



June 4, 2008

Report No. 08-04

EXECUTIVE SUMMARY

INTRODUCTION

Our office has performed an audit of the Fire and Rescue Department's procurement and supply inventory functions. As with other City departments, the procurement process begins at the department level, extends to the Procurement Division, and concludes upon processing of the payment transaction by the General Accounting Division. The Fire and Rescue Administrative Services Division oversees the purchasing of uniforms, supplies, fire equipment, and other items for the department. The Tactical and Logistical Support Facilities are utilized to store the majority of the un-issued supply inventories purchased such as foam, hoses, tools, equipment, uniforms, emergency medical supplies, and items issued to fire stations such as appliances, furniture, lawn maintenance equipment, etc. The Logistical Support Facility's inventory database reveals over two million dollars of un-issued supply inventory on-hand as of December 19, 2007. The value of the inventory maintained at the Tactical Support Facility was not available, as this facility does not have an inventory database to determine on-hand inventory values. Based upon auditors' observation of the substantial amount of supply inventory maintained at this facility, an inventory management system is essential for internal control and inventory reporting purposes.

OBJECTIVES

Our audit objectives were as follows:

1. To determine the department's compliance with the City's Procurement Code, the Department of Procurement's Administrative Code, and any specific appropriation or City permitting requirement, if applicable
2. To determine if expenditures are properly recorded in the City's general ledger system
3. To determine if supply inventory is properly accounted for and controlled.

METHODOLOGY FOR AUDIT OBJECTIVES 1 AND 2

To determine compliance with the City's Procurement/Administrative Codes, any specific appropriation, applicable City permitting requirement, and whether or not expenditures are properly recorded in the City's general ledger system, auditors tested a random sample of 279 Fire and Rescue payment transactions. For each payment transaction, if applicable, auditors determined the following:

- 1) if an itemized receipt existed for each transaction;
- 2) if the associated invoice was addressed to the General Accounting Division, as required on the purchase order;
- 3) if the expenditure was within purchase order parameters;
- 4) if the associated purchase order denoted specific pricing and quantity;
- 5) if the proper procurement process was followed for each procurement transaction (*i.e. if quotes or bids were obtained and a purchase/blanket order was issued*);
- 6) if funds were appropriated for a specific purpose, the expenditure was within established guidelines;
- 7) if a City permit (*e.g. electrical, plumbing, etc.*) was issued for expenditures related to fire station construction/renovation;
(Note: Auditors included this objective for testing based upon an anonymous complaint to the City Ethics Department that construction work was performed on fire stations without required City permits issued)
- 8) if the expenditure was booked to the proper general ledger account; and,
- 9) if the correct amount was posted to the general ledger.

CONCLUSIONS – OBJECTIVES 1 AND 2

Objective 1: The Fire and Rescue Department has not fully complied with the City's Procurement regulations or its building permit requirements.

- Thirteen of 254 (5.1%) purchase order transactions tested were not within purchase order description parameters.
- Ninety-one of 188 (48.4%) purchase order transactions tested were input and approved in the Procurement database without specific pricing information listed on the purchase order, although the data was readily available. Therefore, GAD is unable to determine if the City is being charged the appropriate price for each item when paying invoices.
- Forty-one of 254 (16.1%) purchase order transactions tested revealed the required procurement method was not followed. (*e.g. lack of required number of quotes, or absence of a properly approved sole source or proprietary letter, or invalid sole source/proprietary justification*)
- Two of 48 (4.2%) expenditures tested were not within project or grant appropriation guidelines.
- Required City electrical permits were not obtained for four of six fire station improvement expenditures.

Objective 2: The Fire and Rescue Department's expenditures reviewed were properly recorded in the City's general ledger system. *(98.6% accuracy of expenditure booked to the proper general ledger account and 94.2 % accuracy of the correct amount posted to the general ledger.)*

METHODOLGY FOR AUDIT OBJECTIVE 3

To determine if supply inventory is properly accounted for and controlled, the following audit procedures were performed:

- 1) auditors observed the Fire and Rescue Department's supply inventories;
- 2) auditors evaluated the internal controls over the supply inventories; and,
- 3) auditors tested a sample of supply inventory for comparison of on-hand quantities to database records.

CONCLUSIONS - OBJECTIVE 3

Objective 3: The Fire and Rescue Department's supply inventories are not properly accounted for and controlled.

- The Tactical Support Facility, which maintains a significant quantity of inventory at their 38,000 square-foot location, does not utilize an inventory management system to track inventory.
- Fire and Rescue Department is not notifying GAD of on-hand inventory values for inclusion in the City's annual balance sheet.
- The Fire and Rescue Department's supply inventory facilities do not have written procedures addressing inventory management. *(i.e. distribution, storage, disposal, security, annual or cycle count of inventory, segregation of duties between inventory functions, inventory adjustments, etc.)*
- Inventory at the Tactical Support Facility is susceptible to theft/loss, as a security alarm system does not exist.
- The Logistical Support Facility's front counter employees share the same computer log-on for inventory database transactions.
- A surprise inventory count at the Logistical Support Facility revealed expired narcotics log records did not agree to on-hand amounts for any of the three types of narcotics maintained (morphine, versed and valium). Additionally, exceptions were noted for one Rescue District's expired narcotics inventory.
- A review of the Rescue District's narcotics logs showed quantities in excess of maximum inventory requirements.
- The Logistical Support Facility's inventory database does not denote backdated entries, which is an internal control weakness.
- Auditors noted inventory supply area badge access to individuals who were no longer working for the City.
- The Logistical Facility (currently utilizing an inventory database) had not completed an annual inventory since 2006.

- Segregation of duties does not exist for various inventory functions at the Logistical Support Facility. The Clerical Support Specialist performs inventory functions such as receiving inventory, adding purchases to the inventory database, issuing items/updating the inventory database, performing inventory adjustments, administrator for the inventory database, and is in-charge of and participates in the annual inventory process. These incompatible duties represent an internal control weakness.
- Auditors' surprise count of twenty inventory items at the Logistical Support Facility revealed a 70% error rate between actual inventory counts and database records. Expired drug inventory (value \$7,044) was noted for one of the items counted.
- Logistical Support Facility inventory database records are not simultaneously updated upon the issuance of all inventory items.
- For accountability purposes, receipt of delivery of items is not required when orders are delivered to fire stations by the Logistical Support Facility.

OPPORTUNITIES FOR IMPROVEMENT

The audit of the Fire and Rescue Department's procurement processes revealed an opportunity for improvement concerning the City's procurement database (JaxPro). The system should provide management with a report of purchase orders issued by commodity to identify large purchases of these items which are not currently included in the competitive bidding process. Note: Many purchase orders may be issued by different departments for the same commodity or group of commodities. Currently, human oversight (by the buyer) is the only control for this process.

A second opportunity for improvement is for management to evaluate the necessity and cost of assigning certified Fire and Rescue personnel to oversee business functions such as inventory management and building construction/repair/renovation. Additionally, regarding building construction/repair and renovations, management should determine whether these functions could be effectively performed by other City departments (i.e. Public Works Department).

Finally, management should consider establishing a City policy addressing the procurement of goods and services from employees/relatives of employees and businesses owned by these individuals. For purchases under \$2,500, departments typically have the discretion to select the vendor when providing a required quote to the Procurement Division. Although the Florida Statutes address many of these issues, a City Policy is recommended.

AUDIT REPORT AND AUDITEE'S RESPONSE

See attached for the complete audit report with our detailed findings and recommendations. The responses to this audit from the Fire and Rescue Department, the Procurement Division, and the General Accounting Division are also included.



June 4, 2008

Report No. 08-04

Honorable Mayor John S. Peyton
117 West Duval Street, Suite 400
Jacksonville, Florida 32202

INTRODUCTION

Our office has performed an audit of the Fire and Rescue Department's procurement and supply inventory functions. As with other City departments, the procurement process begins at the department level, extends to the Procurement Division, and concludes upon processing of the payment transaction by the General Accounting Division. The Fire and Rescue Administrative Services Division oversees the purchases of uniforms, supplies, fire equipment, and other items for the department. The Tactical and Logistical Support Facilities are utilized to store the majority of the un-issued supply inventories purchased such as foam, hoses, tools, equipment, uniforms, emergency medical supplies, and items issued to fire stations such as appliances, furniture, lawn maintenance equipment, etc. The Logistical Support Facility's inventory database reveals over two million dollars of un-issued supply inventory on-hand as of December 19, 2007. The value of the inventory maintained at the Tactical Support Facility was not available, as this facility does not have an inventory database to determine on-hand inventory values. Based upon auditors' observation of the substantial amount of supply inventory maintained at this facility, an inventory management system is essential for internal control and inventory reporting purposes.

SCOPE AND METHODOLOGY

For the procurement phase of the audit, the scope included Fire and Rescue procurement payment transactions for the 2007 fiscal year. The audit scope for the inventory phase of the audit primarily included current, on-hand inventory and associated inventory records.

Methodologies for conducting the audit included: 1) interviews with various Fire and Rescue, Procurement, and General Accounting employees; 2) observations of inventory processes and facilities; 3) reviews of internal controls over the Fire and Rescue procurement and supply inventory functions; 4) reviews of laws, ordinances, policies, and procedures applicable to the procurement and inventory functions, including the distribution of narcotics inventories; and, 5) detailed testing of procurement payments and on-hand inventory.

OBJECTIVES

Our audit objectives were as follows:

4. To determine the department's compliance with the City's Procurement Code, the Department of Procurement's Administrative Code, and any specific appropriation or City permitting requirement, if applicable
5. To determine if expenditures are properly recorded in the City's general ledger system
6. To determine if supply inventory is properly accounted for and controlled

AUDIT OBJECTIVES 1 AND 2

To determine compliance with the City's Procurement/Administrative Codes, any specific appropriation, applicable City permitting requirement, and whether or not expenditures are properly recorded in the City's general ledger system, auditors tested a random sample of 279 Fire and Rescue payment transactions. For each payment transaction, if applicable, auditors determined the following:

- 10) if an itemized receipt existed for each transaction;
- 11) if the associated invoice was addressed to the General Accounting Division, as required on the purchase order;
- 12) if the expenditure was within purchase order parameters;
- 13) if the associated purchase order denoted specific pricing and quantity;
- 14) if the proper procurement process was followed for each procurement transaction (*i.e. if quotes or bids were obtained and a purchase/blanket order was issued*);
- 15) if funds were appropriated for a specific purpose, the expenditure was within established guidelines;
- 16) if a City permit (*e.g. electrical, plumbing, etc.*) was issued for expenditures related to fire station construction/renovation;
(Note: Auditors included this objective for testing based upon an anonymous complaint to the City Ethics Department that construction work was performed on fire stations without required City permits issued)
- 17) if the expenditure was booked to the proper general ledger account; and,
- 18) if the correct amount was posted to the general ledger.

Finding 1

Of the 279 sample payment transactions selected for testing, 247 of the transactions were represented by a vendor invoice. Note: For some transactions such as P-Cards (credit cards), items may be represented by a point of sales receipt in lieu of an invoice;

therefore, those transactions were not included in this audit test. Of the 247 applicable transactions, 142 (57.5%) exceptions were noted where the invoice was not addressed to the General Accounting Division (GAD), as required on the purchase order.

Recommendation 1

Associated departments utilizing vendor services/goods and GAD should encourage vendors to comply with established purchase order payment guidelines. These guidelines are designed to increase internal controls and streamline the vendor payment process. When an invoice is initially submitted to GAD, the receipt date is recorded for tracking purposes to comply with the City's goal for payment of invoices within 30 days upon receipt. When vendors submit invoices directly to departments, this delays the payment process.

Response from General Accounting Division- Kevin Stork, Comptroller

Accounting agrees that the vendor should comply with the established purchase order payment guidelines. It is true that the payment process is delayed when invoices go directly to the department and Accounting has relayed this message to the vendors again and again. Accounting has discussed this issue with the departments and the Procurement Division asking them to reiterate to their vendors to send the invoices to the accounting division. Accounting also met with procurement to see what could be done to encourage vendors to send their invoices to the Accounting Division. As a result, the purchase order language will change regarding the submittal of invoices. The language will read, "ALL INVOICES MUST BE SUBMITTED TO GENERAL ACCOUNTING DIVISION, 117 W. DUVAL STREET, SUITE 375, JACKSONVILLE, FLORIDA 32202. FAILURE TO SUBMIT INVOICES AS DIRECTED WILL RESULT IN DELAY OF PAYMENT(S)." This language is to be on the face of the purchase order in bold and underlined and increased font as to bring to the vendor's attention and should be on the purchase order within the next few weeks.

Response from Fire and Rescue Department

Agree with recommendation. The Procurement Section of the Department is complying with the payment guidelines by encouraging vendors to submit all original invoices directly to the General Accounting Division (GAD) so that payment goals may be tracked.

Finding 2

Auditors determined 254 of the 279 sample payment transactions were related to purchase orders. Of these 254 applicable transactions, thirteen (5.1%) exceptions were noted where the purchase was not within purchase order description parameters. As an example, a blanket order specifically listed "repair parts, valves and labor for oxygen cylinders"; however, the paid invoice was for compressed nitrogen. In another instance, a blanket order was issued to a specific marina for repairs on Fire Marine #1, which is

Fire and Rescue's large 50-foot boat; however, an invoice was paid for Fire Marine #3, one of the smaller 27-foot boats. In this instance, a sole source justification for the blanket order specified: "this is the only known marina that has the capability to lift our large marine units out of the water for an emergency repair with an hour of getting to the marina." Additionally, further research revealed the smaller Marine #3 unit has a replacement craft when it is out of service; therefore, emergency repairs should not be necessary for Marine #3.

Recommendation 2

A purchase order is an official procurement document utilized to outline details of a purchase such as the description and pricing of the good(s)/service(s) to be provided. A blanket order is a type of purchase order which allows for the repetitive purchase of goods and services over a set period of time. Once the purchase/blanket order is approved, the mechanics of the purchase cannot be altered unless formally approved by a change order, which is an official modification to the existing procurement document. The Fire and Rescue Department should not be receipting items in the procurement system under a purchase/blanket order unless the purchase is for that specific purpose. Otherwise, the transaction is deemed an improper purchase. Furthermore, GAD must exercise due diligence and compare invoices to purchase order specifications to ensure compliance with purchase order guidelines.

Response from General Accounting Division- Kevin Stork, Comptroller

We agree that the purchase order is an official procurement document and as part of our audit process, it is standard procedure to compare the invoice being submitted for payment with the description on the purchase order to ensure invoice compliance. We remind our account technicians of this and we emphasize this in training. We recently added a procedure of comparing the invoice against the purchase order as part of the post audit process.

Response from Fire and Rescue Department

Agree with recommendation. In renewing the blanket orders each year, the verbiage used in the document cited was not broad enough to meet our repair, maintenance and supply needs for all marine units. JFRD will implement a process to recheck the item description on all blanket orders prior to submission each fiscal year and the Department's Blanket Order contacts will be required to closely monitor the expenditures to ensure they fall within the parameters of the item description on the Blanket Order. The Procurement Section will also check the invoice descriptions with the Blanket Order to ensure compliance.

Finding 3

Of the 279 sample payment transactions reviewed, auditors determined 188 of the items were associated with purchase orders where specific pricing was provided by the vendor

through a quote or bid. Of the 188 applicable transactions, 91 (48.4%) exceptions were related to purchase orders which were processed and approved without specific pricing information listed on the purchase order, although the data was readily available. As an example, a purchase order may have been input as a quantity of one (lot) totaling \$1,000 in lieu of ten items at \$100 each. The problem arises when a partial delivery and corresponding partial receipt and payment of this purchase order occurs. In this case, GAD is unable to determine if the City is being charged the appropriate price for each item, as it cannot be verified via the purchase order. *(In our example above, if the purchase order were input as one quantity at \$1,000, then GAD would not be able to determine if a partial payment for two of the items at \$150 each was incorrect, as the purchase order did not specify the items would cost \$100 each.)* Auditors note the exclusion of specific pricing information on the purchase order could result in the unnecessary overpayment of purchases.

Recommendation 3

As a fiduciary of taxpayer dollars, management must ensure purchase/blanket orders are paid according to vendor bid/quote amounts. To accomplish this task, purchase/blanket orders must be input with specific pricing and quantity information, if available. Note: In some cases, blanket orders may be issued for miscellaneous items where it is not feasible to obtain a quote for every item which may be needed, such as a blanket order for a hardware store. Typically, departments initially input requisition pricing/quantity information, which is electronically converted to a purchase order upon approval by the Procurement Division. As the gatekeeper or control point, the Procurement Division must not approve purchase/blanket orders unless necessary pricing/quantity information is included, if available.

Response from Procurement Division- Devin Reed, Director of Central Operations

I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle has addressed and will continue to address this issue with Procurement's management and buying staff.

Response from Fire and Rescue Department

Agree with recommendation. All future purchase orders will be entered into the system at the lowest quantity with specific pricing.

Finding 4

Auditors determined 254 of the 279 sample payment transactions were related to purchase orders. Auditors tested these purchase orders to determine if the required procurement method was followed. *(For example, if the appropriate number of quotes were obtained, if a bid process was followed for formal purchases, if a sole source/proprietary justification was properly authorized and documented, if applicable, etc.)* Of the 254 applicable purchase order related transactions reviewed, 41 (16.1%)

exceptions were noted regarding improper procurement procedures. Many of the exceptions were related to the lack of the appropriate quantity of quotes obtained, and the absence of a sole source or proprietary justification letter and/or the letter not approved by the requesting department's director, as required by the Administrative Code, Sections IV-E and XII. Additionally, two instances were noted where the sole source/proprietary justification was invalid based upon the auditor's research. Furthermore, the Procurement Division is not posting sole source/proprietary informal purchases on the procurement website as specified in Section XII of the Administrative Code.

Recommendation 4

Due diligence must be exercised to ensure procurement transactions are executed in accordance with the City's Procurement Administrative Code. If management determines a policy specified in the Code is not justifiably feasible, it can be amended, assuming the amendment is in accordance with governing procurement regulations.

Response from Procurement Division- Devin Reed, Director of Central Operations

I have reviewed this finding and recommendation with Procurement, and will note that its buying staff goes above and beyond in its solicitation of vendors, in an effort to obtain the required number of quotes. Despite its efforts, however, the buying staff often receives less than the required number of quotes for reasons that include, without limitation, "no bid" responses or the lack of any response from some of the vendors solicited. Nevertheless, the buying staff makes every attempt to comply with state and local procurement rules and regulations.

With respect to the issues raised regarding informal proprietary and sole source award justifications and posting requirements, Procurement now requires that such justifications be received from, at a minimum, a division chief prior to approving the same. In addition, Procurement is currently working with the Information Technology Department ("ITD") to systematically address the posting of informal proposed proprietary and sole source awards (similar to how formal proposed proprietary and sole source awards are posted). ITD has met with the vendor of the city's procurement system – JaxPRO – and is working on a systematic solution. The immediate implementation of a manual solution for posting informal proprietary and sole source awards has been explored; however, because of the very realistic potential for human error, ITD and Procurement are not proponents of a manual solution.

Finding 5

Included in the 279 sample transactions were 48 purchases related to project or grant appropriations. Of the 48 transactions, two (4.2%) exceptions were noted where expenditures were not in accordance with appropriation guidelines. In the first instance, the expenditure was for decontamination products (bleach and laundry soap); however, the state grant specified the utilization of funds for the purchase of new equipment for specialized decontamination teams. In the second instance, the project appropriation

specified the funds for the procurement of generators, SCBA fill stations, and to provide for the electric work necessary to install these systems at specified fire stations. Auditors noted a floor buffer machine costing \$1,235 was booked to this project appropriation.

Recommendation 5

Grant and other appropriated funds expenditures must be in accordance with established grant and appropriation guidelines. Oversight for this process for the Fire and Rescue Department should be established to ensure funds are utilized as directed.

Response from Fire and Rescue Department

Agree with recommendation. The Department's 609 Supply Requisition System has an established approval path for supplies being ordered. This system should be expanded to include a grant compliance verification section and account number assignment should be documented in the system and verified at appropriate levels of the approval path.

Finding 6

Included in the 279 sample transactions were six purchases related to fire station improvements where City permits were required (i.e. electrical, building, plumbing, mechanical, etc.). Of the six applicable items, four (66.7%) exceptions were noted where required permits were not obtained by the contractor. Note: This audit test was based upon an anonymous complaint to the City Ethics Department that construction work was performed on fire stations without required City permits issued.

Recommendation 6

A process should be established to ensure required permits are obtained to comply with building code standards. Currently, the Fire and Rescue Administrative Services Division oversees the construction and renovation of fire stations. Management should evaluate whether this function could effectively be performed by the Public Works Division as they oversee city building construction/renovations on a routine basis.

Response from Fire and Rescue Department

Agree with recommendation. The Fire and Rescue Department now has in effect new procedures for obtaining work permits. It will be the awarded vendor's responsibility to acquire all permits associated with work to be performed. Vendors are to acquire and provide the Fire and Rescue Administrative Services Division a physical copy of the permit to be placed on file. These permits will then be attached to the invoices prior to final payment to ensure compliance.

Finding 7

Auditors reviewed the 279 sample payment transactions to determine if the correct amount was posted to the general ledger. In performing this test, auditors added invoice items to determine if the invoice total was correct, with no Florida sales tax paid. Additionally, auditors reviewed invoice pricing in comparison to purchase order specifications, assuming pricing information was available on the purchase order. Of 278 payment transactions applicable to this audit test, 16 (5.8%) exceptions were noted. The majority of the exceptions related to invoice pricing in comparison to purchase order specifications. In one instance, auditors noted a vendor provided a written quote for a product; however, when the invoice was received with higher pricing, the purchase order was increased to reflect the higher price, even though the transaction occurred prior to the expiration date on the quote.

Recommendation 7

Due diligence must be rendered by GAD when processing financial transactions. Purchase/blanket order information must coincide with the invoice prior to processing payment for the invoice. Additionally, the Procurement Division should not approve increases in purchase/blanket orders without proper justification.

Response from General Accounting Division- Kevin Stork, Comptroller

During the audit process, the account technician is to verify that the prices and commodities on the invoice(s) are in agreement with the terms of the purchase order.

Response from Procurement Division- Devin Reed, Director of Central Operations

I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle has addressed and will continue to address this issue with Procurement's management and buying staff.

Finding 8

In performing the testing of procurement transactions, auditors noted a “work around” procedure utilized by GAD for the payment of invoices when there is a related credit memo associated with the payment transaction. The problem arises when the combined identifying numbers of both the invoice and credit memo are more than 22 characters long (the procurement database only allows for 22-characters in the invoice description field). In this case, since both the invoice and credit memo numbers cannot be input as one line item in order to enter a net amount for the transaction, GAD inputs the transactions separately as two line items. However, the amounts of the transactions do not accurately reflect the invoice and credit memo amounts because GAD cannot input negative or zero line items. The amount of the invoice is input, less the credit memo, less \$.01. The credit memo is input as \$.01, and the net of the two transactions equals the invoice less the associated credit memo amount(s). Although the net of the two

transactions may be the correct amount that should be paid, the individual accounting entries do not reflect reality.

Recommendation 8

Accounting records must reflect reality. GAD should investigate the functionality of the general ledger system to include a line item for credit memorandums.

Response from General Accounting Division – Kevin Stork, Comptroller

Accounting recognizes the fact that the work around for credit memos does not reflect reality when it comes to invoice payment and we agree that the general ledger system should include a line item for credit memos. We are handicapped with the limitations of FAMIS in that FAMIS does not have the ability to accept a credit memo as a line item. We have met and discussed this issue several times with the Information Technology Department (ITD) concerning FAMIS. We have requested modification to be made in JaxPRO to accommodate the use of credit memos, but Periscope, the owner of the procurement software product, is unwilling to modify its software. Accounting is currently communicating with Tier Technology and exploring options in FAMIS that we feel will eliminate this problem and we will be testing these options within the next couple of weeks.

The ability to systematically modify FAMIS or JaxPRO is not a function of least cost, but is a function of the vendor's unwillingness to modify their software and the inherent limitations of having two separate systems for Accounts Payables and Procurement.

AUDIT OBJECTIVE 3

To determine if supply inventory is properly accounted for and controlled, the following audit procedures were performed:

- 4) auditors observed the Fire and Rescue Department's supply inventories;
- 5) auditors evaluated the internal controls over the supply inventories; and,
- 6) auditors tested a sample of supply inventory for comparison of on-hand quantities to database records.

Internal Control Weakness 1

Auditors observed two main areas of supply inventory (the Tactical Support Facility and the Logistical Support Facility) which are maintained by the Fire and Rescue Department. Auditors also observed a small storage facility beside fire station #11, which is maintained by Tactical Support Facility management. The Tactical Support Facility, which maintains a significant quantity of inventory at their 38,000 square-foot location, does not utilize an inventory management system to track inventory. This unit does not have the ability to determine the quantity of inventory that should be on-hand, which is a major internal control weakness. Additionally, although the Logistical Support

Facility utilizes an inventory system to track their two million dollar¹ on-hand inventory, it is not reported to GAD. Therefore, neither of the facilities' inventory value is included in the City's balance sheet for financial statement reporting purposes.

Recommendation 9

First, auditors recommend management evaluate the necessity of maintaining significant quantities of inventories on hand. Excess inventories can be costly as items may expire, become obsolete, and/or susceptible to theft. Labor and storage costs are also associated with maintaining inventories (i.e. periodic inventory counts and storage space). Furthermore, items such as appliances, lawn mowers, chain saws, etc. (which the Tactical Support Facility maintains on-hand) have manufacturer's warranty periods which may expire before placing these items in service. For both the Tactical and Logistical Support Facilities, management should evaluate past usage, inventory trends, necessity of the item being in stock, and delivery responsiveness to determine the appropriate amount of inventory to maintain on-hand. Items such as appliances, which may be purchased on a blanket order at a day's notice, may not need to be purchased in advance, whereas necessary Emergency Medical Service (EMS) supplies must be maintained in stock.

Additionally, if management determines large inventory levels are necessary at both facilities, then an inventory management system must be utilized for inventory tracking at the Tactical Support Facility. Note: Items at the small storage facility beside fire station #11 should also be included in the inventory database. Although the Logistical Support Facility currently utilizes an inventory database, some internal controls and necessary management reports are not available in the system. (Refer to Recommendation 14 regarding evaluating the cost of modifying the current inventory database versus the purchasing of an off-the-shelf inventory system with necessary internal controls and management reports included.)

Lastly, the Fire and Rescue Department should be notifying GAD of on-hand inventory values for inclusion in the City's annual balance sheet.

Response from Fire and Rescue Department

(1) JFRD management has evaluated the current inventory and agreed that current levels are necessary to maintain daily operation for providing the best services to the City and being prepared for natural and man-made disasters. It has been our experience with past incidents such as the Berkman Plaza Garage Collapse, the T2 Laboratory Explosion, the Wildland Fires of 2007, and the Hurricanes of 2004 that supplies such as chain saws, generators, foam, coolers, lights, electric fans, air packs, etc. are needed quickly as these events unfold.

(2) Agree with recommendation. The Administrative Services Division is currently seeking funding through the FY 2009 Budget Process to implement an electronic inventory system such as that used at the Logistical Support Facility. The Department is

¹ Inventory on-hand value (\$2,010,099.74) per inventory database as of 12/19/07

also evaluating a State Resource Management System which we will be required to use for all grant assets and equipment.

(3) Agree with recommendation. The Fire and Rescue Department was never informed to report end of the year inventory values to GAD. Now that we have been requested to provide such information, we will begin this fiscal year.

Internal Control Weakness 2

Although the Logistical Support Facility maintains Standard Operating Guidelines relating to Emergency Medical Service (EMS) supplies, neither of the inventory facilities had written procedures addressing inventory management. These procedures should include the distribution, storage, disposal, security, and internal controls over inventory. Examples of inventory internal control policies include the requirement of an annual or cycle count of inventory, segregation of duties between certain inventory functions, management inventory exception reports, and management control over inventory adjustments. Additionally, upon review of the Florida Department of Health Requirements (Chapter 64E-2, Section 64E-2.037 – Security of Medications), auditors noted Fire and Rescue’s EMS Standard Operating Guidelines do not address the disposal of pharmaceutical drugs and narcotics once they are returned to the Logistical Support Facility.

Recommendation 10

Establish procedures addressing the distribution, storage, disposal, security, and internal controls over supply inventory. Additionally, for increased compliance with the Florida Department of Health Requirements (Section 64E-2.037), expand the EMS Standard Operating Guidelines to include the disposal of pharmaceutical drugs and narcotics once they are returned to the Logistical Support Facility.

Response from Fire and Rescue Department

Agree with recommendation. The Administrative Services Division is currently seeking funding through the FY 2009 Budget Process to procure and implement an electronic inventory system such as that used at the Logistical Support Facility (LSF). Also, the Tactical Support Facility (TSF) Manager will be developing an inventory management policy for the distribution, storage, disposal, security, and internal controls for the supply inventory located at the TSF.

The Fire and Rescue department logistical support facility is currently developing an inventory management policy that is targeted for completion June 15, 2008.

The Fire and Rescue department will incorporate the disposal process of all medications into EMS SOG 430.

Internal Control Weakness 3

Inventory at the Tactical Support Facility is susceptible to theft/loss, as a security alarm system does not exist. Anyone with a ladder can access the warehouse after hours by climbing over the back wall, as the top portion of the building is open to the elements. Additionally, once an individual has gained access to the building, the large warehouse doors can be opened from the inside and a truck/trailer (as large as a fire engine) can be driven into the facility to conveniently load inventory items. Note: New items such as appliances, commercial icemakers, generators, chain saws, weed eaters, mowers, furniture, electric exercise equipment, tools, etc. are stored at this facility. Management has installed monitoring cameras for viewing; however, viewing these recordings after the fact may help with prosecution, but probably not with the loss. A monitored security alarm system may not prevent entry; however, it would reduce the available time the intruder has to gather items before law enforcement arrives.

Recommendation 11

Management should investigate the cost and feasibility of installing a monitored security alarm system at the Tactical Support Facility to help deter theft.

Response from Fire and Rescue Department

Agree with recommendation. JFRD will pursue integration of its current security system into a monitored security system for the TSF with the Public Works-Public Buildings Division.

Internal Control Weakness 4

According to the Clerical Support Specialist at the Logistical Support Facility, the front counter employees share the same computer for inventory database transactions. Once an individual logs onto the inventory system, all subsequent transactions will record the entry initiator as the individual who originally signed onto the system, even though other Logistical Support employees may have performed transaction entries.

Recommendation 12

Employees should not be sharing the same computer system log-on when initiating transactions in the inventory database. The database must reflect the individual who actually performed the transaction. Additionally, the practice of sharing employee log-on capabilities is an internal control weakness as the individual who originally logged onto the database may have more system permissions than subsequent users.

Response from Fire and Rescue Department

The use of same log-on for counter help in the logistical support facility was addressed by ITD and the issue is resolved.

Internal Control Weakness 5

Auditors counted current and expired narcotics inventory at the Logistical Support Facility to determine if on-hand amounts agreed to log records. Exceptions were related to expired narcotics, as the log records did not agree to on-hand amounts for any of the three types of narcotics maintained (morphine, versed and valium). Note: For each type of narcotic, on-hand amounts exceeded log records. According to the individual who is responsible for these narcotics, the inventory did not agree to log records when he accepted the position to distribute narcotics for the facility. Auditors noted when the previous individual responsible for the narcotics left the position; the inventory was not verified by both the outgoing and incoming employees for accountability purposes.

In addition, auditors counted narcotics inventories maintained by two of the three Rescue Districts (Rescue Chief's inventory) and compared on-hand quantities to log records. The Logistical Facility distributions for December 2007 were also traced to the three Rescue District's log receipts to ensure that Logistical Support Facility distributions received by Rescue Chiefs were accounted for properly. Exceptions are as follows:

- 1) Rescue District 103 had expired valium and versed inventories that did not agree to log records. (Expired valium was 20 mg less than log records and expired versed was 5 mg more than log records.
- 2) On several occasions, all of the Rescue Chief's logs show narcotics quantities maintained in excess of the Chief's maximum inventory requirements per Fire and Rescue Standard Operating Guideline 430.
- 3) Several instances were noted where the dates of the narcotics receipts per the Rescue Chief's logs were inconsistent with the dates of distribution per the Logistical Support Facility's log (1 day difference in all three instances).

Auditors also requested a report of narcotics receipts and distributions per the Logistical Support Facility's database for review and comparison to vendor invoices and receipts of narcotics per the Logistical Support Captain's December 2007 log records. Note: Narcotics are first received and entered in the database by the Logistical Support Facility employees prior to issuing the narcotics to the Logistical Facility Captain, who maintains the facility's narcotics. Although net quantities received agreed to invoice records and net amounts issued agreed to the Logistics Captain's logs, auditors noted the following exceptions:

- 1) Transaction dates relating to the issuance of narcotics from the Logistical Support Facility's inventory database were inconsistent with the Logistical Captain's narcotics logs.
- 2) Two instances were noted where the quantity received was input in the inventory database as one receipt even though the shipment occurred on two separate dates. In these instances, the vendor was out of stock of the requested item and shipped the backorder after the fact.

Recommendation 13

Inventory records must reflect reality. Transactions must be reflected in database and log records: 1) on the actual date the transaction occurred; and, 2) for the actual quantity. Additionally, when custody of inventory is transferred, both the outgoing and incoming parties must count and agree on the transferred inventory. In the instance where the departing individual is not available, a second responsible person may count the inventory with the incoming party to determine accountability. In both instances, the transfer of this inventory must be documented to provide an audit trail of the transaction.

Furthermore, Rescue Chief's narcotics inventory levels should be maintained within established guidelines. If management determines specified maximum inventory limits are no longer feasible, then the guidelines should be modified.

Response from Fire and Rescue Department

The Fire and Rescue Department Logistical Support Facility has corrected all problems associated with checks and balances related to narcotic counts, which include in-date and out-of-date medication counts.

The Division Chief of Rescue has informed District/Battalion Chiefs of the ICW and that the expectation for this is to be a non-issue during future audits.

Internal Control Weakness 6

In reviewing an inventory report from the Logistical Support Facility's database, auditors were informed some of the entries were backdated to reflect the approximate date the transaction occurred; however, the report did not denote these entries as such. Backdating of entries is an internal control weakness as an individual can commit fraud and conceal the fraud after the fact in the inventory records. Additionally, auditors were informed the inventory database calculates the dollar value of inventory based upon an average of all purchases since the implementation of the database in 2004.

Recommendation 14

An effective inventory system should not allow backdated entries (also known as prior period adjustments) without a clear audit trail of each backdated entry. As an example, if a transaction were backdated to an effective date, both the effective and actual date of the transaction should appear on database records and system reports. This allows the user of the information to know the transaction occurred after the fact. Additionally, regarding the database valuation of inventory items, this system calculation should be based upon more recent purchasing costs, such as a twelve-month period. Because inventory should be rotated on a first-in-first-out (FIFO) basis, the more recent purchases should be the items on-hand. As prices of items tend to escalate over time, calculating pricing on items since 2004 will probably understate the value of inventory.

Since the current inventory database is a City developed program, management should evaluate the cost of modifying the current program for all of the system recommendations listed in this report in comparison to purchasing an off-the-shelf inventory management system with necessary internal controls and management reports included.

Response from Fire and Rescue Department

This is being corrected currently working closely with ITD staff to make changes to the current inventory program that will eliminate backdating and to revise the inventory database calculations to reflect current purchasing averages.

Internal Control Weakness 7

During the evaluation of inventory security, auditors observed five cameras in inventory areas at the Logistical Support Facility and nine cameras at the Tactical Support Facility. Auditors inquired of the Information Technology Department (ITD) regarding the back-up storage capacity of these cameras and noted the current storage capacity is one day for the Logistical Facility and thirty days for the Tactical Support Facility. Logistical Support management was unaware of the one-day storage limitation. ITD stated they are currently working on expanding the storage for the Logistical Support Facility.

Recommendation 15

Management should follow-up on the progress of the expanded storage for the Logistical Support Facility's security cameras. Additionally, management should periodically review camera footage for inventory security purposes.

Response from Fire and Rescue Department

The Division Chief of Rescue was informed by ITD personnel that the back-up storage for viewing recorded data were changed to 1 month instead of 1 day, which is the same as the tactical support facility.

Internal Control Weakness 8

To determine if inventory is restricted to authorized individuals, auditors reviewed an access report (via card scanners) for the Tactical and Logistical Support inventory facilities. For both of the facilities, auditors noted individuals with current badge access who were no longer working for the City. Additionally, numerous individuals were noted with more than one badge per employee. In one case, three active badges were issued to one employee. Furthermore, according to the Tactical Support Facility Chief, several individuals were granted badge access to the facility by ITD without management's knowledge or authorization.

Recommendation 16

Management should review card scanner access reports for the Tactical and Logistical Support Facilities to ensure access to inventory is limited to authorized individuals. Additionally, having more than one access badge per employee is an internal control weakness, as an employee may be unaware their secondary badge is missing. Management should evaluate the necessity of issuing more than one access badge per employee.

Response from Fire and Rescue Department

Agree with recommendation. Previously ITD granted access to employees in restricted areas without proper authorization or notification from Department Officials. New procedures regarding access to restricted areas including the TSF and LSF now requires written approval from either the Fire and Rescue Director, or the Assistant Fire Chief, and the Chief of Services or Chief of Rescue. Once permission is obtained the Director or Chief will give ITD the authority to grant badge access. All employees must have a single up-to-date badge; if more than one exists it is the employee's responsibility to return the second badge to the Chief of Services or Chief of Rescues Office for proper disposal. Only a Division Chief or above is authorized multiple badges for access to these facilities. Procedures are also in place to check the badge access listing quarterly.

Note: During the audit of the inventory functions at the Logistical Support Facility, management expressed a desire to begin correcting some of the internal control deficiencies prior to the conclusion of the audit. Internal Control Weaknesses 9 through 14 were presented to management during the audit through an interim report memorandum.

Internal Control Weakness 9

A formal written policy does not exist addressing the requirement of an annual inventory for the Logistical Facility supplies. Based upon inventory records, the value of on-hand inventory as of December 19, 2007 exceeds two million dollars. According to the Clerical Support Specialist, it is her policy to count inventory on an annual basis; however, auditors noted the last annual inventory was conducted in June of 2006. Additionally, the individual in-charge of this process has custody and complete control/responsibility for all inventory functions (e.g. issuance, receipts, updating inventory records, and adjustments).

Recommendation 17

Based upon the value of on-hand inventory maintained, an inventory of the Logistics Supply Management System items should be conducted on an annual basis, and a written policy addressing this function should be established. The annual inventory process includes physically counting all inventory items and comparing on-hand quantities to system records. Inventory database records should be adjusted to on-hand quantities,

with all adjustments explained, and then reviewed and approved by senior management. For internal control purposes, a party independent of the normal day-to-day issue/receipt operations should perform the inventory count. Additionally, in performing the inventory count, management should consider utilizing the cycle counting method².

Response from Fire and Rescue Department

Inventory policy is being developed and will be implemented on June 15, 2008 to address the annual inventory requirements recommended by this audit.

Internal Control Weakness 10

The Clerical Support Specialist at the Logistical Support Facility performs inventory functions such as receiving inventory, adding purchases to the inventory database, issuing items/updating the inventory database, performing inventory adjustments, and is in-charge and participates in the annual inventory process. Additionally, this individual is the administrator for the inventory database. This administrator capability allows full permissions to perform all inventory functions, including adjustments to inventory quantities, in addition to adding or deleting users and granting various levels of permissions to all users, including the administrator.

In the inventory function, certain tasks should be segregated so incompatible duties are limited. An incompatible duty is one that would place a single individual in the position to commit and conceal fraud. Since the Clerical Support Specialist maintains custody and issues inventory, incompatible duties for this position include: a) adding inventory to the database; b) performing inventory adjustments; c) participating in and in-charge of the annual inventory counts; and, d) granting database permissions.

Recommendation 18

Recommendations for incompatible duties listed in the above finding are as follows:

- a) For internal control purposes, the recording of purchases in the inventory database should be performed by an individual who does not maintain custody or receive inventory.
- b) Individuals who maintain custody of inventory should not be performing adjustments to inventory database records. Typically, this adjustment function is limited to supervisors or managers.

²A cycle count is an inventory management procedure where a small subset of inventory is counted on any given day. Cycle counts contrast with traditional physical inventory in that physical inventory stops operation at a facility and all items are counted, audited, and recounted at one time. Cycle counts are less disruptive to daily operations, provide an ongoing measure of inventory accuracy and procedure execution, and can be tailored to focus on items with higher value or higher movement.

(http://en.wikipedia.org/wiki/Cycle_count)

c) As specified in Recommendation 17, a party independent of the normal day-to-day inventory operations should perform the inventory count.

d) Database administrator authority should be assigned to management, who typically does not maintain inventory on a day-to-day basis. Prior to granting these permissions, management should consider incompatible duties and grant only the permissions needed for the employee to perform his/her specific job function.

Response from Fire and Rescue Department

This issue is being resolved with much dependency on ITD to change the inventory programming to allow certain functions to exist for logistical support staff and restrict certain access. The required changes in the inventory program require testing, which is currently being accomplished.

The Division Chief of Rescue is working with ITD staff to ensure all suggestion noted in recommendation 18 are implemented from top to bottom.

Internal Control Weakness 11

Inventory adjustments at the Logistical Support Facility are reported to management at the discretion of the Clerical Support Specialist. A policy does not exist for management to review and approve all adjustments to inventory.

Recommendation 19

A written policy should be established requiring management review and documented approval for all adjustments to inventory. In addition, all adjustments must be fully explained and documented. Inventory may be adjusted for several reasons such as the write-off of obsolete inventory, correction of errors, and modification of inventory levels when there is a discrepancy between on-hand counts and inventory records. Adjustments are indications of problems, errors, or possible fraud. For example, the write-off of expired inventory indicates too much inventory may have been ordered, and management should re-evaluate ordering policies.

Note: If the inventory adjustment function is granted to supervisors, then management should have a mechanism to ensure all adjustments are reviewed and approved. An avenue to accomplish this task is to obtain a detailed system report of all adjustments for a specified period. According to the Information Technology Department (ITD), this report is not currently available through the inventory database. Management should consider requesting this report if the adjustment function is delegated to supervisors.

Response from Fire and Rescue Department

Division Chief of Rescue will implement a policy addressing who will be responsible for any inventory adjustments. This policy and procedures will be effective June 15, 2008.

Internal Control Weakness 12

Logistical Support Facility inventory database records are not simultaneously updated upon the issuance of all inventory items. According to the Clerical Support Specialist, the inventory system is simultaneously updated for issuances of personal items such as clothing as the recipient is required to input a personal identification code upon receipt of personal items; however, non-personal items and delivered orders such as EMS supplies are normally updated in the system within a couple of business days.

Auditors performed an inventory count of twenty different inventory items and compared on-hand quantities to database records. Fourteen (70%) of the twenty inventory counts were inconsistent with database records. For two of the discrepancies, the Clerical Support Specialist remembered the distribution of some of the items months earlier; however, inventory records were not updated.

Recommendation 20

Inventory database records must be updated simultaneously upon the disbursement of inventory items. Key Principle: Inventory records must reflect reality.

Response from Fire and Rescue Department

This is being corrected to reflect reality and to ensure that accurate counts exist.

Internal Control Weakness 13

Auditors observed the inventory database permissions screen at the Logistical Support Facility and noted current users were able to perform functions over and beyond necessary job duties. According to the Clerical Support Specialist, these permissions were not the same permissions originally granted, and this error probably occurred when the program was updated.

Recommendation 21

Management should periodically review database permissions to ensure they are applicable based upon the employee's specific job function. Additionally, the Information Technology Department should be contacted in regards to the suspected system update error.

Response from Fire and Rescue Department

This is being corrected to ensure that permission granted is determined by management not logistical support or ITD staff. Also monitoring is occurring to see if there are any technical issues triggering changes in the system.

Internal Control Weakness 14

Receipt of delivery of items is not required when orders are delivered to fire stations by the Logistical Support Facility. According to Logistics staff, a receipt is not required for deliveries as some of the fire stations are unmanned when orders are delivered (delivery personnel access the fire station by key).

Recommendation 22

For internal control purposes, all issuances of inventory items should be acknowledged by the receiving party. These receipts (paper or electronic) should be maintained as an audit trail of the transaction. In the event of an emergency when the delivery cannot be coordinated with the receiving party to be present, the receiving documentation should be obtained after the fact. In this circumstance, the Logistics Department should implement a consistent process to follow-up on these receipts until obtained.

Response from Fire and Rescue Department

Recommendation 22 is difficult to implement. The Division Chief of Rescue is looking at different strategies to satisfy this suggestion specifically when no one is at the station when deliveries are being made.

Finding 9

During inventory testing of twenty sample items at the Logistical Support Facility, auditors noted one of the items selected included a large quantity (value \$7,044) of an expired prescription drug (Chonidine). Additionally, another item selected for testing (Rx drug Adenocard) was not stacked on the inventory shelves according to expiration dates.

Recommendation 23

Inventory management is a business process which involves the determination of optimal inventory quantities to maintain on hand. An effective inventory management system should aid in determining quantities needed and alert management when reorder thresholds are achieved, allowing management to use resources more efficiently. In cases where mandatory in-stock items are required, some waste may occur; however, effective inventory management should minimize unnecessary obsolescence. Additionally, all items must be positioned on inventory shelves to ensure distribution on a first-in-first-out (FIFO) basis.

Response from Fire and Rescue Department

Unfortunately the two medications considered as an example by the auditors one of which is used in cardiac arrest episodes in multiple dosages requires additional stocking. The other medication Clonidine is a hypertension medication that has a short life span

that requires additional stock on hand. We frequently monitor the usage of medication by field personnel and because of the variety of medical emergencies, which vary from month to month it would be extremely hard to just have enough on hand, the enough on hand is the unknown, which makes this suggestion difficult.

We will continue to monitor the usages of medications and make adjustments when possible. We will also ensure that all medications on the shelf are rotated according to FIFO basis. A more efficient inventory program can facilitate this process and help reduce duplication and waste in areas that can be more efficient. Recommendation 23 is valid and should be considered from a holistic perspective.

Opportunity for Improvement 1

The procurement database (JaxPro) should provide management with a report of purchase orders issued by commodity. The purpose of this report is to identify large purchases of commodities which are not currently included in the competitive bidding process. Note: Many purchase orders may be issued by different departments for the same commodity or group of commodities. Currently, human oversight (of the buyer) is the only control for this process.

Response from Procurement Division- Devin Reed, Director of Central Operations

I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle is currently in the process of developing reporting mechanisms to address the issue in question, as well as other reporting issues.

Opportunity for Improvement 2

Management should evaluate the necessity and cost of assigning certified Fire and Rescue personnel to oversee business functions such as inventory management and building construction/repair/renovation. Additionally, regarding building construction/repair and renovations, management should determine whether these functions could be effectively performed by other City departments (i.e. Public Works Department). See Recommendation #6.

Response from Fire and Rescue Department

The Department continues to evaluate the necessity and cost of assigning certified Fire and Rescue personnel to oversee business functions. In FY 2008, we eliminated 1 Engineer at TSF, 1 Engineer at LSF, and 1 Engineer in Fire Prevention. This resulted in three uniformed members being returned to daily field operations on our 24-hour emergency units. Management has also utilized, as recommended, the Public Works Department for their areas of expertise such as engineering and permitting, real estate, building maintenance, contract administration, and new Fire Station construction. We are also utilizing other City resources such as the Fleet Management Division. The small

number of uniformed personnel remaining at the Logistical Support Facility and Tactical Support Facility have experience in operational aspects unique to this Department and are essential to the successful daily operation and coordination of these areas. In fact, it is required by the Department of Health that only a Paramedic disperse drugs from the Logistical Support Facility. These uniformed personnel provide critical resource support for all field operations and respond to emergency incidents, as required.

Opportunity for Improvement 3

Management should consider establishing a City policy addressing the procurement of goods and services from employees/relatives of employees and businesses owned by these individuals. For purchases under \$2,500, departments have the discretion to select the vendor when providing a required quote to the Procurement Division. Although the Florida Statutes address many of these issues, a City Policy is recommended.

Response from Procurement Division- Devin Reed, Director of Central Operations

While I must ask for a more detailed explanation for this opportunity, particularly as it relates to “purchases under \$2,500.00,” Mr. Clapsaddle and I are in agreement with the establishment or expansion of any city policies, procedures, and disclosure/notice requirements that address the procurement of goods and services from and/or through city employees and those with whom they have a financial interest in the same. Nevertheless, Procurement will defer to the wisdom and experience of the city’s new Ethics Officer Carla Miller.

If you have any questions or want to discuss any of the findings or recommendations, please feel free to contact me at 630-7254 or Pmarkham@coj.net.

Respectfully submitted,

Pamela K. Markham, C.P.A.
Inspector General

Audit performed by:
Linda R. Schlager, C.P.A. – Principal Auditor
Jacqueline Lunsford, Internal Auditor
Nicholas Zelaya, Management Analyst



OFFICE OF THE DIRECTOR

June 3, 2008

To: Pamela K. Markham, C.P.A. Inspector General

From: Daniel A. Kleman, Director, Fire and Rescue Department

Re: Procurement and Supply Inventory Audit Response – Report No. 08-04

Below please find the Fire and Rescue Department's responses to the findings and recommendations of the procurement and supply inventory audit performed by your office.

Response to Recommendation #1

Agree with recommendation. The Procurement Section of the Department is complying with the payment guidelines by encouraging vendors to submit all original invoices directly to the General Accounting Division (GAD) so that payment goals may be tracked.

Response to Recommendation #2

Agree with recommendation. In renewing the blanket orders each year, the verbiage used in the document cited was not broad enough to meet our repair, maintenance and supply needs for all marine units. JFRD will implement a process to recheck the item description on all blanket orders prior to submission each fiscal year and the Department's Blanket Order contacts will be required to closely monitor the expenditures to ensure they fall within the parameters of the item description on the Blanket Order. The Procurement Section will also check the invoice descriptions with the Blanket Order to ensure compliance.





Response to Recommendation #3

Agree with recommendation. All future purchase orders will be entered into the system at the lowest quantity with specific pricing.

Response to Recommendation #5

Agree with recommendation. The Department's 609 Supply Requisition System has an established approval path for supplies being ordered. This system should be expanded to include a grant compliance verification section and account number assignment should be documented in the system and verified at appropriate levels of the approval path.

Response to Recommendation #6

Agree with recommendation. The Fire and Rescue Department now has in effect new procedures for obtaining work permits. It will be the awarded vendor's responsibility to acquire all permits associated with work to be performed. Vendors are to acquire and provide the Fire and Rescue Administrative Services Division a physical copy of the permit to be placed on file. These permits will then be attached to the invoices prior to final payment to ensure compliance.

Response to Recommendation #9

(1) JFRD management has evaluated the current inventory and agreed that current levels are necessary to maintain daily operation for providing the best services to the City and being prepared for natural and man-made disasters. It has been our experience with past incidents such as the Berkman Plaza Garage Collapse, the T2 Laboratory Explosion, the Wildland Fires of 2007, and the Hurricanes of 2004 that supplies such as chain saws, generators, foam, coolers, lights, electric fans, air packs, etc. are needed quickly as these events unfold.

(2) Agree with recommendation. The Administrative Services Division is currently seeking funding through the FY 2009 Budget Process to implement an electronic inventory system such as that used at the Logistical Support Facility. The Department is also evaluating a State Resource Management System which we will be required to use for all grant assets and equipment.

(3) Agree with recommendation. The Fire and Rescue Department was never informed to report end of the year inventory values to GAD. Now that we have been requested to provide such information, we will begin this fiscal year.





Response to Recommendation #10

Agree with recommendation. The Administrative Services Division is currently seeking funding through the FY 2009 Budget Process to procure and implement an electronic inventory system such as that used at the Logistical Support Facility (LSF). Also, the Tactical Support Facility (TSF) Manager will be developing an inventory management policy for the distribution, storage, disposal, security, and internal controls for the supply inventory located at the TSF.

The Fire and Rescue department logistical support facility is currently developing an inventory management policy that is targeted for completion June 15, 2008.

The Fire and Rescue department will incorporate the disposal process of all medications into EMS SOG 430.

Response to Recommendation #11

Agree with recommendation. JFRD will pursue integration of its current security system into a monitored security system for the TSF with the Public Works-Public Buildings Division.

Response to Recommendation #12

The use of same log-on for counter help in the logistical support facility was addressed by ITD and the issue is resolved.

Response to Recommendation #13

The Fire and Rescue Department Logistical Support Facility has corrected all problems associated with checks and balances related to narcotic counts, which include in-date and out-of-date medication counts.

The Division Chief of Rescue has informed District/Battalion Chiefs of the ICW and that the expectation for this is to be a non-issue during future audits.

Response to Recommendation #14

This is being corrected currently working closely with ITD staff to make changes to the current inventory program that will eliminate backdating and to revise the inventory database calculations to reflect current purchasing averages.

Response to Recommendation #15

The Division Chief of Rescue was informed by ITD personnel that the back-up storage for viewing recorded data were changed to 1 month instead of 1 day, which is the same as the tactical support facility.





Response to Recommendation #16

Agree with recommendation. Previously ITD granted access to employees in restricted areas without proper authorization or notification from Department Officials. New procedures regarding access to restricted areas including the TSF and LSF now requires written approval from either the Fire and Rescue Director, or the Assistant Fire Chief, and the Chief of Services or Chief of Rescue. Once permission is obtained the Director or Chief will give ITD the authority to grant badge access. All employees must have a single up-to-date badge; if more than one exists it is the employee's responsibility to return the second badge to the Chief of Services or Chief of Rescues Office for proper disposal. Only a Division Chief or above is authorized multiple badges for access to these facilities. Procedures are also in place to check the badge access listing quarterly.

Response to Recommendation #17

Inventory policy is being developed and will be implemented on June 15, 2008 to address the annual inventory requirements recommended by this audit.

Response to Recommendation #18

This issue is being resolved with much dependency on ITD to change the inventory programming to allow certain functions to exist for logistical support staff and restrict certain access. The required changes in the inventory program require testing, which is currently being accomplished.

The Division Chief of Rescue is working with ITD staff to ensure all suggestion noted in recommendation 18 are implemented from top to bottom.

Response to Recommendation #19

Division Chief of Rescue will implement a policy addressing who will be responsible for any inventory adjustments. This policy and procedures will be effective June 15, 2008.

Response to Recommendation #20

This is being corrected to reflect reality and to ensure that accurate counts exist.

Response to Recommendation #21

This is being corrected to ensure that permission granted is determined by management not logistical support or ITD staff. Also monitoring is occurring to see if there are any technical issues triggering changes in the system.





Response to Recommendation #22

Recommendation 22 is difficult to implement. The Division Chief of Rescue is looking at different strategies to satisfy this suggestion specifically when no one is at the station when deliveries are being made.

Response to Recommendation #23

Unfortunately the two medications considered as an example by the auditors one of which is used in cardiac arrest episodes in multiple dosages requires additional stocking. The other medication Clonidine is a hypertension medication that has a short life span that requires additional stock on hand. We frequently monitor the usage of medication by field personnel and because of the variety of medical emergencies, which vary from month to month it would be extremely hard to just have enough on hand, the enough on hand is the unknown, which makes this suggestion difficult.

We will continue to monitor the usages of medications and make adjustments when possible. We will also ensure that all medications on the shelf are rotated according to FIFO basis. A more efficient inventory program can facilitate this process and help reduce duplication and waste in areas that can be more efficient. Recommendation 23 is valid and should be considered from a holistic perspective.

Opportunity #2

The Department continues to evaluate the necessity and cost of assigning certified Fire and Rescue personnel to oversee business functions. In FY 2008, we eliminated 1 Engineer at TSF, 1 Engineer at LSF, and 1 Engineer in Fire Prevention. This resulted in three uniformed members being returned to daily field operations on our 24-hour emergency units. Management has also utilized, as recommended, the Public Works Department for their areas of expertise such as engineering and permitting, real estate, building maintenance, contract administration, and new Fire Station construction. We are also utilizing other City resources such as the Fleet Management Division. The small number of uniformed personnel remaining at the Logistical Support Facility and Tactical Support Facility have experience in operational aspects unique to this Department and are essential to the successful daily operation and coordination of these areas. In fact, it is required by the Department of Health that only a Paramedic disperse drugs from the Logistical Support Facility. These uniformed personnel provide critical resource support for all field operations and respond to emergency incidents, as required.

If you should need any additional explanation on these items, please let me know.





MEMORANDUM

TO: Pam Markham
Inspector General

FROM: Devin Reed
Director

CC: Michael Clapsaddle
Procurement Chief

DATE: May 22, 2008

RE: **Response to Inspector General Report No.: 08-04**

This is a follow-up to your request that I memorialize my April 18, 2008 response to your above-referenced report. Please review this memorandum, and do not hesitate to call me if I may be of further assistance.

Finding/Recommendation 3 – I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle has addressed and will continue to address this issue with Procurement’s management and buying staff.

Finding/Recommendation 4 – I have reviewed this finding and recommendation with Procurement, and will note that its buying staff goes above and beyond in its solicitation of vendors, in an effort to obtain the required number of quotes. Despite its efforts, however, the buying staff often receives less than the required number of quotes for reasons that include, without limitation, “no bid” responses or the lack of any response from some of the vendors solicited. Nevertheless, the buying staff makes every attempt to comply with state and local procurement rules and regulations.

With respect to the issues raised regarding informal proprietary and sole source award justifications and posting requirements, Procurement now requires that such justifications be received from, at a minimum, a division chief prior to approving the same. In addition, Procurement is currently working with the Information Technology Department (“ITD”) to systematically address the posting of informal proposed proprietary and sole source awards (similar to how formal proposed proprietary and sole source awards are posted). ITD has met with the vendor of the city’s procurement system – JaxPRO – and is working on a systematic solution. The immediate implementation of a manual solution for posting informal proprietary

and sole source awards has been explored; however, because of the very realistic potential for human error, ITD and Procurement are not proponents of a manual solution.

Finding/Recommendation 7 - I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle has addressed and will continue to address this issue with Procurement's management and buying staff.

Finding/Recommendation 8 – I have received a recent e-mail from Ms. Linda Schlager of your office, indicating that Procurement is no longer expected to respond to this finding and recommendation.

Opportunity for Improvement 1 – I have reviewed this finding and recommendation with Procurement Chief Michael Clapsaddle, and he and I are in agreement with the same. Mr. Clapsaddle is currently in the process of developing reporting mechanisms to address the issue in question, as well as other reporting issues.

Opportunity for Improvement 3 – While I must ask for a more detailed explanation for this opportunity, particularly as it relates to “purchases under \$2,500.00,” Mr. Clapsaddle and I are in agreement with the establishment or expansion of any city policies, procedures, and disclosure/notice requirements that address the procurement of goods and services from and/or through city employees and those with whom they have a financial interest in the same. Nevertheless, Procurement will defer to the wisdom and experience of the city's new Ethics Officer Carla Miller.

ACCOUNTING DIVISION



Memorandum

DATE: April 17, 2008

TO: Pamela K. Markham, Inspector General

VIA: Kevin G. Stork, Comptroller; Chief, Accounting Division

FROM: Wisteria Striglers, Manager of Accounting Services – A/P & A/R

RE: Fire and Rescue Department Procurement and Inventory Supply Audit

Below is Accounting's response to the audit finding numbers 1, 2, 7 and 8 listed in your report number 08-04.

Response to Finding #1: Invoice was not addressed to the General Accounting Division (GAD).

Accounting agrees that the vendor should comply with the established purchase order payment guidelines. It is true that the payment process is delayed when invoices go directly to the department and Accounting has relayed this message to the vendors again and again. Accounting has discussed this issue with the departments and the Procurement Division asking them to reiterate to their vendors to send the invoices to the accounting division. Accounting also met with procurement to see what could be done to encourage vendors to send their invoices to the Accounting Division. As a result, the purchase order language will change regarding the submittal of invoices. The language will read, "ALL INVOICES MUST BE SUBMITTED TO GENERAL ACCOUNTING DIVISION, 117 W. DUVAL STREET, SUITE 375, JACKSONVILLE, FLORIDA 32202. FAILURE TO SUBMIT INVOICES AS DIRECTED WILL RESULT IN DELAY OF PAYMENT(S)." This language is to be on the face of the purchase order in bold and underlined and increased font as to bring to the vendor's attention and should be on the purchase order within the next few weeks.

Response to Finding #2: Purchase not within purchase order description parameters

We agree that the purchase order is an official procurement document and as part of our audit process, it is standard procedure to compare the invoice being

submitted for payment with the description on the purchase order to ensure invoice compliance. We remind our account technicians of this and we emphasize this in training. We recently added a procedure of comparing the invoice against the purchase order as part of the post audit process.

Response to Finding #7: Invoice pricing compared to purchase order specification

During the audit process, the account technician is to verify that the prices and commodities on the invoice(s) are in agreement with the terms of the purchase order.

Response to Finding #8: Handling of Credit Memos

Accounting recognizes the fact that the work around for credit memos does not reflect reality when it comes to invoice payment and we agree that the general ledger system should include a line item for credit memos. We are handicapped with the limitations of FAMIS in that FAMIS does not have the ability to accept a credit memo as a line item. We have met and discussed this issue several times with the Information Technology Department (ITD) concerning FAMIS. We have requested modification to be made in JaxPRO to accommodate the use of credit memos, but Periscope, the owner of the procurement software product, is unwilling to modify its software. Accounting is currently communicating with Tier Technology and exploring options in FAMIS that we feel will eliminate this problem and we will be testing these options within the next couple of weeks.

The ability to systematically modify FAMIS or JaxPRO is not a function of least cost, but is a function of the vendor's unwillingness to modify their software and the inherent limitations of having two separate systems for Accounts Payables and Procurement.

cc: G. Michael "Mickey" Miller, CFO