



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued May 12, 2020

Department of Fire Services

For the period July 1, 2016 through December 31, 2018





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Office of the State Auditor
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Making government work better

May 12, 2020

Mr. Peter Ostroskey, State Fire Marshal
Department of Fire Services
1 State Road
PO Box 1025
Stow, MA 01775

Dear Fire Marshal Ostroskey:

I am pleased to provide this performance audit of the Department of Fire Services. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2016 through December 31, 2018. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Department of Fire Services for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Thomas Turco, Secretary, Executive Office of Public Safety and Security

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LIST OF ABBREVIATIONS

ACL	Audit Command Language
CISM	Critical Incident Stress Management
CMR	Code of Massachusetts Regulations
DFS	Department of Fire Services
GAA	General Appropriations Act
MMARS	Massachusetts Management Accounting and Reporting System
MVTC	Merrimack Valley Training Center
OSA	Office of the State Auditor
OSD	Operational Services Division
SAFE	Student Awareness of Fire Education

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Department of Fire Services (DFS) for the period July 1, 2016 through December 31, 2018. In this performance audit, we examined DFS's inventory process, including new purchases valued at \$1,000 or greater, disposals, and the annual physical inventory report, as well as earmarked funds allocated under DFS's annual state budget.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1a Page 10	DFS did not add new purchases of assets costing more than \$1,000 to its master inventory list.
Finding 1b Page 11	DFS disposed of assets without prior approval from the Operational Services Division.
Finding 1c Page 12	DFS did not verify all assets during physical inventories or complete quarterly inventory reconciliations.
Recommendations Page 13	<ol style="list-style-type: none">1. DFS should provide additional training to the division inventory liaisons regarding procedures for identifying newly purchased assets and adding them to the inventory list.2. DFS should develop and document a plan of action for the disposal process that will ensure compliance with Section 3.03 of Title 802 of the Code of Massachusetts Regulations.3. DFS should conduct a complete physical inspection of its inventory lists annually, verify all its assets, and determine the status of any items it cannot locate.4. DFS should conduct quarterly inventory reconciliations and identify backup employees to conduct this function in case of future vacancies.
Finding 2 Page 14	DFS did not collect appropriate documentation to support expenditures for earmarked funds.
Recommendation Page 14	DFS should develop policies and procedures for the administration of earmarked funds, including the documentation required to ensure that funds are used for their mandated purposes.

OVERVIEW OF AUDITED ENTITY

The Department of Fire Services (DFS) was established under Section 109 of Chapter 151 of the 1996 Massachusetts Acts and Resolves and codified in Section 1 of Chapter 22D of the Massachusetts General Laws establishing DFS and its divisions under the direction of the State Fire Marshal.

DFS is a secretariat agency of the Executive Office of Public Safety and Security. That office is responsible for policy development and budgetary oversight. According to its internal control plan, DFS's mission is as follows:

To provide the citizens of Massachusetts with the ability to create safer communities; to assist and support the fire service community in the protection of life and property; to promote and enhance firefighter safety; and to provide a fire service leadership presence in the Executive Office of Public Safety and Security in order to direct policy and legislation on all fire related matters.

DFS provides training and assistance to fire departments in the Commonwealth. The training is provided by a division of DFS called the Massachusetts Firefighting Academy. DFS provides further assistance to communities through its Hazardous Materials Emergency Response Division, Special Operations Unit, State Police Fire and Explosion Investigation Unit, and Fire Safety Division.

DFS received state appropriations for fiscal years 2017, 2018, and 2019 totaling \$24,336,881, \$26,569,913, and \$29,555,646, respectively. In our audit, we reviewed DFS's annual physical inventory, including new purchases, disposals, and the annual physical inventory report, as well as earmarks appropriated to DFS.

Inventory

DFS's inventory assets are tangible property of the Commonwealth used for daily operations and consequently need to be secured and managed by the organization. DFS conducts annual physical inventory verifications and distributes quarterly reports to reconcile inventory updates, including purchases and disposals.

DFS's "Fixed Asset Policy and Procedures" document describes fixed assets as follows:

Fixed assets are defined in the Comptroller's Acquisition Policy and generally include all land and any buildings, furniture, equipment, and infrastructure with a useful life of more than one year and an original cost of \$1,000 or more.

The Comptroller of the Commonwealth’s “Fixed Assets—Accounting and Management Policy” states,

*There shall be an **annual inventory** taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. . . .*

*There shall be a **reconciliation of the fixed asset inventory** against the books and records maintained by the Department. . . . This reconciliation is to be done, at a minimum, on an annual basis.*

The Operational Services Division (OSD) offers various programs and services for managing Commonwealth property. OSD requires departments to periodically assess their inventories of equipment, supplies, and materials. According to Section 3 of Title 802 of the Code of Massachusetts Regulations,

Agencies must examine their inventories of equipment, supplies and materials . . . periodically, but no less than annually, and report property that is no longer needed to the [State Surplus Property Office]. . . . State agencies may not transfer, donate, destroy or otherwise dispose of property without following [State Surplus Property Office] procedures. . . .

Upon approval by [the State Surplus Property Office], agencies are authorized to destroy property items considered to be worthless.

Earmarked Funds

Annually, the Division of Insurance charges an assessment to insurance companies operating in the Commonwealth to fund the operations of certain state agencies. DFS receives a portion of this, called the Department of Fire Services Administration Assessment, that is intended for the following: operation of the state fire training facilities and curriculum for firefighting personnel; implementation of regulatory requirements; operation of student fire education programs; fire equipment grants; and capital improvements for state fire facilities.

Cities and towns across the Commonwealth receive a portion of these funds as earmarks, within the assessment, for their local fire departments. These funds are to be used in accordance with the specific language found in the General Appropriations Act (GAA), the annual budget of the Commonwealth. To receive earmarked funds, towns and cities present their proposals to their local state representatives about providing funding for fire-department-related expenses. The representatives present the proposals to the Legislature to include in the GAA. Once the GAA is passed, DFS informs cities and towns of the process for receiving reimbursement for their purchases. DFS submits funds to the towns when

their municipal fire departments provide appropriate documentation to prove they have made appropriate purchases.

Additionally, DFS receives earmarked funds for specific programs, such as Student Awareness of Fire Education (SAFE), Critical Incident Stress Management (CISM), and On-Site Academy. These programs are administered by DFS and have been funded each fiscal year in the GAA. The purpose of the SAFE Program is to support fire safety education by providing funds for firefighters in Massachusetts to teach students in schools about fire safety. The CISM Program provides training, counseling, emotional support, and conferences to support firefighters and other public safety personnel in relation to the stresses and difficulties of their jobs. On-Site Academy is a program for public safety personnel who are seeking help for substance use, post-traumatic stress disorder, or other trauma.

During our audit period, earmarks totaled \$5,258,600, \$4,730,000, and \$6,236,000, for fiscal years 2017, 2018, and 2019, respectively.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Department of Fire Services (DFS) for the period July 1, 2016 through December 31, 2018.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer, the conclusion we reached regarding each objective, and where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does DFS properly administer its fixed assets, including the following?	
a. new equipment purchases valued at \$1,000 or greater	No; see Finding 1a
b. disposals	No; see Finding 1b
c. annual physical inventory	No; see Finding 1c
2. Does DFS review supporting documentation to confirm that earmarked funds allocated under its annual state budget appropriation are spent as required?	No; see Finding 2

We gained an understanding of the internal control environment related to our audit objectives by reviewing applicable DFS policies and procedures, as well as making inquiries and observations. In addition, we performed the following procedures to obtain sufficient, appropriate evidence to address our audit objectives.

Sampling Methodology

We used a nonstatistical sampling method for our tests of new equipment purchases, disposal of assets, and community earmarks. As a result, we cannot project the results of our testing to the entire population. In addition, we used a statistical sampling method for our test of DFS programs, with our

population stratified (separated) into the following populations: Critical Incident Stress Management (CISM) Program, Student Awareness of Fire Education (SAFE) Program, and On-Site Academy earmarks. Because we stratified the population into three groups to test the programs individually, we decided not to project the results of our testing to the entire population.

Inventory Purchases

For new equipment purchases valued at or above \$1,000, we obtained a list of all DFS cash expenditures from the Massachusetts Management Accounting and Reporting System (MMARS) for our audit period. We filtered the data to include only equipment-related expenditures of \$1,000 or more. Using a nonstatistical sampling method and Audit Command Language (ACL) software, we selected a random sample of 40 out of 254 equipment purchases of \$1,000 or more. We obtained evidence, including an inventory card/form and invoice/s, and physically verified the existence of each asset and tag. For each expenditure, we verified DFS's compliance with its "Fixed Asset Policy and Procedures" for assets over \$1,000—specifically, whether each purchase was required to be on the inventory, whether the inventory card/form was completed for each asset, whether each asset appeared on the inventory list, and whether each asset had an asset tag or an engraved asset number.

After conducting our initial testing of 40 new equipment purchases of \$1,000 or more, we determined that 29 expenditures sampled were not new equipment purchases, but rather betterments¹ or expense corrections² to accounting records. We filtered out any betterments or expense corrections and created a new subpopulation of 54 from the original population of 254. Using a nonstatistical sampling method, we judgmentally sampled an additional 20 out of the subpopulation of 54, for which we collected the same evidence to conduct the test.

Inventory Disposals

For assets that had been disposed of, we obtained a list of all the assets that were in DFS's possession during our audit period from the inventory tracking database IntelliTrack. Using a nonstatistical sampling method and ACL, we selected a random sample of 40 assets out of a population of 267 that had been disposed of. To conduct testing, we requested evidence from DFS and the Operational Services Division

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1. Betterments occur when assets are improved by a department. For example, DFS has a fleet of trucks, which sometimes need improvements or new equipment that increase their value and useful life.
 2. Expense corrections occur when an accounting department needs to put an expenditure in a different category from the one that was originally entered.

(OSD), including OSD Form 25s³ submitted by DFS to OSD; a list of surplus assets sent to the designated OSD employee (the State Surplus Property Officer); and emails between DFS and OSD regarding confirmation of asset disposal. We reviewed the evidence provided to confirm compliance with DFS's "Fixed Asset Policy and Procedures"—specifically, whether each asset had an OSD Form 25 submitted by DFS, whether each asset was on the list of surplus assets sent to the State Surplus Property Officer, whether OSD approved disposal of each asset, and whether the date that the asset was listed as disposed of in IntelliTrack was on or after the date of OSD's approval.

Annual Physical Inventory

We reviewed the list of current assets to determine whether each asset had been verified⁴ during physical inventory in fiscal year 2018. We reviewed the list to determine whether any lost or stolen assets on the inventory report were reported to OSA as required by Chapter 647 of the Acts of 1989. Additionally, we obtained and reviewed all quarterly inventory reports from the audit period, and emails from division inventory liaisons to the director of capital asset management regarding changes to division inventory, to confirm compliance with DFS's "Fixed Asset Policy and Procedures."

Earmarked Funds

We tested earmarked funds allocated under DFS's annual appropriation to ensure that appropriate supporting documentation, such as statements of work, invoices, receipts, or budget forms, existed for expenditures made with earmarked funds. For our tests, we created populations of earmark-related expenditures, including funds allocated for communities, the CISM and SAFE Programs, and On-Site Academy. We created one test for earmarked funds disbursed to communities and one test for earmarked funds allocated to DFS-specific programs, including the CISM and SAFE Programs and On-Site Academy.

Community Earmarks

We obtained a list of all DFS cash expenditures from MMARS during our audit period. For the community earmark test, we filtered the data to include only expenses related to disbursements to communities out of the earmarked funds. We selected a nonstatistical random sample, using ACL, of 20

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3. OSD Form 25 is officially titled "Declaration of Surplus Property." State agencies use it to inform OSD that they intend to dispose of an asset that is no longer of use.
 4. State agencies verify that assets are in their possession by physically locating them and confirming that information in their inventory lists is accurate.

from the population of 64. DFS provided us with a Commonwealth of Massachusetts Standard Contract, purchase requisition, and backup documentation, including invoices, receipts, spreadsheets documenting purchases, and letters from municipal officials attesting to purchases. We reviewed the documentation provided to confirm the following: that a Commonwealth of Massachusetts Standard Contract existed and was signed with the proper approval signatures, that a purchase requisition was completed, and that backup documentation was completed.

DFS Programs: CISM and SAFE Programs and On-Site Academy

Using the same list of all DFS cash expenditures from our audit period, we filtered the data to reflect only expenses related to disbursement of earmarked funds for the CISM Program, SAFE Program, and On-Site Academy. We selected a statistical random sample of 60 using ACL, from a total population of 1,069, with a confidence level of 95% and a tolerable error rate of 5%. We stratified the population to capture expenditures for the CISM Program, the SAFE Program, and On-Site Academy individually. Using ACL, we randomly sampled 2 expenditures from a population of 46 for the CISM Program, 56 expenditures from a population of 993 for the SAFE Program, and 2 expenditures from a population of 30 for On-Site Academy.

DFS provided us with a Commonwealth of Massachusetts Standard Contract, a purchase requisition, and backup documentation so that we could perform testing of earmarked funds for the CISM Program, the SAFE Program, and On-Site Academy. We reviewed the documentation to confirm that a Commonwealth of Massachusetts Standard Contract with the proper approval signatures existed, that a purchase requisition was completed, and that backup documentation was completed. Backup documentation for On-Site Academy included invoices and reimbursement requests. Backup documentation for the CISM Program included completed reimbursement request forms from CISM Program teams, receipts and invoices for CISM Program team expenditures, invoices for training held by Merrimack Valley Training Center (MVTC), the list of approved training for MVTC, speakers' resumes and potential speaker topics, completed Engagement Confirmation Forms, completed Employment Status Forms, completed Response Evaluations, and speakers' invoices. Backup documentation for the SAFE Program included completed grant applications; completed DFS checklists; award letters sent to district legislators, the Governor, and recipients of SAFE Program earmarked funds; extension forms; completed year-end reports; and invoice/reimbursement requests.

Data Reliability Assessment

In 2018, OSA conducted a data reliability assessment of MMARS for the period April 1, 2017 through March 31, 2018. This assessment focused on reviewing selected system controls, including access, security awareness, auditing and accountability, configuration management, identification, authentication, and personnel security.

In our current audit, we reviewed certain general information controls, including automated control testing, access controls, security training, and personnel screening, over IntelliTrack and MMARS to determine the reliability of the data therein. In addition, for the list of assets from IntelliTrack, we performed data integrity tests to identify any blank fields and duplicate records for our audit period. We tested for completeness and appropriateness of the IntelliTrack list and MMARS expense data. We determined that the data from IntelliTrack and MMARS were sufficiently reliable for our audit purposes.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Department of Fire Services did not administer its fixed assets in accordance with its policies and state regulations.

The Department of Fire Services (DFS) did not administer its fixed assets in accordance with its policies and state regulations. Specifically, DFS did not add newly purchased assets to its master inventory list, dispose of assets in accordance with Section 3 of Title 802 of the Code of Massachusetts Regulations (CMR), or conduct a complete physical inventory.

a. DFS did not add new purchases of assets costing more than \$1,000 to its master inventory list.

During our test of new asset purchases, we identified assets that were not added to DFS's master inventory list. Specifically, 8 of 31 assets tested, with a total value of approximately \$53,400, had not been tagged and added to the list. This could lead to unknown losses of assets, as well as duplicate purchases.

Authoritative Guidance

DFS's "Fixed Asset Policy and Procedures" document states,

Fixed asset inventory records shall be kept on a perpetual basis utilizing IntelliTrack software, or other future inventory software as may be acquired by DFS. Perpetual inventory means any additions, deletions, or transfers are recorded as they occur and all transaction records shall be retained in the system indefinitely.

Reason for Issue

Currently the responsibility of inventorying new assets falls on the division inventory liaisons at DFS. According to DFS personnel,⁵ there has been a lack of consistent training regarding the process for completing the inventory card/form and notifying the director of capital asset management to add newly purchased assets to the inventory list.

Auditee's Response

The Department of Fire Services will deliver improved staff training to emphasize the roles and responsibilities of each division inventory liaison in maintaining and

5. We conducted individual meetings with all the inventory liaisons at DFS; several liaisons stated that the training was not held consistently or that they wanted it to be more frequent.

safeguarding the property under their control, as well as their responsibility to expeditiously add new purchases to inventory. Additionally, divisions with custody of significant volumes of property across multiple locations will be required to identify multiple inventory liaisons to manage inventory. The Department of Fire Services will also modify its inventory policies and procedures to incorporate a division inventory liaison attestation on every packing slip as a means to ensure inventory processing has been performed.

Auditor's Reply

Based on the above response, DFS is taking measures to address our concerns about the addition of new purchased assets to its master inventory list.

b. DFS disposed of assets without prior approval from the Operational Services Division.

DFS disposed of assets without prior approval by the Operational Services Division (OSD). We reviewed 40 assets whose status in IntelliTrack was "disposed" and determined that DFS had disposed of 22 of them before OSD approved the disposal. This practice could result in disposal of assets that could still be of use to OSD or other state agencies.

Authoritative Guidance

The regulation 802 CMR 3.03 states,

The disposal of all surplus, salvage, scrap, and worthless property must be coordinated through the [State Surplus Property Office]. State agencies may not transfer, donate, destroy or otherwise dispose of property without following [State Surplus Property Office] procedures. Agencies must advise [the State Surplus Property Office] of all items which are of no further use to them.

Reasons for Issue

The DFS director of administrative services and director of capital asset management stated that, contrary to DFS policy, the employee assigned to disposal of assets did so without first obtaining OSD approval.

Auditee's Response

In June, 2019, the Department of Fire Services issued a moratorium on the disposal of assets until such time as revised policy and procedures could be developed. In August, 2019, the Department of Fire Services issued a new policy on the surplus of assets. The new policy segregates duties to ensure inventory disposal approvals are performed in

accordance with OSD regulations; establishes a schedule for submitting internal property surplus requests; mandates OSD approval prior to disposal; mandates that the recipient of transferred surplus property shall provide written receipt acknowledgement; and ensures reconciliation of OSD approvals with the DFS internal inventory database. The Department of Fire Services will incorporate additional training on these procedures during its annual inventory training.

Auditor's Reply

Based on the above response, DFS is taking measures to address our concerns about the inventory disposal process.

c. DFS did not verify all assets during physical inventories or complete quarterly inventory reconciliations.

DFS did not verify all assets from its inventory list during its annual physical inventory and did not complete quarterly inventory reconciliations. We identified 91 assets, with a value of approximately \$422,000, that DFS did not verify during the 2018 annual physical inventory. In addition, DFS did not send quarterly inventory reports to the inventory liaisons confirming the status of inventory purchases and disposals for the second, third, or fourth quarters of fiscal year 2018. Not verifying all assets from inventory lists could lead to fraud and/or lost assets, and replacing them could cause DFS to incur additional expenses. In addition, a lack of accurate inventory reconciliations could result in inaccurate inventory lists, which may lead to duplicate purchases and improper disposal of assets.

Authoritative Guidance

DFS's "Fixed Asset Policy and Procedures" document states,

The Capital Asset Management Division shall ensure that a physical inventory of ALL DFS assets is taken by June 30th of each year. . . .

The director of Capital Asset Management will issue a quarterly report to each division with a summary of inventory changes that have been reported by division liaisons to the warehouse supervisor. It is the responsibility of the division director to review these quarterly reports and ensure his/her division has properly reported all items to the warehouse supervisor and to reconcile the accuracy of the inventory listing and entries done by the warehouse supervisor. The reconciliation will be reviewed and verified by each division director or liaison.

The Comptroller of the Commonwealth's "Fixed Assets—Accounting and Management Policy" states,

*There shall be an **annual inventory** taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department.*

Reasons for Issue

According to the director of capital asset management, DFS did not conduct a complete physical inspection of its inventory asset list for fiscal year 2018 because of recordkeeping issues. Some of the missing assets were found later, during the annual inventory in fiscal year 2019.

In addition, the director of administrative services stated that there was a period when the quarterly inventory reconciliations were not completed, and therefore quarterly reports were not sent, because vacant positions were not filled.

Recommendations

1. DFS should provide additional training to the division inventory liaisons regarding procedures for identifying newly purchased assets and adding them to the inventory list.
2. DFS should develop and document a plan of action for the disposal process that will ensure compliance with 802 CMR 3.03.
3. DFS should conduct a complete physical inspection of its inventory lists annually, verify all its assets, and determine the status of any items it cannot locate.
4. DFS should conduct quarterly inventory reconciliations and identify backup employees to conduct this function in case of future vacancies.

Auditee's Response

While DFS has consistently performed an annual physical inventory, it recognizes that recordkeeping and the reconciliation of the annual physical inventory need improvement. The Director of Capital Asset Management will ensure that a complete physical inventory inspection is performed annually and will allocate the necessary resources to ensure the inventory records are updated accurately and in a timely manner. Additionally, the Director of Capital Asset Management will identify and train additional staff to serve as a back-up to the Warehouse Supervisor to ensure that inventory reports and reconciliations are performed in a timely manner.

Auditor's Reply

Based on the above response, DFS is taking measures to address our concerns about conducting an annual physical inventory and quarterly inventory reconciliations.

2. DFS did not collect appropriate documentation to support expenditures for earmarked funds.

DFS did not collect appropriate documentation to support expenditures for earmarked funds. Out of 20 communities we tested, 6 did not have supporting documentation for earmarked fund reimbursements. These reimbursements totaled approximately \$75,000 for our audit period. In addition, DFS did not have supporting documentation for the expenditures related to 9 Student Awareness of Fire Education (SAFE) Program grants, out of 56 that we tested, totaling approximately \$32,000 for the audit period. Without adequate supporting documentation, DFS administrators cannot ensure that disbursed funds are used for their mandated purposes.

Authoritative Guidance

DFS's chief financial officer and director of administrative services told us in an interview that to be reimbursed, communities must provide the director of operations with good supporting documentation, including invoices, packing slips, etc.

Additionally, as a condition of receiving SAFE Program grants, cities and towns are required to provide the following documentation to DFS: a Year End Narrative Report, a completed Year End School Activity Worksheet, a Year End Community Report, a Student and Instructor Evaluation Report including evaluation results, and a Budget Page signed by the chief of the department.

Reason for Issues

The director of administrative services stated that there are no specific, documented policies, procedures, or controls regarding earmarked funds.

Recommendation

DFS should develop policies and procedures for the administration of earmarked funds, including the documentation required to ensure that funds are used for their mandated purposes.

Auditee's Response

While the Department of Fire Services has financial policies and procedures, as well as control measures, which preclude the potential for waste, abuse or fraud, it recognizes that it has no specific policies and procedures related to the issuance of grants and associated grant expenditures. The Department of Fire Services will develop grant policies and procedures to ensure that grant awards are used for authorized purposes. These policies and procedures will

include a consistent process for the submission and review of reimbursement requests, as well as ensuring a percentage of randomized site visits to perform financial reviews of recipient records and verification of programmatic activities associated with the grant.

Auditor's Reply

Based on the response above, DFS is taking measures to address our concerns about the administration of earmarked funds.