

OPERATIONAL AUDIT

OKLAHOMA STATE FIRE MARSHAL COMMISSION

For the period July 1, 2013 through June 30, 2016



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Office of the State Fire Marshal**

**For the Period
July 1, 2013 through June 30, 2016**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

September 5, 2017

TO THE OKLAHOMA STATE FIRE MARSHAL COMMISSION

This is the audit report of the Office of the State Fire Marshal for the period July 1, 2013 through June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

State Fire Marshal Commission Operational Audit

Background

The mission of the Office of the State Fire Marshal (the Agency) is to promote safety and awareness and reduce the loss of lives and property to the citizens and businesses of Oklahoma through public education, fire investigations, life safety inspections, building plan reviews, code assistance and enforcement and statistical data collection.

The Oklahoma State Fire Marshal Commission (the Commission) is composed of seven members appointed by the Governor and confirmed by the Senate.

As of July 2017, the Commission members are:

Stan May.....	Chairman
David Barnes	Vice-Chairman
Cary Williamson	Member
Cecil Clay	Member
Kirk Trezell.....	Member
Joe Elam.....	Member
Vacant Position.....	Member

The Agency operates through these three departments:

- **Building:** Building department personnel examine plans and specifications of certain types of new construction or remodeling to see that they meet fire safety requirements. Together with the operations agents, they assist any city, town or county in the enforcement of building codes and standards.
- **Field Operations:** Agents who work in the department are charged with investigating acts of arson, or attempted arson, and keeping records of such investigations. They are also responsible for collecting evidence and seizing property in relation to arson investigations and the confiscation of cigarettes that have not been certified through the State Fire Marshal Commission. Agents are responsible for carrying out an extensive fire protection inspection program and issuing orders or condemnation or repair of dangerous or dilapidated buildings that constitute a hazard to life or other property.
- **Support Services:** Support personnel maintain records of all activities of the Agency and perform various financial and operational procedures.

State Fire Marshal Commission Operational Audit

Table 1 summarizes the agency's sources and uses of funds for state fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016)

Sources and Uses of Funds for FY 2015 and FY 2016

	2015	2016
Sources:		
Appropriations	1,744,720.77	1,319,528.82
License/Permits/Fees-General	1,019,207.06	877,952.87
Sales and Services	1,772.00	740.00
Other Non-Revenue Receipts	13,838.00	23,927.05
Total Sources	2,779,537.83	2,222,148.74
Uses:		
Personnel Services	\$ 1,721,426.99	\$ 1,671,854.83
Professional Services	148,415.36	168,984.21
Travel	33,383.84	38,379.44
Administrative Expenses	308,831.34	297,131.12
Property, Furniture, Equipment	63,255.40	28,637.63
Assistance, Payments to Local Govn'ts	327,072.00	283,370.00
Transfers and Other Disbursements	140.99	1,526.36
Total Uses	\$ 2,602,525.92	\$ 2,489,883.59

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

State Fire Marshal Commission Operational Audit

Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2013 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of Agency operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

State Fire Marshal Commission Operational Audit

OBJECTIVE Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion The Agency's internal controls do not provide reasonable assurance that revenues, expenditures (miscellaneous or payroll), or inventory were accurately reported in the accounting records.

In addition, financial operations did not comply with the following statutes:

- 74 O.S. § 324.21 – requires that the Fire Investigation Report copy fees be transferred to the state's general fund.
- 74 O.S. § 324.20b – requires the State Fire Marshal revolving fund consist of no more than Five Hundred Fifty Thousand Dollars (\$550,000.00).

Due to inadequate controls and the related lack of reliable data, we were unable to conclude as to whether the Agency complied with 59 O.S. § 1820.17, which requires the Fire Extinguisher Industry Revolving fund consist of monies received by the Office of the state Fire Marshal pursuant to the Fire Extinguisher Licensing Act.

FINDINGS AND RECOMMENDATIONS

**Revenues at Risk
Due to Inadequate
Segregation of
Duties**

Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*¹ states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event."

The *Standards* further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The executive secretary, support staff supervisor, and secretary 1 are responsible for receipting revenues and preparing the deposit for the related payments. This creates an opportunity for any of these individuals to potentially misappropriate funds received and to conceal

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

the misappropriation by improperly recording or modifying the deposit records. Furthermore, the executive secretary is responsible for entering revenues into PeopleSoft (the State's accounting system) and often taking the deposits to the bank. She also performs the monthly clearing account reconciliations and fund transfers. This creates additional risks that someone in this position could misstate the financial reports presented to management and the commission.

Plan reviews and inspections are recorded in one database, while fire extinguisher licensing and fire safety certifications are recorded separately. Some activity reports are presented to management, but they do not include financial information and are not reconciled to deposit records. It appears no steps are taken to ensure the completeness of either database or to reconcile activity to bank deposits.

Management has been made aware of the risks related to inadequate segregation of financial duties multiple times in past audit reports, and therefore should be aware of the financial risks created by the conflicting abilities of employees processing receipts and preparing the deposits for those payments. It appears they have chosen not to segregate duties or implement effective mitigating controls to ensure revenues are properly safeguarded and complete.

Staff also mentioned during our discussions that, due to workload, the Agency does not always deliver deposits to the bank daily or upon reaching \$100, as required by 62 O.S. § 34.57. Our review of deposit records showed this to be the case, placing the Agency out of compliance with that statute.

Recommendation

We recommend that one party open the mail and receipt walk-in and any other payments, logging all forms of payment in a revenue log. The payments could then be disseminated to the necessary persons for processing, and any of these parties could prepare the deposit documentation. A separate party independent from receipting, processing, and deposit preparation should then compare the revenue log to the deposit receipt to ensure the deposit was complete. *The keys to segregation in this scenario are that the party compiling the revenue log and the party comparing that log to the completed deposit are independent of processing outputs, such as inspections, plan reviews, and licenses.*

If the Agency continues to choose not to segregate revenue-related duties, management must take steps to ensure the databases it uses for tracking outputs are complete and reliable, including financial information related to each activity, and regularly compare output activity to the bank

deposits to ensure all revenues received have been deposited. This may require extensive work or outside expertise in improving the related databases and ensuring they are complete, represent all sources of revenues, and cannot be altered to conceal misappropriation. Fire extinguisher licensing and fire safe cigarette certification activity is not currently tracked with financial data, and copy revenues are not tracked.

In either case, the party performing the deposit review should sign and date the relevant documentation as evidence that a successful review was performed.

Furthermore, management should ensure deposits are taken to the bank daily or when the deposit totals \$100, as required by 62 O.S. § 34.57.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector, the Agency will implement the following procedure: Daily the Fire Investigation Secretary will open all mail and receipt all mailed, walk-in and any other payments, logging all forms of payment on a revenue log. The payments will then be disseminated to the necessary persons for processing. The deposit documentation can be prepared by either the Executive Secretary or Secretary V. The State Fire Marshal or Assistant State Fire Marshal, randomly throughout the fiscal year, will compare the revenue log to the deposit receipt to ensure the deposit was complete.

Unauthorized Payments May Occur Due to Inadequate Segregation of Duties

As noted previously, the GAO *Standards* state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event."

(Repeat Finding)

The executive secretary is responsible for the following duties:

- Preparing and approving purchase orders
- Completing purchases
- Receiving and approving invoices
- Posting expenditures into the PeopleSoft accounting system
- Preparing monthly expense reports
- Handling printed warrants (checks to vendors)

An employee in this position has the ability to make inappropriate purchases or payments without detection. The Agency has attempted to

put a control in place to mitigate this risk since our previous audit by providing a line-item detailed expenditure report to management for review and approval. However, the report is provided in a spreadsheet format that could easily be altered and any inappropriate purchases concealed.

Management has been made aware of the risks related to inadequate segregation of financial duties multiple times in the past, they are aware of the financial risks created by the executive secretary's duties. The GAO *Standards* require that: "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk." Management should be proactive in designing and implementing responsible controls that no longer put the Agency in financial risk.

Recommendation

We recommend that each month the Fire Marshal review the 6-Digit Detail Expenditure Report from the PeopleSoft system, in PDF form to limit the potential of alteration. Evidence of this review should be retained with the date and signature of the Fire Marshal included.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector, the State Fire Marshal will review the 6-Digit Detail Expenditure Report from the PeopleSoft System by creating the report himself in PDF form to limit potential of alteration.

**Inadequate
Review of
Payroll
Transactions**

(Repeat Finding)

An effective internal control system provides for adequate management review of key financial transactions and reports.

The executive secretary is responsible for making all employee data changes and processing payroll in PeopleSoft. While the Fire Marshal provides a partial review of payroll records, he does not review the detailed financial information.

The lack of financial focus in the Fire Marshal's payroll review creates an opportunity for pay rates to be misstated (intentionally or by error) without timely detection.

Recommendation

We recommend the Fire Marshal expand his review of the monthly payroll claims to include ensuring that any pay rate changes are properly reflected and approved, and that the total payroll cost on the payroll claim detail agrees to supporting reports.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector, the State Fire Marshal will expand his review of the bi-weekly payroll claims to include ensuring that all pay rates and changes to pay rates are properly reflected and approved, that the correct amount of hours are being paid per payroll claim, and that the total payroll cost on the payroll claim detail agrees with supporting reports.

**Inventory at Risk
Due to Inadequate
Segregation of
Duties and Lack
of Counts**

(Repeat Finding)

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*, states in part, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. No one individual should control all key aspects of a transaction." In addition, the GAO provides that management must establish physical control to secure and safeguard vulnerable assets; periodically count and compare such assets to control records; design an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an agency's assets.

The agency has not adequately segregated multiple key duties related to inventory. It also appears management has still not formalized an independent review process to ensure that inventory is accounted for since this finding was reported in our previous audit report. We identified the following conditions related to office inventory (such as IT equipment), field inventory (such as agent equipment and weapons), and seized property (cigarettes seized by agents):

- The support staff supervisor is responsible for receipting items, tagging inventory, maintaining office inventory records, performing annual office inventory counts, and submits the annual office inventory report to the Office of Management Enterprise Services. The results of the count are not reviewed by management or anyone else at the agency. This creates the opportunity for inventory to be misstated or misappropriated without detection.

- Agent supervisors reportedly conduct random field equipment inventory counts that are not formalized or documented. Although agents report on their own inventory monthly by checking a box on the Agent's Monthly Report, without an independent, documented review of field equipment, which includes high appeal items such as firearms and laptops, the agency is at risk of items being lost or stolen without timely detection by management.
- The agency does not perform an inventory count on seized property. While they do maintain an inventory listing for this seized property, without an inventory count the listing may be inaccurate or incomplete.

Recommendation

We recommend that as a starting point in addressing the inventory risks there be a comprehensive inventory count performed for each area, to ensure the listings are complete and the information is accurate. Going forward management should ensure comprehensive annual physical inventory counts are performed and documented for office equipment, field equipment, and seized property. The counts should be performed by someone independent from purchasing and from maintaining inventory records. In addition, another independent authority should review the results of each count, tracing any changes since the previous year to approved surplus records and ensuring that any significant purchases are included in the records.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector, the Operations Chief will conduct semi-annual inspections of the evidence room to include evidence, seized property, and seized FSC non-compliant seizures, and will record all items inspected on the Evidence Inventory Inspection Form. Agent inventory audits will be conducted by the Agent Supervisors by November 1st of each year. Agent inventory items will be recorded on the Supervisors Annual Inventory Audit Form. The Operations Chief will receive and file all Supervisor Annual Inventory Forms and provide copies to the Assistant State Fire Marshal.

**Unable to
Confirm
Compliance with
State Statute Due
to Insufficient
Controls and
Lack of Reliable
Data**

74 O.S §326.4 establishes a fund known as the "Fire Safety Standard and Firefighter Protection Act Enforcement Fund" (fund 210), and require that the fund *"shall consist of all certification fees submitted by manufacturers."*

59 O.S §1820.17 establishes the "Fire Extinguisher Industry Revolving Fund" (fund 225), which *"shall consist of all monies received by the Office of the State Fire Marshal pursuant to the Fire Extinguisher Licensing Act."*

As noted in our revenue finding (beginning on page 4), improvements need to be made to segregation of duties related to revenues and to the way fire extinguisher licensing and fire safety certifications are tracked. These weaknesses greatly impact the availability and reliability of financial data related to funds 210 and 225. Using analytical procedures, we were able to confirm that deposits to fund 210 appeared reasonably complete and therefore compliant with 74 O.S §326.4, given certification activity. However, due to the lack of reliable, independent records of fire extinguisher licensing activity, we were unable to confirm that deposits to fund 225 were complete in compliance with 59 O.S §1820.17.

The weaknesses in the revenue process not only increase the risk of error or misappropriation at the agency, but may impact the agency's compliance with state statutes, and preclude us from performing the necessary procedures to determine whether that is the case.

Recommendation

Management must improve the arrangement of duties and financial data tracking within the revenue process to ensure deposits are complete and effective reviews can be performed. Reconciliation of the financial data to total fund transfers will help ensure compliance with the related state statutes.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector, the Executive Secretary will document the fees received for all licensing programs in the appropriate licensing database to ensure deposits are complete and effective reviews can be performed.

State Fire Marshal Commission Operational Audit

Funds Not Transferred to State General Revenue Fund as Required by Statute

74 O.S § 324.21 states, “The Office of the State Fire Marshal shall be authorized to prepare under the Seal of the Office and deliver upon request, a certified copy of fire investigation reports charging a fee of Two Dollars per page for each document so authenticated. Fees collected by the Office of the State Fire Marshal shall be deposited in the State Treasury for credit to the General Revenue Fund of the state.”

While documenting the revenue process for our consideration of internal controls (see finding beginning on page 4), we noted that fire investigation report copy fee revenue and related invoicing activity are not being specifically tracked or followed up on by the Agency. This includes the \$2 fee discussed in the above statute as well as fees for regular copies and photo CDs.

Furthermore, revenue made from the \$2 copy fee is not being transferred to the general fund. Management stated that state finance officials had granted the Agency permission not to make this transfer due to the small dollar value; however, they were unable to provide evidence of this permission. It should also be noted that failing to track the related revenues results in a lack of support for this reasoning, as the actual total of copy fees collected is unclear.

Management has been made aware of the Agency’s non-compliance with statute 74 O.S § 324.21 multiple times in past audit communications. They have also been made aware of the risks related to failing to track copy fee revenues, which could lead to not all revenues due the agency being collected, and makes the total value of the revenue stream unclear.

Recommendation

In concert with our recommendation related to internal controls over general revenues, we recommend that an independent employee open the mail and receipt walk-in payments for copies of Fire Investigation Reports (along with other revenues), logging all forms of payment in a revenue log. The related documentation could then be disseminated to the necessary persons for processing. In addition, invoices should be tracked in a log or database and follow-up procedures implemented to ensure fees receivable are not outstanding.

The agency should come into compliance with 74 O.S § 324.21 by remitting the appropriate copy fees to the State General Fund, or take steps to have the statute appropriately changed.

Views of Responsible Officials

Effective immediately, in order to mitigate the segregation of duties and as recommended by the State Auditor & Inspector and due to the small dollar amount received for the certified copy fee of \$2/page, the Agency will request 74 O.S § 324.21 language be appropriately changed. Until such time, the Fire Investigation Secretary will log all certified copy payments received on the revenue log and the Executive Secretary will make one fiscal year transfer of the certified copy fees collected to the State Revenue Fund.

**State Fire Marshal
Revolving Fund
Exceeds Allowable
Threshold**

74 O.S § 324.20b requires that the State Fire Marshal Revolving Fund shall consist of no more than Five Hundred Fifty Thousand Dollars (\$550,000.00).

The fund's ending cash balance exceeded the allowable limitation of \$550,000 for each month throughout our audit period, and as a result is not in compliance with 74 O.S § 324.20b.

Although the Agency has been made aware of the incompliance with this statute multiple times in the past, it has continued to exceed the fund's statutory balance limit.

Recommendation

We recommend that the Agency actively comply with the limitation set forth in 74 O.S § 324.20b, and if desired, continue to seek to have the statute revised or changed.

Views of Responsible Officials

Effective immediately, as recommended by the State Auditor & Inspector, the Agency will continue to request 74 O.S § 324.20b be appropriately changed.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV