



20 E Main St Suite 820  
PO Box 1466  
Mesa, Arizona 85211-1466

Date: April 5, 2012  
To: Audit, Finance & Enterprise Committee  
From: Jennifer Ruttman, City Auditor  
Subject: Audit of Fire Department Emergency Management Division

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed an audit of the Fire Department's Emergency Management Division. The final report is attached. The report includes 2 Corrective Action Plans (CAPs), followed by the Fire Department's response to the recommendations.

We will perform a follow-up review in approximately 1 year, to verify that the planned corrective actions have been implemented effectively.

Please feel free to contact me if you have any questions.

## AUDIT REPORT

## CITY AUDITOR

**Report Date: April 5, 2012**

**Department: Mesa Fire Department, Emergency Management Division**

**Subject: Audit of Fire Emergency Management**

### **OBJECTIVES**

The objectives of this audit were to:

- Verify compliance with applicable federal and state grant requirements.
- Verify compliance with applicable City and departmental policies.
- Evaluate the adequacy of internal controls over grant procurement, reimbursement and asset management.
- Determine whether pharmaceuticals and other perishable items are adequately monitored to ensure appropriate and timely disposition of expired items.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we interviewed key personnel; reviewed federal, state and city grant requirements; conducted a physical inventory of sampled items; reviewed grant reporting documentation, invoices, expenses and reimbursement requests; and performed other audit tests as required for ten selected grants from fiscal years 2008 through 2010.

### **BACKGROUND**

The U.S. Department of Homeland Security provides yearly grants to the State of Arizona, for the purpose of funding emergency management programs. The State then provides a portion of these funds to the Mesa Fire Department Emergency Management (EM) Division, as a sub-grantee, to purchase equipment, medical supplies, training, and other necessities for the EM program.

As a sub-grantee, Fire EM is subject to numerous federal, state and city grant requirements, including but not limited to the following:

- Detailed property records must be maintained and reported for the lifetime of each capital asset, from acquisition through disposition.
- Physical inventories of capital assets must be conducted and reconciled to asset records at least once every two years.
- Assets must be used only in the program for which they were acquired.
- Grant funds must be utilized for identified needs that fall within specified planning, equipment, training and management/administrative categories.

## **CONCLUSION**

We found that EM grant funded purchases were consistent with those allowable under the grants. In addition, grant funded pharmaceuticals are adequately secured and, along with other perishable purchases, are being monitored and removed from active service appropriately. However, inadequate internal controls and insufficient oversight in prior years have resulted in non-compliance with several grant requirements. For example:

- Required physical inventories of grant funded assets have not been conducted.
- Asset records for older capital equipment are not being maintained and some are incomplete, which has resulted in an inability to locate certain assets.
- Process controls failed to prevent and/or detect an item being purchased with grant funds without following the grant purchasing procedures.
- A grant funded asset purchased in January 2006 has not yet been used for its intended purpose.
- In some cases, reimbursement requests, submissions for grant extensions, and required reporting of grant-funded purchases were not completed in a timely manner.
- The majority of EM's grant related processes and procedures have not been documented.

Therefore, while significant improvements have been realized within the past year, continued effort is needed to improve asset management and ensure full compliance.

## **RECOMMENDATIONS**

- All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data should be researched and added to the database.
- Standard Operating Procedure (SOPs) should be developed and followed for all EM grant-related activities, including those at the WMD warehouse, to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with grant requirements. These procedures should:
  - Require that physical inventories of grant funded assets be conducted at least once every two years.
  - Ensure accurate and complete tracking of grant funded assets.
  - Identify grant funded assets that are not being utilized for their intended purpose.
  - Prevent and/or detect purchases that circumvent established procedures.
- Fire EM should consider developing and implementing additional management tools, such as checklists to track essential activities and associated due dates, to ensure timely submission of reimbursement and/or extension requests and other required reports.

For detailed findings & recommendations, please see the attached Corrective Action Plans (CAPs).

---

**CAP #1: Improve Grant Funded Asset Management**

---

**Observations:**

1. A physical inventory and associated reconciliation of grant funded asset records has not been completed, although federal guidelines require this to be done at least once every two years.
2. Asset records for older grant funded capital equipment have not been maintained, and some are incomplete.
  - a. Capital assets purchased with 2003 and prior grant funds were recorded in a database that is no longer maintained. Therefore, disposal information is not recorded when the assets are retired.
  - b. The acquisition date, the location of the asset, and/or the serial number were not recorded for 244 out of 604 grant funded capital assets purchased with 2007 or prior grant funds. Some of these assets could not be located due to the lack of this information.
3. A grant funded plotter, which was purchased in 2006 for more than \$8,300, has not yet been used for its intended purpose. This asset was intended for use at a new Emergency Operations Center (EOC); however, the new EOC was never built. The existing EOC had a usable plotter so the newly purchased plotter has been stored in the WMD Warehouse for the past six years, unused. As of February 2012, plans were being made to install and use the plotter at the existing EOC.
4. There are no EM Standard Operating Procedures (SOPs) that detail the activities necessary to manage grant funded assets.

**Comments:**

Failure to comply with any grant requirement can result in various enforcement actions, from temporary withholding of reimbursement, to terminating a grant program and/or withholding future grant awards.

Conducting physical inventories, in addition to being required by the grants, provides awareness of equipment movement or potential misappropriation and aids in keeping property records accurate.

The 2006 purchase of a plotter for an EOC that had not yet been constructed is indicative of the lack of controls in place over EM grant funded purchases at that time. While current purchases are more closely scrutinized, this is a clear example of why better controls were needed to ensure the most responsible use of taxpayer dollars.

Documented processes and standard operating procedures are important controls, not only to ensure compliance with grant

requirements, but also to ensure efficiency and continuity of operations.

- Recommendations:**
1. Fire EM should develop and follow a schedule for conducting physical inventories of grant funded assets at least once every two years. As part of each scheduled inventory:
    - a. Asset records should be reconciled to physical inventory.
    - b. Discrepancies and resulting adjustments should be reviewed by senior management, and any irregularities or other anomalies should be addressed and documented.
    - c. All documentation should be retained in accordance with records retention guidelines.
  2. All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data, such as serial numbers, locations (if applicable), acquisition dates, etc., should be researched and added to the database.
  3. Fire EM should develop a procedure to ensure accurate tracking of grant funded assets that have the potential to be disposed of through methods outside of the Fire Department (i.e. computers that may be cycle-replaced by ITD), to ensure that disposal details are captured in accordance with federal and state grant guidelines.
  4. Fire EM should develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose.
  5. Standard Operating Procedure (SOPs) should be developed for all EM grant-related activities (including those at the WMD warehouse), to ensure efficiency and continuity of operations as well as compliance with grant requirements.

---

**CAP #2: Improve Departmental Procedures to Strengthen Management Oversight**

---

**Observations:**

1. Prior lack of management oversight allowed for untimely reimbursement requests and submissions for grant extensions.
  - a. While AZ DOHS requires that grant reimbursement requests be processed at least quarterly, 7 of 38 sampled expenditures involved reimbursement requests that were submitted between 4 and 11 months after the expenditures were incurred.
  - b. Extension requests for 3 out of 8 grants were submitted between 4 and 8 months late. AZ DOHS requires that extension requests be submitted 30 calendar days prior to the end of the award period.
2. The grant closure process was incomplete, resulting in untimely reporting of property purchased with grant funds for 5 of the 10 grants tested. It should be noted, however, that AZ DOHS provides conflicting instructions regarding specifically when this form is to be submitted within the grant closure process, which can cause confusion as well as duplicative work.
3. One out of 21 sampled purchases circumvented the Fire EM grant procurement process without detection. An individual who does not typically purchase grant funded equipment completed a purchase using grant funds without following the grant purchasing process. At the time of the purchase, the process did not include downstream controls to identify and question the validity of the purchase, or to ensure it was recorded in the EM database. While grant funds had been allotted for this specific purchase, there was no awareness by Fire EM that the purchase had occurred.

**Comments:**

Under new management, EM now conducts monthly grant budget reviews involving both EM and Management Services (fiscal) personnel, providing improved oversight of all open EM grants. Expenditures, revenues, and remaining budgeted dollars are reviewed in detail. However, additional efforts are needed to prevent and/or detect instances of non-compliance with requirements.

**Recommendations:**

1. Fire EM and Management Services staff members should continue conducting monthly grant budget reviews. Fire EM should also consider developing a checklist containing essential activities and associated due dates, or other management oversight tools, to ensure compliance with grant requirements.
2. The activities necessary to complete the grant closure process should be documented in a Standard Operating Procedure (SOP) to clearly disseminate expectations, minimize disruptions of

essential operations during employee absences and ensure compliance with grant requirements.

3. The grant procurement process should be updated to include controls designed to prevent and/or detect purchases that circumvent established procedures.

## Response Form

Please provide your response to each recommendation below and return to the City Auditor's office. Your responses will be used as the basis for a follow-up audit in approximately one year.

Recommendation	Department's Response
1-1. Fire EM should develop and follow a schedule for conducting physical inventories of grant funded assets at least once every two years. As part of each scheduled inventory: <ol style="list-style-type: none"> <li>a. Asset records should be reconciled to physical inventory.</li> <li>b. Discrepancies and resulting adjustments should be reviewed by senior management, and any irregularities or other anomalies should be addressed and documented.</li> <li>c. All documentation should be retained in accordance with records retention guidelines.</li> </ol>	Physical inventory audits for all capital assets will be completed every 2 years. The first inventory will be completed by Dec. 2012. Any discrepancies between the physical inventory and the asset records will be reviewed and addressed by management. Fire EM will follow federal and city guidelines for record retention and will add those guidelines to EM SOP's.
1-2. All grant funded capital assets should be accurately recorded in the EEMS Asset Tracker database. Missing data, such as serial numbers, locations (if applicable), acquisition dates, etc., should be researched and added to the database.	All grant funded capital assets will be added to the EEMS asset tracker database. This will be completed by Dec. 2012. Missing data will be researched and added to the data base.
1-3. Fire EM should develop a procedure to ensure accurate tracking of grant funded assets that have the potential to be disposed of through methods outside of the Fire Department (i.e. computers that may be cycle-replaced by ITD), to ensure that disposal details are captured in accordance with federal and state grant guidelines.	EM SOP's will be written to specifically document the Homeland Security Grant asset disposal process in accordance with Federal and City requirements. Emergency Management will work with Fire ITD and Resource Management to integrate our databases to share information between different departments.
1-4. Fire EM should develop a procedure that identifies grant funded assets that are not being utilized for their intended purpose.	MFD EM SOP's will be drafted which documents the Homeland Security Grant asset utilization process. Assets not being utilized will be evaluated and disposed of, as needed, following federal and city guidelines.
1-5. Standard Operating Procedure (SOPs) should be developed for all EM grant-related activities (including those at the WMD warehouse), to ensure efficiency and continuity of operations as well as compliance with grant requirements.	MFD EM SOP's will be drafted to clearly identify roles, responsibilities and process used for grant management and the WMD warehouse. This will be completed by Dec. 2012.
2-1. Fire EM and Management Services staff members should continue conducting monthly grant budget reviews. Fire EM should also consider developing a checklist containing essential activities and	MFD EM will conduct Quarterly budget review meetings. MFD EM will also conduct quarterly meetings with WMD Manager to review asset tracking database and equipment entry. This will begin immediately.

Recommendation	Department's Response
<p>associated due dates, or other management oversight tools, to ensure compliance with grant requirements.</p>	
<p>2-2. The activities necessary to complete the grant closure process should be documented in a Standard Operating Procedure (SOP) to clearly disseminate expectations, minimize disruptions of essential operations during employee absences and ensure compliance with grant requirements.</p>	<p>MFD Management Services Division has drafted SOP's that clearly disseminates expectations and lines out essential responsibilities. This will assist in the continuation of work flow regardless of personnel. Management Services is also cross training an additional Financial Specialist to ensure continuity of essential operations. The SOP's will be implemented in Sept. 2012.</p>
<p>2-3. The grant procurement process should be updated to include controls designed to prevent and/or detect purchases that circumvent established procedures.</p>	<p>MFD EM has drafted and is now following a Homeland Security Grant procurement process flowchart. This document will be added to our EM SOP's and will be reviewed for compliance at our quarterly grant budget review meetings.</p>