



Fire and Rescue

Internal Audit

March 2017

Bernalillo County Internal Audit Fire and Rescue

Executive Summary

SUMMARY OF PROCEDURES

REDW performed internal audit procedures over the tracking of Fire and Rescue inventory maintained at the Logistics Warehouse, the Personal Protective Equipment (PPE) site, individual Fire Stations, and Fire and Rescue vehicles.

We performed the following procedures:

- Obtained an understanding of the various processes in place for the ordering and tracking of Fire and Rescue inventory.
- Tested a sample of Fire and Rescue inventory items maintained at the Logistics Warehouse, PPE site, Fire Stations, and Fire and Rescue vehicles, to determine if items were being properly tracked.
- Performed inquiries to determine if there were procedures in place to analyze inventory usage across the various locations where inventory is maintained. We performed analyses to identify unusual occurrences and investigated these items to determine if they were explainable.
- Evaluated the segregation of duties for ordering inventory, tracking inventory, and performing system adjustments within the ENVI system.
- Observed for pharmaceuticals stored at the Fire Stations to determine if these pharmaceuticals were appropriately stored at hub-locations only.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. The Station 38 Rescue unit was very well organized and the inventory was easy to locate and count. Additionally, the ENVI system being utilized to track medical inventory is a very useful tool that has a lot of potential for helping the department track its medical inventory.

As a result of our testing, the following significant high and moderate risk observations were identified:

- 1) ***Unsupported inventory adjustments*** – Adjustments made to the ENVI system inventory were not supported or reviewed. Documentation for adjustments should be maintained and reviewed on a periodic basis.
- 2) ***No process to evaluate unusual inventory usage*** – Inventory usage and ordering by the warehouse and the stations was not analyzed in order to identify unusual activity. The ENVI system reporting tools should be utilized in order to perform regular analysis and investigate unusual trends.
- 3) ***Some inventory was not tracked appropriately*** – Several types of inventory were identified that were not tracked or did not agree to the inventory listing maintained. Current methods for tracking inventory should be re-evaluated and the Department should consider further utilizing the ENVI system when possible.
- 4) ***Process not followed for maintaining required inventory levels*** – The required levels for minimums and maximums on vehicles and in the stations were not consistently followed. The Department should consider providing training at the Stations to better educate individuals on how to maintain the required levels of inventory.

* * * * *

Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

We received excellent cooperation and assistance from the Fire and Rescue Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 25, 2017

Bernalillo County Internal Audit Fire and Rescue

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Bernalillo County Internal Audit Fire and Rescue Inventory Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the processes in place for tracking and maintaining inventory at the Fire and Rescue Department locations. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

An entrance conference was held on March 2, 2017, and fieldwork began the week of March 6, 2017. An exit conference was held on April 5, 2017.

PURPOSE AND OBJECTIVES

Bernalillo County's Fire and Rescue Department oversees the tracking of all Fire and Rescue inventory. The County stores Fire and Rescue inventory at various locations including vehicles. The Fire and Rescue Department is responsible for ordering inventory in order to keep the stations and vehicles stocked. The total expense for medical/pharmaceutical inventory items was approximately \$100,000 annually. Our internal audit was designed to evaluate the processes at each location for maintaining and tracking inventory, including the process for storing pharmaceuticals.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations, we interviewed the following personnel:

- Danny Valenzuela, Logistics Division Chief
- Keith Clark, EMS Division Captain
- David Gonzales, Inventory and Supply Coordinator

In order to gain an understanding of the processes, we read relevant portions of:

- Administrative Instruction No. AD05, Consumable and non-Consumable Inventory
January 18, 2011

We performed the following testwork:

Logistics Warehouse Inventory Tracking: Obtained a listing of each type of inventory located at the Logistics Warehouse. Selected 30 inventory items and tested to determine if the inventory listing accurately reflected the inventory onsite.

Personal Protective Equipment Site Inventory Tracking: Obtained a listing of inventory located at the Personal Protection Equipment (PPE) site. Selected six items and tested to determine if the inventory listing accurately reflected the inventory onsite.

Fire Station Inventory Tracking: Obtained a listing of all County Fire Stations and selected five stations. For each station selected, we tested 100 items to determine if the inventory listing (SharePoint Order Form) accurately reflected the inventory onsite and was between the required minimum and maximum quantities allowed.

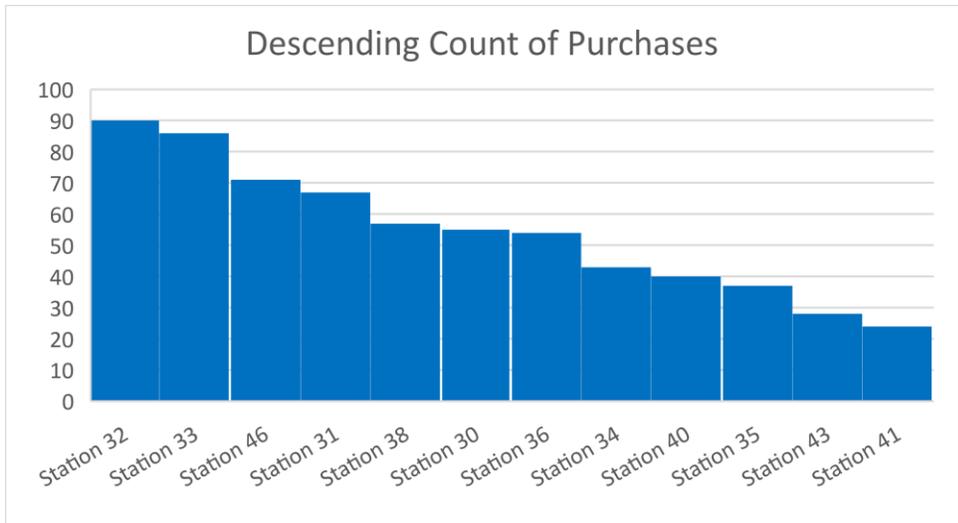
Fire and Rescue Vehicles Inventory Tracking: Selected a sample of nine Fire and Rescue vehicles and tested a sample of 184 items to determine if the inventory maintained on the vehicle agreed to the quantities on the vehicle manifest.

Periodic Inventory Counts: Obtained copies of the most recent annual, periodic, and bi-weekly counts performed for the SAP system and ENVI system inventory items. We tested each of these most recent counts to determine if they were performed timely, appropriately completed and reviewed. Additionally, we tested if variances were documented, and we evaluated inventory adjustments to determine if they were supported.

Storage of Pharmaceuticals: For the five Fire Stations selected above, we tested to determine if pharmaceuticals were appropriately stored and secured at certified hub locations only.

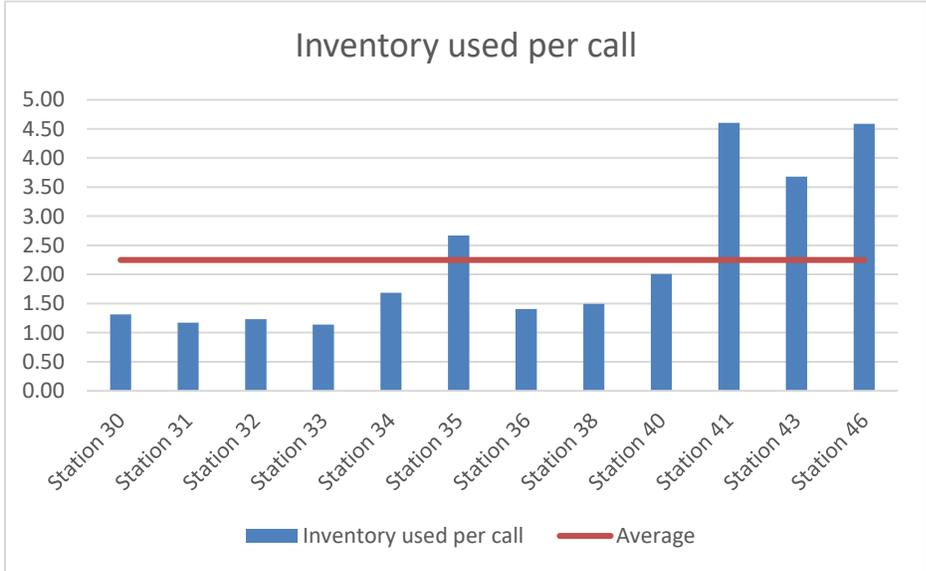
Inventory Usage and Trends: Inquired to determine any procedures that are currently in place to evaluate inventory usage across the Department. Obtained a listing of all inventory items purchased using the ENVI system from November 1, 2016 – January 31, 2017. The timeframe was limited to these three months, as the system had not been in place for a full year as of the time of testing. We performed the following data analyses:

Number of purchases by station – We summarized the total number of inventory line items purchased by Fire Station to determine if any stations appeared to have a high volume of purchases. We discussed the results with the EMS Division Captain who determined that there did not appear to be any unusual activity.



Percentage of total monthly orders by station – We utilized the ENVI inventory report to calculate each stations percentage of total orders by dollar amount to determine if any stations made up an abnormally high number of the Department’s total orders. We discussed the results with the EMS Division Captain who determined that there did not appear to be any unusual activity.

Inventory purchased compared to calls – We analyzed the average inventory used for the period compared to the number of calls responded to by the stations, to determine if the inventory usage appeared reasonable based on the call volume. For any items above the average usage, we inquired with the EMS Division Captain to determine if there were reasonable explanations for the higher usage. We discussed the results with the EMS Division Captain who determined that there did not appear to be any unusual activity.



Pharmaceuticals purchased compared to calls – We analyzed the total number of pharmaceuticals ordered by hub stations for the period, compared to the total number of calls received by the hubs stations, to determine if the pharmaceuticals usage appeared to be reasonable based on the call volume. We discussed the results with the EMS Division Captain who determined that there did not appear to be any unusual activity.

Pharmaceuticals ordered by Hub station – We analyzed the pharmaceuticals with the highest number of orders for the period to determine if the volume of orders appeared to be reasonable. We discussed the results with the EMS Division Captain who determined that there did not appear to be any unusual activity.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

As a result of our testing, REDW identified the following observations:

1) Unsupported inventory adjustments

The ENVI system was set up to allow only certain individuals the access to change inventory levels on hand. Warehouse personnel who were responsible for performing periodic inventory counts also had the ability to adjust inventory levels within the system. There were 15 adjustments made to the ENVI inventory for the three month period tested, totaling approximately \$4,000, which did not have support. Additionally, there was no documentation retained for the ENVI periodic inventory counts.

Potential Risk: Moderate – Without support for adjustments made to inventory there is a risk that inventory discrepancies would not be detected or monitored for reasonableness. Total ENVI inventory purchased for the year was approximately \$100,000.

Recommendation: Documentation should be required for adjustments made to inventory levels (i.e. email, note of documenting the purpose of the adjustment and initials of the individual performing the adjustment). Periodic reviews of the adjustments should be performed to ensure they are supported and reasonable. Documentation of periodic inventory counts should be retained to support the number of items on hand and differences identified.

Management Response: The Logistics Division and EMS Captain will be notified via email of adjustments in the ENVI System, SAP and Target Solutions, which will allow them to review quarterly. This will be implemented now April 13, 2017.

Solution:

- Adjustments that are made will now be edited into the comments section of the ENVI System for pharmaceutical/EMS supplies for consumable items. This will then be sent to Logistics Division & EMS Captain to be logged and noted for accountability records.
- Logistics Division and EMS Captain will receive adjustment notifications and will review discrepancies and/or changes and will approve accordingly.

2) *No process to evaluate unusual inventory usage*

Logistic warehouse personnel have significant access within the ENVI system and transactions are not consistently reviewed and after inventory leaves the warehouse it is no longer tracked. In order to monitor inventory activity, the Fire and Rescue Department should be periodically analyzing usage at each of the stations and at the warehouse. The ENVI system has a wide variety of reporting tools that could be used to identify any unusual or inappropriate trends; however, we identified that there were no procedures being performed.

Potential Risk: Moderate – Without a process to monitor inventory usage there is a higher risk of unusual activity going undetected.

Recommendation: The Fire and Rescue Department should utilize the reporting tools available in the ENVI system to perform a regular analysis of the inventory usage across all stations. Any unusual orders or trends identified should be investigated further. This will help the Fire and Rescue Department determine if stations are being adequately stocked and appropriately using inventory.

Management Response:

Plan A – The Logistics Division, EMS Captain, IT Captain, and Shops Inventory & Supply Coordinators will seek a supporting system that will allow inventory, purchasing and equipment tracking for consumable and non-consumable items. This will take 2 months to evaluate, 6 months to seek approval and purchase and 6 – 12 months to implement the program.

Solution:

- Is to find a supporting system that will consolidate the existing tracking systems that include SAP, ENVI, Target Solutions, ERS, SharePoint Excel and Access into one universal system.

Plan B – The IT Captain and the Logistics Division will integrate Target Solutions for tracking inventory. Time frame is expected to be 6 – 12 months.

Solution:

- Utilize Target Solutions.
 1. Create a form/file through google docs that will accommodate all our fields of inventory, purchases and equipment supplies.
 2. The form will allow uniform personnel to indicate what was used and what supplies need to be replaced.
 3. This will keep uniform personnel accountable for proper use of supplies.
 4. Logistic officers and IT Captain will work on creating a file that will allow a report to be generated where we can match calls run vs. inventory supplies used and identify the discrepancies and changes needed.

Plan C – The Logistics Division, EMS Captain, and Shops Inventory & Supply Coordinators will continue to utilize the ENVI system, which we are implementing now, April 13, 2017.

Solution:

- Currently we will continue to utilize the ENVI system and implement quarterly report analysis.

3) *Some inventory was not tracked appropriately*

Fire and Rescue inventory items are tracked in SAP, the ENVI system, or excel listings at each of the various storage locations. Our testing identified the following inventory items that were not included on the inventory listings:

- Uniforms (approximately 80-100) and used spare bunker gear (38 pairs of pants and 41 jackets),
- Four spare cutoff saws maintained at the Logistics Warehouse,
- Spare ladders, hoses, and pipe poles maintained at the Logistics Warehouse.

Two of six inventory items tested at the PPE site had more inventory on site than what was tracked on the excel listing. Additionally, our testing determined that although pharmaceuticals were being ordered through the ENVI system, they were not properly tracked in the system. Pharmaceuticals on hand agreed to the manual excel listing; however, there is no way to track and validate adjustments made to the Pharmaceuticals based on the manual spreadsheet.

Potential Risk: Moderate – If inventory is not appropriately tracked, items could go missing and may not be detected. Additionally, pharmaceuticals not tracked in a system can be adjusted with no support or review which could cause discrepancies to go undetected.

Recommendation: The Fire and Rescue Department should evaluate the current methods for tracking inventory and determine a consistent process across all locations and types of inventory. This should include utilizing the ENVI system as much as possible, especially for items such as pharmaceuticals. If the inventory cannot be added to the ENVI system, then counts should be performed more frequently to ensure all inventory is properly tracked.

Management Response:

Plan A – The Logistics Division will seek a supporting system to consolidate the existing tracking systems. It will take 2 months to evaluate, 6 months to seek approval and purchase and 6 – 12 months to implement program.

Solution:

- Is to find a supporting system that will consolidate the existing tracking systems that include SAP, ENVI, Target Solutions, ERS, SharePoint Excel and Access into one universal system.

Plan B – The Logistics Division, EMS Captain, and the Logistics Warehouse Specialist will utilize the ENVI System and the Excel program. Expected time frame will be 6 months.

Solution:

- Will be to implement the 2nd phase of the ENVI system to include PPE consumables.
- Generate quarterly reports that indicate adjustments made by administrators sent to FR Logistics, which will also identify discrepancies and changes.

4) Process not followed for maintaining required inventory levels

The Fire Stations have required minimum and maximum levels of inventory that should be maintained at each of the locations. Vehicles have a required quantity of inventory that should be maintained on the appropriate vehicle manifest. Our testing determined that:

- 35 of 100 inventory items selected for testing at Fire Stations exceeded the maximum quantity allowed on site. This approximated \$800 worth of excess inventory for the items tested. This is causing the warehouse to order inventory items that could be reallocated from stations.
- Four of 100 inventory items selected for testing at Fire Stations were under the minimum required. This could cause the station to be unprepared for an emergency situation.
- Six of 184 inventory items selected for testing on vehicles had more items than what was required by the vehicle manifest. Inventory items on vehicle are not tracked past the required quantity.
- 12 of 184 inventory items selected for testing on vehicles had less items than what was required by the vehicle manifest. This could cause the station to be unprepared for an emergency situation.

Potential Risk: Moderate – There is a risk that the warehouse is ordering more inventory than needed which may lead to inventory exceeding maximum limits, which is not tracked, or items maintained past expiration periods.

Recommendation: The Fire and Rescue Department should train individuals at the stations responsible for ordering inventory on the minimum and maximum requirements so that there is no confusion in the amounts allowed to be ordered. The Fire and Rescue Department should consider updating the SharePoint Order Form to include a column for the quantity on hand to better evaluate the quantity needed. Additionally, the Department should consider better organizing inventory located in the supply closets and on vehicles to ensure that items are easy to locate and to identify when additional items are needed.

Management Response: The Logistics Division Chief will oversee the development of a policy for ordering inventory. The implementation will be anticipated in 2 months (expected to be mid-June).

Solution:

- Develop and implement a policy for ordering inventory that will include minimum and maximums and standardize supply closets.
- Updating SharePoint form to include a column for quantity on hand prior to submission of orders.
- Finalization of the vehicle manifest policy.

PROCESS IMPROVEMENT OPPORTUNITIES

1) Policies and Procedures over Inventory tracking

According to Administrative Instruction No. AD 05, each Department or Office should establish internal procedures for maintaining controls around its consumable and non-consumable inventory. Departments should develop and implement procedures for safeguarding and tracking such inventory. The only written procedures related to inventory that are currently in place by the Fire and Rescue Department are for the purchasing process.

Recommendation: The department should consider creating procedures to guide the handling of inventory at each location. The procedures created should include, at a minimum, the following:

- Analysis of inventory usage
- Review of adjustments
- Process for purchasing and receiving inventory
- Process for transferring inventory and delivery to stations
- Types of inventory and how they are tracked
- Process for inventory counts and frequency
- How weekend orders are handled (when warehouse personnel are out)

2) Updates to the SharePoint Order Forms

The SharePoint Order Form is the only method of tracking inventory at each of the stations. There were several instances where the SharePoint Order Form appeared to be outdated:

- Three items had quantities that should be counted in boxes or cases that were on the form as individual items.
- One item needed to be removed from the Pharmaceutical Sharepoint Order Form, as it is no longer being ordered or carried, but still showed a required minimum quantity.
- One item needed to be changed from being only for Main locations to all locations.

Recommendation: If this form is going to continue to be used, rather than tracking inventory at the Stations through a system, the forms should be updated timely to better reflect the inventory that is allowed to be on hand at the stations.

3) Increased physical security at inventory locations

During testing performed it was determined that one location visited may benefit from additional physical security measures that were in place at all other locations.

Recommendation: The department should consider assessing the adequacy of physical security at each location and determining if additional processes need to be put in place to better protect the inventory on hand.

4) *Periodic and Bi-weekly Inventory counts are not performed blind*

The inventory counts performed bi-weekly on SAP and periodically on the ENVI system inventory were performed using a listing indicating the number that should be on hand.

Recommendation: The department should perform these counts “blind”, without the number that should be onsite populated, and do the comparison to the expected number of items after the count is completed. Additionally, the Department should consider creating a process to perform the periodic ENVI counts more consistently.

* * * * *

This report is intended for the information and use of Bernalillo County management, the Audit Committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved minor observations with management and received excellent cooperation and assistance from the Fire and Rescue Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 25, 2017