



December 7, 2010

Audit Number 10004

*Robert E. Clift*

## ***Florida State Fire College Should Improve Cash Handling, Bookstore Inventory Management, Tuition Fee Collection Practices, and Related Policies and Procedures***

### **SUMMARY**

The Fire College provides extensive training for both paid and volunteer firefighters with subjects ranging from basic fire fighting to advanced arson investigation. Course fees are set in accordance with Section 69A-37.064, Florida Administrative Code. The College also operates a bookstore and dormitory. Student fees, dormitory fees, and bookstore sales totaled in excess of \$550,000 for the fiscal year ended June 30, 2009.

Our Office conducted an investigation at the Fire College in September 2009 at the request of the Department's Division of State Fire Marshal management, who reported a discrepancy in the Fire College's cash collections and possible theft of funds by a Fire College employee. The investigation involved a Fire College Bookstore employee that performed cash-handling duties for student fees and bookstore sales. Although it was not feasible to assess the actual loss because of poor internal controls, a shortage of approximately \$1000 over a period of sixteen months was identified. The investigation concluded that the employee violated the Florida Administrative Code and Department policy by failing to exercise due care and reasonable diligence when handling funds paid to the Fire College.

Our Office then conducted an audit of cash collections to determine if Fire College procedures contributed to the mishandling of funds. Our review disclosed significant control

weaknesses over the deposit of collections processed through the bookstore cash register. Collections include course fees, dormitory fees, and book and souvenir sales. Weaknesses included the lack of separation of employee duties, supervisory approval, documented transfer of employee responsibility, and safeguarding of assets, resulting in an increased risk that fraud or error could occur and not be timely detected. We recommend that the Fire College strengthen these procedures to ensure accountability of funds received.

We also reviewed the Fire College's record-keeping procedures for enrolling students in courses and accounting for fees received.

Our review indicated that records were not always in sufficient detail to demonstrate that student fee payments or refunds were actually made. We recommend that procedures be strengthened to demonstrate that student fees were accurately accounted for.

### **SCOPE**

Our audit was limited to a review of cash collection internal controls and a review of Fire College student enrollment management and reporting. The period of our review was from July 2008 through April 2010.

## **BACKGROUND**

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The Division of State Fire Marshal was established by the Florida Legislature in 1941. The Chief Financial Officer serves as the State Fire Marshal. The Division operates the Florida State Fire College (Fire College) pursuant to Section 633.43, Florida Statutes. Admission and other fees charged for training given at the Fire College are deposited in the Insurance Regulatory Trust Fund.

The Fire College is located in Ocala, Florida, and was established to:

- Develop new methods and practices of firefighting and fire prevention.
- Assist the state and county, municipal, and other local governments of this and their agencies and officers in their investigation and determination of the causes of fires.
- Provide testing facilities for the testing of firefighting equipment.
- Disseminate useful information on fires, firefighting and fire prevention and other related subjects, to fire departments and others interested in such information.
- Do such other needful or useful things necessary to the promotion of public safety in the field of fire hazards and fire prevention work.

Rule 69A-37.064, Florida Administrative Code, requires the Fire College to offer basic, intermediate and advanced training, and educational courses; develop educational curricula to be used by other fire-rescue training agencies, and conduct research into new methods and technologies related to fire-rescue activities. The Rule also sets the length and content of the program, instructor qualifications, and requirements for certification.

The Fire College provides extensive training for both paid and volunteer firefighters with subjects ranging from basic fire fighting to advanced arson investigation, and enrolls more

than 6,000 students each year. The Fire College is allowed to set its tuition, fees, and prices at such levels as to recover costs. It continues to expand its functions with additional field training and the establishment of an industrial fire training program.

The Fire College also operates a bookstore and dormitory. The bookstore sells textbooks and workbooks for classes taught at the Fire College as well as T-Shirts, sweatshirts, jackets and other merchandise.

Revenues for the 2008-09 fiscal year for the Fire College were as follows:

Regulatory Assessment <sup>1</sup>	<u>\$2,895,278</u>
Application Fees	\$172,598
Dormitory Fees	\$130,745
Bookstore Sales	\$124,261
Tuition Fees	\$124,032
Total Student Fees and Sales	<u>\$551,636</u>
Grants	\$266,637
Miscellaneous	\$ 2,849
Royalties	\$ 854
Total Other	<u>\$270,340</u>
<b>TOTAL</b>	<u><b>\$3,717,254</b></u>

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<sup>1</sup> The Regulatory Assessment represents a surcharge imposed at a rate of .1 percent on the gross direct premium written on commercial property located in the state of Florida. Grant revenues primarily represent Federal grant funds received from the State Homeland Security Grant Program. Student fees and sales represent course and dormitory fees and bookstore sales.



## ISSUES AND RECOMMENDATIONS

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### **Bookstore Cash Handling**

**Issue 1: Fire College Bookstore cash-handling control weaknesses may have contributed to the mishandling of funds noted in our September 2009 investigation.**

All cash and checks received by the Fire College are normally recorded in the Bookstore cash register and placed in the register's cash drawer until moneys are counted, prepared for deposit, and placed in the safe overnight. Our review of internal controls over this process at the time of our investigation indicated the following weaknesses:

#### **1.1 Written Procedures**

The Fire College did not maintain written policies and procedures to establish policies, controls, and instructions to employees with the duties of receiving, recording, depositing, and reconciling moneys. A failure to develop such policies and procedures facilitates inconsistent actions that are not always in accordance with good business practices.

#### **Recommendation 1.1**

Desktop procedures were developed subsequent to the investigation and addressed cash handling duties. We recommend that Fire College personnel review their procedures to ensure that the pertinent duties of receiving, recording, depositing, and reconciling moneys are adequately addressed, and assets appropriately safeguarded. The procedures should be formalized incorporating the principles outlined in DFS Administrative Policies & Procedure 1-02, Internal Controls Policy.

#### **1.2 Recording Moneys at Point of Receipt**

Moneys initially received by Fire College employees in areas other than the Bookstore (e.g., Mailroom) were not recorded, logged, or

restrictively endorsed by the employees at the time of receipt before giving these moneys to the Bookstore cashier for subsequent deposit. Moneys recorded at time of receipt serve to assign responsibility to the employee receiving the moneys and establishing an audit trail.

Checks recorded in the cash register by the Bookstore cashier were not restrictively endorsed upon receipt. Stamping checks "For Deposit Only" at time of receipt helps ensure that moneys are actually deposited in the bank instead of being diverted for other uses.

#### **Recommendation 1.2**

We recommend that moneys received by Fire College personnel be recorded and restrictively endorsed at point of receipt. This practice should be incorporated in policy.

#### **1.3 Incompatible Duties**

Although the Bookstore cashier usually operated the cash register, other employees had access to the cash register when the cashier was not available. In addition, the key to close out the register was kept in the register itself rather than restricting the key's access. There was no evidence of a transfer of responsibility, such as the use of individually assigned employee cash drawers, when other employees operated the register. Unrestricted access to collections results in the loss of an audit trail and the failure to assign responsibility in the event of loss.

The Bookstore cashier's duties included receiving moneys, balancing the cash drawer, entering data in the Department's cash receipting system, and preparing bank deposits. No routine reconciliations of records with deposits were prepared. This lack of separation of duties increases the risk that unauthorized transactions will occur and not be detected.

Subsequent to the investigation, Fire College personnel indicated duties were changed in which one employee operates the cash register, one prepares the day's close-out procedures,



and one agrees the daily transactions to the bank deposit. In addition, employees are required to electronically sign-on to the new machine before they can operate it.

### **Recommendation 1.3**

We recommend that Fire College management incorporate this change in applicable policy and routinely monitor these procedures to ensure that they continue in the manner intended.

### **1.4 Lack of Supervisory Approval**

Voided cash register entries made by the Bookstore cashier were not routinely reviewed and approved by the Bookstore cashier's supervisor. In addition, a daily cash register count was usually performed by the Bookstore cashier, but a supervisor did not routinely review and approve the deposit. Supervisory review and approval is a standard good business practice that assists in ensuring all moneys are recorded and deposited correctly.

Fire College personnel indicated that the new machine provides reports showing all voided entries. The machine operator is required to sign all voids. In addition, a supervisor participates in the review and approval of the cash counts.

### **Recommendation 1.4**

We recommend that Fire College management incorporate this change in applicable policy and routinely monitor these processes to ensure they continue in the manner intended.

### **1.5 Lack of Reconciliations**

The cash register could be closed out during the day without knowledge of anyone other than the Bookstore cashier. No review of consecutive cash register transaction numbers was evidenced. Reconciling daily cash register transaction numbers are essential in determining whether moneys received were in fact deposited.

A change fund was established for \$550, according to Fire College personnel. When a

change fund is used, the amount in the cash drawer at any given time should equal the amount of the change fund plus the daily receipts. However, Fire College personnel indicated one instance in September 2009 in which the change fund totaled \$630 after the daily cash count had been completed. There was no evidence that the Fire College investigated the reasons for the overage. Reconciling total receipts in the cash register with the change fund and daily transactions is a basic good business practice that helps ensure accountability.

### **Recommendation 1.5**

Fire College personnel indicated that reconciliations of beginning and ending machine transaction numbers and change in the drawer and safe are reconciled.

We recommend that Fire College management incorporate this change in applicable policy and routinely monitor these processes to ensure the controls remain in place.

### **1.6 Safeguarding of Assets**

The daily cash register collections were counted, prepared for deposit, and locked in the safe at night. However, several employees had access to the safe combination. In addition, the safe was unlocked during the day and located in a common area. Restricting access to the safe reduces the risk of theft.

### **Recommendation 1.6**

We recommend that Fire College management consider restricting access to the safe to one primary employee and one back up. This practice should be incorporated in policy and will assist in assigning responsibility in the event of a discrepancy.

### **Recommendation 1.7**

In addition to the above recommendations, we recommend that Fire College managers, not involved in the Bookstore cashier process, periodically conduct surprise cash counts and



cash register close-outs to determine whether adequate controls continue to be in place. This internal control should be incorporated in policy.

#### **Note: Cash Register Limitations**

At the time of the OIG investigation, the cash register did not have a feature that provided automated receipts to the customer. A receipt was only given to the customer upon request. Automated receipts provide additional evidence to the customer and management in the event of a discrepancy.

Subsequent to the investigation, the Fire College purchased a new Point-of-Sale machine to replace the old cash register. One of the features of the new machine is the ability to provide an automatic customer receipt.

**Management Response:** By March 2010, the recommended procedures in areas of cash handling, segregation of duties, supervisory oversight/approval, and asset safeguarding were in place or being finalized. Desk top procedures are fully functional and in place today. Also, employee training has also been completed for existing staff and new employee training has been developed. Formalized Internal Policies and Procedures will be created and completed by February 1, 2011.

### ***Bookstore Merchandise Inventory***

**Issue 2: Merchandise inventory control weaknesses increase the possibility that Fire College moneys may be used for unauthorized purposes without detection.**

The Bookstore sells textbooks, workbooks, and merchandise, such as T-shirts, sweatshirts, jackets, etc., as a service to Fire College students. Bookstore sales are recorded in the Bookstore cash register. Our review of merchandise inventory controls indicated the following:

- Written policies and procedures for merchandise inventory, purchasing, reporting and accountability were not established. Written policies and

procedures that address internal controls and legal compliance facilitate accountability and good business practices.

- Fire College personnel indicated that annual physical inventories were taken for the fiscal years ending June 30, 2009 and 2010, totaling \$82,592 and \$65,189, respectively. However, there was no evidence of whether the differences in the counts between the two years were supported by purchases and sales, or whether any missing inventory was discovered and investigated. Adequate recordkeeping helps ensure accountability.
- The Fire College reported that written inventory procedures have now been drafted.

### **Recommendation 2**

We recommend that the Fire College finalize its policies and procedures to ensure that merchandise inventory purchases and sales are tracked, and missing items investigated. Periodic quarterly physical inventory counts that are reconciled to inventory purchases and sales would assist in this objective.

**Management Response:** The Fire College is suggesting a comprehensive change in business practices where the bookstore limits book sales and places more emphasis on leased textbooks as requested by our students. This practice, if implemented, would greatly restrict monetary transactions. We continue to draft and refine procedures to address current and anticipated future needs and anticipate formalized Internal Policies and Procedures will be created and completed by March 1, 2011.

### ***Student Enrollment in Fire College***

**Issue 3: The enrollment process should be improved to demonstrate the proper disposition of student fees.**

The Fire College offers firefighter training and educational courses pursuant to Section 69A-37.064, Florida Administrative Code. Prospective students are required to submit a completed course application and acceptable proof of payment before enrolling in any course. Fees collected from students are deposited in the Insurance Regulatory Trust Fund in accordance with Section 633.46, Florida Statutes.

Fire College personnel recorded fee payment information in three recordkeeping systems (the local college system, the Department receipts system, and the Statewide automated accounting system), plus deposited collected fees in a local bank, on a daily basis. Our review of student enrollment procedures indicated that the Fire College did not record information in sufficient detail to demonstrate that an individual student's fees were accurately recorded and deposited, or always provide proof of payments or refunds made. For example:

- Two students appeared to have paid twice for the same course and were owed a refund. From the records provided, however, we were unable to determine if refunds were actually made.
- Occasionally, a student was allowed to defer his course payment until the payment arrived from a third party, such as a County fire-fighting agency. The deferment was originally recorded in the local college record-keeping system as "Letter of Intent," but it was at times unclear from this system whether the "Letter of Intent" was ever closed out because payment had been made, or whether it was still outstanding.

### **Recommendation 3**

Fire College personnel indicated that all student fees are reviewed for payment status, and unpaid obligations investigated. This is accomplished by reviewing subsidiary files. They also indicated that the local college system did not meet the Fire College's

administrative needs. Records should demonstrate up-to-date payments, refunds, and balances owed. The College should consider purchasing a more comprehensive and efficient record-keeping system when resources permit. In the interim, however, the Fire College should document that assessed student fees are reconciled to fee payments.

**Management Response:** To fully resolve this issue, a new contemporary data management system is needed to replace the existing FCDICE system. This replacement will require designated funding to fully implement and may require an incremental process and tiered improvements. Regardless of the methodology the Fire College staff, which has these past 12 months acquired a positive proactive approach to these matters, is committed to resolving any and all issues they may encounter or foresee. In the meantime, Fire College staff will continue to ensure that all student course fees are paid. In addition, documentation will be on file to demonstrate payment of fees.



## **DISTRIBUTION LIST**

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### **Information Distribution:**

This report is distributed, with all exhibits and attachments, to:

Alex Sink, Chief Financial Officer  
Tammy Teston, Chief of Staff  
Julius Halas, Director, Division of State Fire Marshal  
Barry Baker, Chief, Bureau of Fire Standards and Training

### **File:**

The original of the complete report has been placed in the Audit File.

The Department of Financial Services' mission is to safeguard the people of Florida and the State's assets through financial accountability, education and advocacy, fire safety, and enforcement.

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The mission of the Office of Inspector General is to promote integrity, accountability and process improvement in the Department.

The Office of Inspector General's vision is to provide objective fact-based perspectives to the Department team; championed by our customers, benchmarked by our counterparts, and dedicated to quality in our products and services.

This audit was conducted pursuant to Section 20.055, Florida Statutes, in accordance with applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General and the International Standards for the Professional Practice of Internal Auditing as published by Institute of Internal Auditors, Inc. This audit was conducted by Sally Moniz under the supervision of Alan Sands, Audit Director, CPA. Please address inquiries regarding this report to the DFS Office of Inspector General at (850) 413-3112.



REPRESENTING  
**ALEX SINK**  
CHIEF FINANCIAL OFFICER  
STATE FIRE MARSHAL  
STATE OF FLORIDA

November 30, 2010

Robert Clift  
Inspector General  
Office of Chief Financial Officer Alex Sink  
Department of Financial Services  
200 East Gaines Street  
Tallahassee, Florida 32399

Dear Inspector General Clift:

Thank you for the opportunity to respond with comments regarding draft Audit Number 10004. The Fire College also regulates 40 other institutions (colleges, vocational technical sites and fire academies) that teach fire science and compliance programs throughout Florida. Additionally, the Fire College serves as the occupational health manager for Florida's firefighter occupational safety program; comprised of compliance, prevention and investigation practices.

Fire College personnel discovered improper accounting practices and the potential theft of funds at the Fire College in August 2009. We promptly requested the assistance of the Office of the Inspector General. Our management was responsive and transparent in working with your staff during the misconduct investigation and in the ensuing audit of our processes and associated internal controls.

During this time, the newly appointed Bureau Chief, discovered what he described as an institution plagued by a dysfunctional culture, one lacking leadership, where non-adherence to policies, inadequate procedures, favoritism, and general mismanagement was excessive. We recognized that cultural change involved significant leadership adjustments, a new organizational structure, closer alignment with our Division office in Tallahassee, establishing employee expectations, development of core values and employee training should also be captured in the report. These efforts have proved fruitful; resulting in compression of what is traditionally a lengthy cultural change process. The engagement of the Office of Inspector General in this audit has also influenced this transformation and I appreciate and commend those efforts.

As part of our leadership adjustments, we have implemented refined policies and controls upon recommendation of your office, specifically:

Issue 1 – Bookstore Cash Handling

1.1 to 1.6: By March 2010, the recommended procedures in areas of cash handling, segregation of duties, supervisory oversight/approval, and asset safeguarding were in place or being finalized. Desk top procedures are fully functional and in

FLORIDA DEPARTMENT OF FINANCIAL SERVICES  
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#### Issue 2 – Bookstore Merchandise Inventory

The Fire College is suggesting a comprehensive change in business practices where the bookstore limits book sales and places more emphasis on leased textbooks as requested by our students. This practice, if implemented, would greatly restrict monetary transactions. We continue to draft and refine procedures to address current and anticipated future needs and anticipate formalized Internal Policies and Procedures will be created and completed by March 1, 2011.

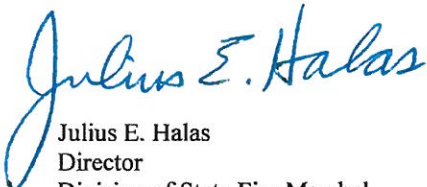
#### Issue 3 – Student Enrollment

To fully resolve this issue, a new contemporary data management system is needed to replace the existing FCDICE system. This replacement will require designated funding to fully implement and may require an incremental process and tiered improvements. Regardless of the methodology the Fire College staff, which has these past 12 months acquired a positive proactive approach to these matters, is committed to resolving any and all issues they may encounter or foresee. In the meantime, Fire College staff will continue to ensure that all student course fees are paid. In addition, documentation will be on file to demonstrate payment of fees.

As discussed in our recent exit interview, the Bureau Chief at the Fire College was a new employee with limited exposure to the Department of Financial Services auditing resources and was initially cautious in requesting your assistance with the matters found at the Fire College. He quickly found that no caution was needed and repeatedly stresses how impressed he was with the assistance received, the professional demeanor of your investigators and the overall process. Therefore, we consider this audit a positive experience and a success story for both our Division and the Department of Financial Services.

Thanks again for helping us make the Florida State Fire College a better place to work, visit and attend.

Sincerely,



Julius E. Halas  
Director  
Division of State Fire Marshal