

DEPARTMENT OF FIRE PROGRAMS

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2010 AND JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Department of Fire Programs for the two-year period ended June 30, 2011, found:

- proper recording and reporting of all transactions in the Commonwealth Accounting and Reporting System; however, Fire Programs did not maintain adequate records of its bookstore inventory;
- one matter involving internal control and its operations necessary to bring to management's attention; and
- no instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL FINDING AND RECOMMENDATION	1
AGENCY FINANCIAL INFORMATION	2-3
INDEPENDENT AUDITOR’S REPORT	4-5
AGENCY RESPONSE	6
AGENCY OFFICIALS	7

INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Internal Controls Over Bookstore Inventory

When Fire Programs staff compared the physical year-end inventory counts to the inventory information in QuickBooks, there were significant variances between the two amounts for many of the 144 individual items in the bookstore. Fire Programs staff did not determine and resolve these differences, but adjusted the inventory quantities in QuickBooks to agree to the physical count. Staff adjusted inventory quantities for over half of the items in stock.

A purchasing test of 34 purchases totaling \$111,000 for fiscal year 2011, which is almost a third of all items for resale, found recording errors in 15 of 34 (44 percent) purchases with some items having multiple errors. These recording errors included wrong fiscal year of purchase, incorrect quantities, incorrect item descriptions, and not recording some purchases at all.

As a result of these errors, the inventory information in QuickBooks is inaccurate and unreliable. Without accurate inventory information, Fire Programs cannot properly monitor inventory levels or plan purchases. They risk either having too many items in inventory or not having necessary supplies and materials available when needed.

In addition, Fire Programs bookstore operating procedures do not address how to remove obsolete materials and those items they cannot sell because they are now available on line. Fire Programs management needs to develop procedures for handling these types of situations.

All of the issues above are fundamental controls necessary to maintain and manage an inventory for re-sale. Fire Programs management needs to follow the basic best practices for keeping an inventory for resale, especially the review of recording purchases and sales. The high volume of errors and physical inventory count differences indicates that the problems with inventory are not limited to recording errors.

AGENCY FINANCIAL INFORMATION

The Department of Fire Programs (Fire Programs) provides financial assistance, training, fire prevention, and life safety education. The State Fire Marshal's Office (Fire Marshal) is responsible for fire code enforcement statewide through its inspection of certain facilities.

Fire Programs' funding source is an annual transfer from the State Corporation Commission (SCC), which collects one percent of the total direct gross premium income from certain property and casualty insurance companies and transfers this amount to Fire Programs in June of each year. The transfer funds payments to localities, construction of training centers, and firefighting equipment, as well as Fire Programs' operations.

The General Assembly changed the timing of this funding stream in fiscal year 2010 to help address statewide budget shortfalls. The June 2010 SCC transfer went to the General Fund and Fire Programs received a \$30 million line of credit to replace this funding. As a result, Fire Programs used the line of credit to fund payments to localities as well as operations in fiscal year 2011 and repaid the line of credit with the June 2011 transfer from the SCC. Fire Programs will again rely on the line of credit for fiscal 2012 funding and this funding process will continue into the future.

Fire Programs collects revenues from sales through its bookstore. The bookstore carries training books and materials sold to state and local fire and emergency services personnel. Bookstore sales were approximately \$386,000 and \$362,000 in fiscal years 2010 and 2011 respectively. Fire Programs also collects training program fees, and fees for Fire Marshal permits, inspections, and certifications.

The following table summarizes budget and actual activity by program for fiscal years 2010 and 2011. Fire Programs' expenses have been less than budgeted in the Fire Training and Technical Support Services program due to training cancellations caused by budget reductions at the state and local level.

<u>Analysis of Budget and Actual Expenses for Fiscal Year 2011</u>			
<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Financial Assistance for Fire Services Programs	\$23,825,000	\$23,867,449	\$23,273,343
Fire Training and Technical Support Services	6,975,258	6,975,258	6,216,871
Regulation of Structure Safety	<u>2,682,180</u>	<u>2,731,788</u>	<u>2,565,729</u>
Total	<u>\$33,482,438</u>	<u>\$33,574,495</u>	<u>\$32,055,943</u>

<u>Analysis of Budget and Actual Expenses for Fiscal Year 2010</u>			
<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Financial Assistance for Fire Services Programs	\$23,825,000	\$23,836,887	\$ 23,085,743
Fire Training and Technical Support Services	6,876,413	6,941,413	6,088,437
Regulation of Structure Safety	3,098,001	2,601,042	2,432,534
Executive Management Savings	<u>(202,742)</u>	<u>-</u>	<u>-</u>
Total	<u>\$33,596,672</u>	<u>\$33,379,342</u>	<u>\$ 31,606,714</u>

As discussed above, the majority of Fire Programs expenses are for transfer payments to counties, cities and towns for fire service operations. The following table summarizes expenses by major category for each of the two fiscal years.

<u>Expenses by Type by Fiscal Year</u>		
	<u>2011</u>	<u>2010</u>
Transfer Payments	\$22,091,398	\$22,326,337
Personal Services	5,931,425	5,670,713
Contractual Services	1,647,093	1,433,453
Equipment	1,154,386	1,002,167
Supplies and Materials	653,031	607,654
Continuous Charges	578,610	566,320
Property and Improvements	<u>-</u>	<u>70</u>
Total	<u>\$32,055,943</u>	<u>\$31,606,714</u>



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 15, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the Department of Fire Programs (Fire Programs) for the years ended June 30, 2010 and 2011. We conducted this performance 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and bookstore inventory system, review the adequacy of the Fire Programs' internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Fire Programs' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Expenses - transfer payments, grant awards, payroll, and small purchase charge card
- Cash Receipts
- Bookstore Inventory
- Fixed Assets
- Information Security

We performed audit tests to determine whether Fire Programs' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Fire Programs' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Fire Programs properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System; however bookstore inventory was not properly recorded in the bookstore inventory system. Fire Programs records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a matter involving internal control and its operation that requires management's attention and corrective action. This matter is described in the section entitled "Internal Control Finding and Recommendation." The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Fire Programs has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on March 29, 2012. Management's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW:alh



COMMONWEALTH of VIRGINIA

Virginia Department of Fire Programs

W.G. Shelton, Jr.
EXECUTIVE DIRECTOR

1005 Technology Park Drive
Glen Allen, VA 23059-4500
Phone: 804/ 371-0220
Fax: 804/ 371-3358

February 29, 2012

Auditor of Public Accounts
Post Office Box 1295
Richmond VA 23218

The Department of Fire Programs concurs with the Auditor of Public Accounts' findings and recommendations as presented in the audit report for the fiscal years ended June 30, 2010 and June 30, 2011.

Improve Internal Controls over Bookstore Inventory

Since FY2005, Fire Programs has made significant improvements in its Bookstore operations, recordkeeping, and internal controls. However, additional improvements are needed to ensure proper management controls, and accountability, accuracy, and reliability in inventory merchandise.

Fire Programs has developed a multi-point strategy and corrective action workplan to improve its management controls over daily bookstore operations, inventory accountability throughout the fiscal year, and month-end and annual year-end inventory counts and reconciliations including appropriate research, documentation, and resolution of variances. Agency management is confident that the multi-point strategy and corrective action workplan will further improve internal controls, and significantly improve the accountability, accuracy, and reliability of Bookstore operations.

Fire Programs anticipates that it will require ninety (90) days to implement the new strategies at which point it will pilot its new procedures from June 1-30, 2012 with full implementation targeted for July 1, 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "W.G. Shelton, Jr.", written over a horizontal line.

W.G. Shelton, Jr.
Executive Director

AGENCY OFFICIALS
As of June 30, 2011

Department of Fire Programs

Willie G. Shelton, Jr., Executive Director, Department of Fire Programs

Virginia Fire Services Board

Richard E. Burch, Jr., Chairman

James M. Armstrong, Vice Chairman

Ed Altizer

Kenneth J. Brown

Elaine Gall

Carl Garrison III

Felix Sarfo-Kantanka, Jr.

William B. Kyger, Jr.

Thomas H. Moffett

Brian Mullins

Michael Reilly

Robert F. Scott

Edwin Smith

Randy Wheeler

Joe Wilson