to Monitor and Collect the Fire Department Accounts Receivable

As of December 31, 2010, of the \$81.3 million in aged accounts receivable for EMS, only \$7.3 million was identified as "good receivables" by the Finance Department Treasury Division Revenue Collection Section (Revenue Collection) and transferred for collection activity. Of the \$3.8 million in aged receivables for the Fire Marshal Division, only \$1.6 million was transferred to Revenue Collection. The Finance Department had not made any effort to collect the Fire Department's accounts receivables which were delinquent before the end of fiscal year 2009-2010, and did not comply with the City's Municipal Code regarding accounts receivables.

The Finance Department does not have written procedures to instruct the EMS Division and the Fire Marshal Division on transferring delinquent accounts to a collection agency. After the transfers, there was no feed back from the Finance Department to the Fire Department regarding the accounts that were transferred. The transferred delinquent accounts are still in the EMS contractor's database and Fire Marshal Division's LPBS as active accounts receivable.

An effective internal control system requires that all procedures be in place and implemented that ensure there is adequate control over billings and collection of revenues. This includes monitoring those portions of the receivables process that have been outsourced to a vendor.

Article VI (Uniform Procedure for Accounts Receivable) of the Detroit Municipal Code requires:

- After thirty days, unpaid accounts become the responsibility of the City Treasurer's office. (Section 18-6-3)
- After reasonable periods of time and after all efforts have been exhausted by the City Treasurer to collect the accounts, the accounts are to be submitted to the Corporation Counsel (Law Department) for the necessary legal proceedings. (Section 18-6-4)
- Accounts, which are determined by the Corporation Counsel to be uncollectible, may be adjusted or cancelled upon the approval of the City Council. The department originating the account shall forward the accounts to City Council. (Section 18-6-6)

The failure to effectively manage revenues and accounts receivable reduces the amount of revenue available to the City to pay for Fire Department and other City operations. Public knowledge of the lack of collection efforts undermines the City's efforts to collect revenues.

Representatives of the Finance Department stated:

- The Revenue Collection is only responsible to collect delinquent property tax and income tax.
- The Fire Department is responsible to collect its delinquent receivable and to write off uncollectible accounts.
- The accounts receivable data in the EMS contractor's system was not an accurate reflection of true collectible accounts receivable.

Recommendation

We recommend that the Finance Department fully comply with Article VI of the Detroit Municipal Code.

July 20, 2011

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following is the Detroit Fire Department's (DFD) response to the findings and recommendations in the June 2011 Audit of the Detroit Fire Department Revenues, Accounts Receivables, and Cash Receipts management, as prepared by the Office of the Auditor General.

In my review of past audits of the Detroit Fire Department's internal fiscal controls conducted by your office specifically, July 2006 - June 2008 and March 2007, your findings and our failure to be responsive to the audit recommendations have unfortunately been consistent. The Department has failed to implement virtually any of your recommendations. During these fiscally challenging times it is imperative that we correct our accounting deficiencies, poor practices, and the lack of oversight of the contract with the vendor providing medical billing and collections services. It is my goal to implement, per your recommendation, a Financial Division within the Department to resolve the ongoing fiscal management problems.

The Department does not dispute any of your findings and we offer no excuse. However in the following discussion, I will reply to the audit and explain what corrective actions our Department will take to implement all of your recommendations.

As an overview, the Department does not have an adequate staff that possesses the requisite skills, knowledge, and abilities in fiscal management. The Department accounting functions are decentralized and to the extent they exist have operated in a "stovepipe" environment, i.e., the Research and Development Division develops the Department's budget based upon input received from nine other division heads. However, the skill set does not always exist within the divisions for fiscal analysis, revenue management, and knowledge of generally accepted accounting principles.

There are many reasons for this lack of knowledge and experience. The most prominent reason is that positions in the Department are filled on the basis of seniority in accordance with the contract between the City of Detroit and the Detroit Fire Fighters Association (DFFA) Local 344. Division heads often do not have an accounting background and have not developed this expertise.

Loren E. Monroe, Auditor General
July 20, 2011
Page 2

At best, on-the-job training occurs but its effectiveness is mostly based upon the competency and knowledge of the predecessor. Revenue and accounts receivables management, cost benefit analysis, and forecasting, generally does not take place.

Research and Development has seen its role as primarily developing the budget, monitoring expense account balances, procurement issues, and interacting with the City's budget office. However, there is little or no involvement in the revenue-generating side of Department operations, which includes the EMS and Fire Marshal Divisions.

For example, on page 8 of your report, you state that when the auditor recommended that immediate action take place to mail invoices from the Fire Marshal Division, the Department assigned clerical staff using overtime to accomplish the mailing. The Department mailed 12,451 invoices totaling approximately \$1.7 million at an overtime cost of \$1,880.00 dollars. The cost benefit of this decision is evident. Even if the realized collections were only 10% of the billings, \$170,000, this equates to a return on investment (ROI) of 90%. Instead, to our embarrassment, the Department had to be prompted to take what would be an obvious next step after generating a billable event.

The development of a Finance Division with comprehensive oversight of the Department's fiscal processes is easier said than I believe can be accomplished. In my relatively short time in the position of Fire Commissioner, I have had a rude awaking into how intertwined the DFFA is in the operational functions of the Department. There are right to work rules that must be considered and, an inordinate amount of negotiation necessary to change simple things such as who can supervise DFFA members.

Funding must be found to hire the staff for the Finance Division however; I am not opposed to reallocating unfilled vacancies in order to accomplish the staffing needs of the Division. Steps have already been taken to secure a manager from the budget office to head the Finance Division as well as a human resource person from the Human Relations Department to assist with reallocating unfilled positions.

A more detailed implementation plan is needed that will layout the steps necessary to develop the Division. A collaborative effort between the Department and the Mayor, Finance Department, City Council, Office of the Auditor General, Information Technology Services, Human Relations Department and Union will be required to bring this concept to fruition.

These challenges however are not insurmountable but will take a focused effort on the Department's behalf to implement necessary change. I am committed to see this through and not to revisit the same recommendations your office have made since 2004.

Loren E. Monroe, Auditor General
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I have been the Executive Fire Commissioner for 50 days as of the date of this report. Correcting and aligning our fiscal management processes has become one my highest priorities. The Department will fully address its internal fiscal control shortcomings in an expeditious manner. We will accomplish this by the development of a Finance Division congruent with your recommendations.

FINDINGS

Finding No. 1 The Emergency Medical Services Division (EMS) Failed to Effectively Manage Revenues and Accounts Receivable.

Detroit Fire Department Response:

The Detroit Fire Department concurs with the audit findings. The Detroit Fire Department will:

- Work with other City departments to employ staff who has a background in accounting, revenue and accounts receivables management, and fiscal analysis to handle our financial transactions.
- Actively monitor our receivables through the EMS Division or newly developed accounting function by reviewing and analyzing information provided by the billing vendor in a report format or through accessing data directly in the vendor's database.
- Develop a method for allowing the billing contractor to accept credit and debit card payments for EMS accounts in cooperation with the Finance Department.
- Comply with Article VI of the Detroit Municipal Code, Uniform Procedure for Accounts Receivables.
- Ensure all accounts receivables are recorded in the Detroit Resources Management System (DRMS).
- Ensure all receivables and collections as recorded by the billings contractor will be reconciled against City financial records on a monthly basis.

Finding No. 2 The Fire Marshal Division Failed to Effectively Manage Revenues and Accounts Receivables.

Detroit Fire Department Response:

The Detroit Fire Department concurs with the audit findings. The Detroit Fire Department will:

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- Fully comply with Article VI of the Detroit Municipal Code.
- Ensure that invoice information is transmitted to the appropriate function developed within the Department to ensure timely billing of services rendered.
- Develop and implement procedures to ensure that Fire Marshal management, or an accounting function to be established, periodically reviews receivables.
- Investigate the cost effectiveness of requiring businesses to prepay for annual inspection renewals that are required by the Fire Marshal.

Finding No. 3 The Fire Marshal Division Did Not Adequately Conduct and Bill for Special Inspections.

Detroit Fire Department Response:

The Detroit Fire Department concurs with the audit findings. The Detroit Fire Department will:

- Develop and implement a system to timely bill and collect fees for special inspections and HAZMAT cleanup.
- Provide for accurate accounting of revenues, expenses, and accruals through the development of accounting systems in accordance with all applicable City Municipal Code and Governmental Accounting Standards.

Finding No. 4 Controls Over Cash Receipts Are Inadequate.

Detroit Fire Department Response:

The Detroit Fire Department concurs with the audit findings. The Detroit Fire Department will:

- Fully comply with Finance Directive No. 20.
- Provide training to employees handling cash receipts, in collaboration with your office and the Finance Department.
- Develop and implement standards operating procedures over the cash receipts process, which include safeguarding cash at all times.
- Segregate incompatible duties for cash receipts.

- Periodically change the combination for the safe and develop a procedure to ensure the combination known to an employee upon termination or transfer is changed.

Finding No. 5 The Various Financial Functions of the Detroit Fire Department Are Not Centralized Resulting in Inefficient Operations and Lack of Uniformity.

Detroit Fire Department Response:

The Detroit Fire Department concurs with the audit findings. The Detroit Fire Department will:

- Work with other City Departments to employ staff who has a background in accounting or bookkeeping for the purpose of consolidating our financial functions.
- Develop job descriptions, qualifications, and work assignments of staff assigned financial duties and assign the appropriate functions to the Finance Division.

The Department will work diligently with the Mayor, Finance Department, City Council, Office of the Auditor General, Information Technology Services, and the Human Relations Department to develop a Finance Division responsible for managing the Department's billings, receivables, revenues, and cash receipts management. It is my Department's objective to employ the appropriate number of civilian personnel necessary to facilitate full implementation of the recommendations herein. Our firm belief, to be validated empirically, is that a fully functioning Finance Division will be cost neutral when compared to the efficiencies gained and increased revenues generated through proper oversight and management.

Although mileage reimbursement was not within the scope of this audit, in prior audits the Department was cited for inadequate records to determine if mileage reimbursements payments were made in compliance with the DFFA contract. The Finance Division will also be able to manage this benefit in accordance with the DFFA contract.

Efforts toward the necessary structural changes will require strategic action on the Department behalf and, will begin immediately. Appropriate discussions with the DFFA will occur as necessary as we move forward to align our fiscal management approach with City policy. These discussions, however, will not impede the Department from unilaterally putting into effect as many of the recommendations as possible found in the Auditor General's report.



DONALD R. AUSTIN
Executive Fire Commissioner
Detroit Fire Department



ATTACHMENT B

September 28, 2011

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated findings and related recommendations in the Audit of the Fire Department Revenues, Accounts Receivables and Cash Receipts, as prepared by the Office of the Audit General.

Findings Related to Other Departments:

1. The Finance Department Failed to Monitor and Collect the Fire Department Accounts Receivable:

Department's Response

The Treasury Division is developing the necessary procedures as it pertains to the collection process contained in Article VI of the Detroit Municipal Code.

Revenue Collections is currently working on a delinquent billing process through DRMS accounts receivable for the Fire Department. This process will allow accounts that are past thirty days old to be automatically transferred into DRMS AR for billing.

Sincerely,

Cheryl R. Johnson
Group Executive – Finance Director