Audit of Milwaukee Fire Department Fixed Assets Controls

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August 1, 2013

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Milwaukee Fire Department (MFD) Fixed Assets Controls. The objectives of the audit were to evaluate whether MFD fixed assets were appropriately acquired and disposed; to verify assets owned or used in MFD operations are represented in the City's accounting system, and assets recorded in the accounting system physically exist; to assess the adequacy of MFD policies and procedures for tracking fixed assets and performing physical inventories; and to determine whether MFD fixed assets are adequately safeguarded.

Overall, the audit concluded that internal controls surrounding MFD fixed assets are adequately designed and operating effectively. It is evident the Fire Department is proactively working to continually advance their system for tracking and maintaining the equipment and supplies used in the operations of fire suppression, prevention, rescue, and emergency medical services for the City of Milwaukee. This report identifies three recommendations to improve the accuracy of fixed assets recorded in the Financial Management Information System, and includes two observations to strengthen processes.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by management's responses.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Fire Department.

Sincerely,

Aycha Sirvanci

Aycha Sirvanci, CPA
Audit Manager

AS:ssm

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I Audit Scope and Objectives

The audit examined the processes and controls for fixed assets of the Milwaukee Fire Department, including acquisition, disposal, and tracking, as well as safeguarding practices. The audit also independently confirmed the physical existence of fixed assets and whether fixed assets were properly recorded.

The scope of the audit included all fixed assets for the Milwaukee Fire Department maintained in the Asset Management module of the Financial Management Information System (FMIS) as of December 31, 2011, and all fixed asset purchases and disposals for the year 2012. Audit procedures were executed from March through May 2013.

The audit methodology included developing an understanding of processes and controls surrounding fixed assets used in Fire Department operations. Audit procedures developed to evaluate the processes and controls to meet the audit objectives included process walk-throughs, inspection of relevant control documentation, tests of controls, and substantive (detail) testing. Procedures and tests conducted included evaluating internal controls related to accounts payable and disposal processes, reviewing access to the ManagerPlus maintenance tracking system for adequate segregation of duties, analyzing physical security processes, and performing an independent physical inventory to confirm the existence of a sample of fixed assets.

Information obtained and reviewed included internal operating and capital budget tracking spreadsheets, auction results, revenue and expense account FMIS queries, the ManagerPlus sold items report, the ManagerPlus system user list and security roles, invoices, control group registers, internal mobile and portable radio inventories, and the FMIS Asset Net Book Value reports. The Audit Division believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the audit were to:

- Evaluate whether MFD fixed assets were appropriately acquired and disposed;
- Verify assets owned or used in MFD operations are represented in FMIS, and assets recorded

in FMIS physically exist;

- Assess the adequacy of MFD policies and procedures for tracking fixed assets and performing physical inventories; and
- Determine whether MFD fixed assets are adequately safeguarded.

II Organization and Fiscal Impact

The Milwaukee Fire Department, consisting of approximately 1,000 firefighters, 36 fire stations, 36 engines, 15 trucks, 12 paramedic units, and 1 fire boat, serves the residents of Milwaukee and West Milwaukee.[1] The department is organized into three bureaus: 1) Operations Bureau, 2) EMS/Training/Education Bureau, and 3) Support Bureau.

The MFD Support Bureau is headed by one of three assistant chiefs and includes Administration, the Construction and Maintenance Division, Technical Services, and the Budget and Finance Section. The scope of this audit is relevant to certain processes performed by the Construction and Maintenance Division and the Budget and Finance Section. The Construction and Maintenance Division is responsible for the specification, purchase, repair, and maintenance of equipment, apparatus, ambulances, support vehicles, and facilities used in the course of operations. The Budget and Finance Section is responsible for accounts payable, accounts receivable, advanced life support patient refund payments, vehicle accident billing, payroll administration, budget preparation and reporting, monitoring department operating and maintenance accounts, as well as capital appropriations and expenditures to ensure that the department operates within the limits established by the adopted budget.[1]

As of December 31, 2011, MFD depreciable assets were $66 million, which represents 3.4% of total depreciable assets reported in the 2011 Comprehensive Annual Financial Report. In 2011, MFD received almost $1 million in federal grant-funded training and equipment. The 2013 budget includes $3,403,000 in capital funding that will be used for the replacement of major fire

[1] MFD 2011 Annual Report

suppression and EMS apparatus, building upgrades, and for generators to provide an auxiliary power supply.[2]

Capital assets (or "fixed assets"), which include land, machinery and equipment, and infrastructure costing greater than $5,000 with a useful life greater than 3 years, are reported at cost or estimated historical cost. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend the asset's life, are not capitalized. Capitalization thresholds and the estimated useful lives for the City and component units are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Infrastructure	$ 5,000	5-50 years
Land	5,000	N/A
Land Improvements	5,000	N/A
Intangible Right of Ways	5,000	N/A
Site Improvements	5,000	3-50
Buildings	5,000	10-60
Building Improvements	5,000	10-45
Machinery and Equipment	5,000	3-25
Works of Art, Historical Treasures	5,000	N/A
Intangible Software	100,000	5-20

III Audit Conclusions and Recommendations

City departments and the Comptroller's Office share the responsibility for maintaining accurate inventory records of the City's fixed assets. Each department should maintain asset information and verify the accuracy of their departmental fixed asset records with the Comptroller's Office on an annual basis. The results of the audit showed that MFD is actively working toward recording all fixed assets in its maintenance tracking system, and has recently provided the Comptroller's Office with the results from a comprehensive physical inventory. Overall, the audit determined that the systems and procedures utilized to acquire, dispose, track, and safeguard fixed assets are adequately designed and operating effectively. This report identifies the following three recommendations to improve the accuracy of fixed assets recorded in the FMIS Asset Management module:

[2] 2013 Plan and Budget Summary

1. Reconcile the FMIS fixed asset schedule to existing fixed assets.
2. Notify the Comptroller's Office when a fixed asset has been acquired or disposed.
3. Assign, record, and affix identification tag numbers to all vehicles, machinery, and equipment meeting capitalization criteria.

The report also includes an observation for the MFD relating to the approval of vouchers, and an observation for the Comptroller's Office relating to the functionality of the Fixed Asset Management Module within FMIS. An observation may not constitute a recommendation, but should be taken under advisement. Additional details regarding the recommendations for improvement and the observations are provided in the following sections of this report.

A. Acquisition, Disposal, Tracking, and Safeguarding

Acquisition

The purchasing process starts with entering a purchase order requisition or a contract requisition into FMIS. The requisition establishes the funding source as one or more of the following: capital, operating, or grant. MFD maintains a replacement schedule for capital funded projects, and detailed annual budgets are prepared for capital and operating expenditures. The majority of equipment purchases are made by the Construction and Maintenance Division and shipped to the repair shop. Upon receipt of the item, the invoice is approved for payment. The purchases are then entered in the appropriate budget tracking spreadsheet utilized to monitor expenditures.

Observation 1: Control Group Signatures

Control group registers are not consistently signed at a level that would provide the strongest control against unauthorized payments. Best practices suggest that at least one of the two signatures on the control group register used to authorize the vouchers created for payment should be at a manager or supervisor level. A related policy update is currently under review by the Office of the Comptroller for City-wide implementation.

Disposal

When apparatus, vehicles, tools, or large pieces of equipment are disposed, the items are sold via auction. Until February 2013, vehicles and larger equipment were sold through the live auction with Milwaukee County twice a year. There are instances when a fixed asset (i.e., a portable generator) may be used for parts to fix other pieces of equipment and then scrapped. Scrap material is placed in a scrap metal bin within the repair shop and is periodically collected by a vendor procured under a blanket contract. Engines, trucks, and ambulances are replaced based on a schedule following National Fire Protection Association (NFPA) guidelines. Per NFPA 1901, Annex D, fire departments should seriously consider the value (or risk) to fire fighters of keeping fire apparatus older than 15 years in first-line service. Apparatus that are over 25 years old should be replaced. A review of the assets recorded in FMIS found that MFD does not have any apparatus that are over 25 years old.

Tracking

The Fire Department uses the ManagerPlus maintenance management system software to track vehicles, buildings, fuel islands, dive masks, outboard motors, and other larger pieces of equipment such as snow blowers, generators, and lawn mowers. This vendor supported software was purchased by MFD in 2009 and has been used consistently since June, 2010. Assets are added to the system by one of the two system administrators. As of the audit date, only assets requiring periodic maintenance and repairs had been entered and were being tracked in the system; however, additional categories of items are continuously added. It is the Fire Department's goal to eventually track all capital assets within ManagerPlus. If an item tracked in the system is sold or scrapped, the item is deactivated and the date removed is recorded in the system when the auction receipt is received.

The City does not have a policy requiring departments to notify the Comptroller's Office when an asset has been acquired or disposed. As a result, fixed assets are not consistently added and removed from FMIS timely and accurately. Specifically, the audit testing sample selected to confirm the physical existence of assets included 1 defibrillator that was disposed in 2008, and 1 server that was disposed in 2003. Additionally, the audit identified an instance in which replacement parts that should have been expensed were recorded as a fixed asset; and 3

ambulances that were purchased in 2008, costing a total of $416,000, were not recorded in FMIS. Misstated assets may cause financial or operational decisions to be based upon inaccurate or incomplete information. Inaccurately stated assets also impact the depreciation expense in the financial statements.

Recommendation 1: Reconcile the FMIS fixed asset schedule to existing fixed assets.
To determine the accuracy of the FMIS fixed asset schedule, Fire Department management should work with the Comptroller's Office to reconcile FMIS to existing fixed assets.

Recommendation 2: Notify the Comptroller's Office when a fixed asset has been acquired or disposed.
Management should develop, implement, and document procedures to periodically notify the Comptroller's Office of fixed asset acquisitions and disposals to ensure timely and accurate recording. The notification should include the information needed to adequately record the acquisition or disposal in FMIS such as tag number, short description, make, model, serial number, acquisition date or disposal date, cost, and location. Acquisition notifications should also include the account number and project ID. Disposal notifications should include the method of disposal, the sale amount (if applicable), and the deposit information (if applicable).

Safeguarding
Machinery and equipment are secured within the firehouses and the repair shop. Authorized personnel are issued keys to the firehouses when hired. The keys are tracked in a log maintained by the Assistant Chief overseeing the Support Bureau. The keys are collected when employment is terminated. Additionally, all firehouses are staffed 24 hours a day, 365 days a year. The audit did not identify any control weaknesses during the review of physical security over assets.

B. Accounting Procedures

The Asset Management module of FMIS is not used as a perpetual asset inventory; rather, it is updated annually. Each year, FMIS is updated with purchases by reviewing the entries to the expense accounts. Expenditures for assets over $5,000, and having a useful life greater than 3

years (the capitalization threshold adopted by the City of Milwaukee), are recognized as fixed assets and recorded in the system.

The City does not have a policy requiring fixed assets to be marked with a unique identification tag. Consequently, four assets selected as part of a testing sample utilized to confirm the assets' physical existence could not be verified as each of the four assets selected consisted of multiples of each item. None of the four assets had been tagged, had an accurate location listed, or had a serial number documented in FMIS. By not tagging all assets, MFD does not have an accurate method of identifying identical assets from one another.

Recommendation 3: Assign, record, and affix identification tag numbers to all vehicles, machinery, and equipment meeting capitalization criteria.

All fixed assets should be assigned an asset number at the time of receipt and before the asset is placed into service. The tag number should be communicated to the Comptroller's Office for recording in FMIS. The tag number can also be referenced as the inventory number when physical inventories are conducted. Tag placement should be conspicuous and in a consistent location when possible. Where the application of a tag is not possible or practical, alternative methods such as etching or dye marking should be considered. At a minimum, the serial number should be recorded. Certain assets such as buildings, land, and improvements do not need to be physically tagged.

Observation 2: The Comptroller's Office should review the functionality of the Asset Management Module within FMIS to evaluate if the entry of newly acquired fixed assets can be performed by the City departments purchasing the assets.

The Comptroller's Office and the Information and Technology Management Division should review the functionality of the Fixed Asset Management Module together. The Comptroller's office should then train and implement the usage of the module to all departments city-wide.

City of Milwaukee

Fire Department

Mark Rohlfing
Chief

Gerard Washington
Assistant Chief
Daniel Lipski
Assistant Chief
Michael Romas
Assistant Chief

July 24, 2013

Ms. Aycha Sirvanci
Office of the Comptroller, Audit Section
City Hall, Room 400
200 East Wells Street
Milwaukee, WI 53202

RE: Response to Fixed Asset Audit Findings and Recommendations

Dar Ms. Sirvanci:

The Milwaukee Fire Department (MFD) has been working diligently on the processes and controls associated with its fixed assets. We welcome the recommendations of the audit performed by the City Comptroller's Office so that we may further increase our effectiveness and efficiency when dealing with all areas associated with the acquisition, disposal, tracking, and safeguarding of the assets of the MFD.

The report listed three recommendations the MFD should take to improve the accuracy of fixed assets recorded in the FMIS Asset Management module.

Recommendation #1 - Reconcile the FMIS fixed asset schedule to existing fixed assets.
The MFD presently receives an update from the Comptroller's office at the end of each year. In the future, we will reconcile every six months in addition to notifying the Comptroller's office when we acquire or dispose of an asset. The timely notification of asset movement should increase the accuracy of the fixed asset schedule.

Implementation Date: December 31, 2013

Recommendation #2 - Notify the Comptroller's Office when a fixed asset has been acquired or disposed of.
After discussion with the Comptroller's Office, it was determined that each time the MFD acquires or disposes of an asset, the MFD will send an email to the Comptroller's office. Included in the email will be the tag number assigned by the MFD and a short description (make, model, acquisition/disposal date, cost, and location of the asset). Disposal will include the method of disposal and the sale amount.

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This will provide for timely updates and should make the FMIS fixed asset schedule reconciliation more accurate. In addition, the MFD uses ManagerPlus, a maintenance management system software, to track vehicles, buildings, fuel stations, and miscellaneous assets assigned to the MFD. This began in June 2010 with the majority of the MFD's larger assets and the assets that require periodic maintenance having been entered. We are still in the process of identifying and entering additional assets of the MFD in ManagerPlus.

Implementation Date: September 1, 2013

Recommendation #3 - Assign, record, and affix identification tag numbers to all vehicles, machinery, and equipment meeting capitalization criteria.

The MFD takes great pride in its inventory control. All vehicles, machinery, and equipment are tagged and tracked or are in the process of such. We will communicate the tag numbers to the Comptroller's Office later this year, which should in turn will make the reconciliation of the FMIS fixed asset schedule reconciliation more timely and accurate.

Implementation Date: December 31, 2013

The Milwaukee Fire Department takes the acquisition, disposal, tracking, and safeguarding of its assets seriously. With that in mind, we accept the recommendations of the Comptroller's Office with the thought that they will make the MFD better able to accurately track our fixed assets.

Sincerely,

MARK ROHLFING
Chief

MR/DS/cf
cc: BC Dale Schwark

Martin Matson
Comptroller

John M. Egan, CPA
Deputy Comptroller

Office of the Comptroller

Glenn Steinbrecher, CPA
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Toni Biscobing
Special Deputy Comptroller

August 1, 2013

Ms. Aycha Sirvanci
Audit Division
City Hall, Room 404
200 E. Wells Street
Milwaukee, WI 53202

Re: Response to Fire Fixed Asset Audit Findings

Dear Ms. Sirvanci:

In response to Observation #2 described in the Audit of the Milwaukee Fire Department Fixed Assets Controls, the Comptroller's office will be organizing a joint task force that may include members of my office, ITMD, and other interested City departments in order to review the functionality of the Fixed Asset Module in FMIS. Planning will begin in 2014 for this project.

We have also engaged an outside consultant currently to conduct an organizational study of our office. The firm engaged will be reviewing the fixed asset policies and the above mentioned module. We will include their recommendation(s) as we review the functionality within the Fixed Asset Module of PeopleSoft.

Once all is completed, City department personnel will be trained on usage of the Fixed Asset Module and policies and procedures will be distributed city-wide.

Sincerely,

Martin Matson

Martin Matson
Comptroller

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