

# False Fire Alarm Audit AU2018-2

April 23, 2018 Prepared by the City Of Galveston Auditor's Office.

City Auditor: Glenn Bulgherini, CPA  
Internal Auditor: Carrie Sumrall, CFE, CICA



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# False Fire Alarm Summary

Performed by the City Of Galveston City Auditor's Office

## What We Found

- Inconsistencies between the Fire and Police False Alarm ordinances.
- The Fire Department does not charge an annual permit fee for Fire Alarm sites within the City of Galveston.
- The City does not have penalties for expired Fire Permits.
- In several instances the False Fire Alarm fees are billed in a different budget year than the revenue is actually collected.
- The department heads are not made aware of past due invoices on a timely basis.

## What We Recommend

- Charging an annual permit fee for Non-Residential alarm sites.
- Impose a penalty on expired permits and past due payments.
- Post revenue the year the payment is received.
- Write Standard Operating Procedures for Accounts Receivable past due for over a year.



## Opportunity for Improvement

We observed two (2) Opportunities for Improvement during our testing of the billing and collection process of the False Alarm ordinance.

### Opportunity 1

Revise the False Fire Alarm Ordinance to include an annual permit fee (suggested \$25), penalties for late payment, non-payment and expired permit fees, and create consistency between the Fire and Police Department ordinances.

### Recommendation

1. The Fire Departments receives revenue from two (2) different types of permit fees.
  - a) Operational Permits allow the applicant to conduct an operation of a business for which a permit is required by the International Fire Code (IFC). The Permit shall remain in effect until reissued, renewed, revoked, or for such a period of time as specified in the permit. An Example of an Operational Permit is ASSEMBLY-A: Place of Assembly of occupancy greater than 1,000.
  - b) Construction Permits allow the applicant to install or modify systems and equipment for which a permit is required by the International Fire Code (IFC). The permit shall automatically become invalid unless the work authorized by such permit is commenced within 180 days after its issuance or if the work authorized by such permit is suspended or abandoned for a period of 180 days after the time the work is commenced. An example of a Construction Permit is EXPLOSIVE-2: Explosive Materials Transport.

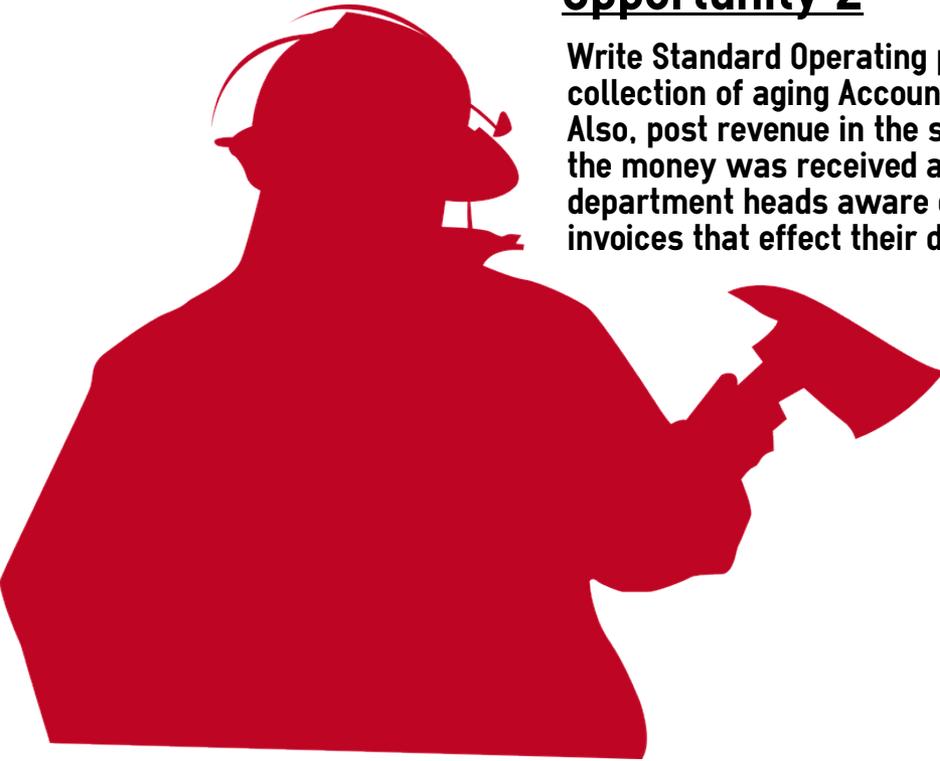
In 2017, The Fire Department received approximately \$100,000 in permit fee revenue. This amount includes Operational and Construction permits. The Operational Permit fees were \$39,000. The remaining approximate \$61,000 were Construction Permits. The City Auditor's office recommends an amendment to the Fire Department Permit Fee ordinance to include an annual \$25 permit fee to Non-Residential alarm sites. A conservative estimate on revenue from a \$25 Non-Residential permit fee is \$12,500 annually. This would increase the annual permit fee revenue by 32%.

2. The Fire Departments ordinance should include penalties for late payments, non-payments, and unpaid expired permit fees.
3. Evaluate the Fire Department and Police Department ordinances to make them consistent.



## Opportunity 2

Write Standard Operating procedures for the collection of aging Accounts Receivable. Also, post revenue in the same budget year the money was received and make department heads aware of past due invoices that effect their departments.



## Recommendation

1. Write Standard Operating Procedures specifically for the collections of Accounts Receivables past due over a year. The False Fire Alarm accounts receivable has invoices unpaid from 2012.
2. Currently, the City uses the modified accrual basis of accounting for billing of the False Fire Alarms. The billing code posts directly to the revenue account in the current budget year. Unfortunately in many cases, the actual money is not received within the current budget year. The City Auditor's office recommends using a deferred account and post revenue when the money is received. This will make the process transparent.
3. Send out monthly Accounts Receivable Statements to Department Heads. The Department should be made aware of past due accounts receivables that effect their department.

We believe our recommendations will help strengthen the internal controls and processes of the Fire and Finance Department.

## **Scope**

The audit scope included aging accounts receivable and permits issued during the period FY 2012-17.



## **Objective**

The objective of this report is to determine if current internal controls for the billing and collection of False Fire Alarms are adequate.

## **Methodology**

We analyzed and tested data flow to evaluate whether proper controls were in place. We interviewed key staff with the Fire Department and Finance Department to get a better understanding of the current internal controls. We also reviewed supporting documentation from Finance, the Fire Department, and the City's ordinances pertaining to False Alarms.

## **Background**

The mission of the Fire Department is to protect lives, property, and the environment with the highest level of service. The Fire Department accomplishes this through: Fire Prevention, Public Education, Firefighter Safety, Fire and Rescues Operations, Emergency Medical First Response, and Disaster Management.

## **Staff Conduct**

All staff acted in a professional and timely manner.

## **City Manager's Response**

The Manager completed his review of the Fire Alarm Audit and is in agreement with the findings and recommendations. Specifically, all alarm permit requirements should be consistently applied and annual fees should be required and collected.

The Fire Department has sufficient administrative and support staff to implement the audit recommendations. The Department will be directed to review and provide recommendations for requisite ordinance changes to address the Report's findings and conclusions. Recommendations will be reviewed by the Manager and added to a future Council agenda for consideration prior to the FY end.



# Galveston Fire Department

## MEMORANDUM

To: Glenn Bulgherini, City Auditor  
From: Fire Chief Mike Wisko *MW*  
Date: 05-01-18  
Re: False Fire Alarm Audit

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Upon review of the Auditor's report with the Fire Marshal, I agree with the findings. In regards to the recommendations, I have concerns with the practicality and enforceability of suggested changes as presented.

In most cases, fire alarms are part of the security alarms. They are both part of a single system, installed and monitored by a single alarm company. The requirement of an annual fire alarm fee could be viewed as a double fee. Currently, the property owner is paying an alarm permit fee through the Police Department. ***I suggest increasing the alarm permit fee already in place, splitting the single fee 50/50 to address the fire alarm side of the system in lieu of two separate fees.***

As for the communications between Finance and Fire Marshal's office, the current staffing of the Fire Marshal's Office would not be able to manage the responsibility for collection of overdue payments without having an adverse effect of fire inspections, plan reviews, public education and prompt customer service. ***I suggest the addition of one clerical staff who could take on several aspects of the current operation and the collection of overdue permit fees.***

I appreciate the review and identification of our pitfalls. This was an excellent opportunity for us to review all aspects of our current business model in the Fire Marshal's office and Ms. Sumrall was extremely professional and helpful during this review.





# City of Galveston

**Finance Department**  
PO Box 779 | Galveston, TX 77553-0779  
| 409-797-3562

April 25, 2018

To: Michael Loftin – Assistant City Manger  
Tammy Jacobs – Assistant Finance Director

From: Debbie Jordan – Accounting Manager

Re: Internal Audit – False Alarms

## **Findings and Solutions:**

### **Item #4:**

**Finding:** The RESP code currently posts directly to a revenue account regardless of whether the payment has been received or not. This could potentially cause an overstatement of revenues if the payments are not received.

**Solution:** A new deferred revenue account has been established and the RESP accounts receivable code will be mapped to the new account. Revenues will then be recognized on a monthly basis as payments are received.

### **Item #5:**

**Finding:** Currently there is no policy for the collection of past due accounts receivable.

**Solution:** The Accounting Manager will draft an accounts receivable collections policy for approval. The policy will include instructions for the turning the past due accounts over to the legal department and/or collection agency for assistance in collection past due accounts. In addition, the policy will include a write-off policy for past due accounts. Target completion date is May 31, 2018.

### **Item #6:**

**Finding:** The internal audit finding states that the departments are not aware of past due balances.

**Solution:** The Accounting Specialist sends out an aging report to the departments each month. However, this aging report does not include the detail of invoices outstanding. Therefore, going forward, a detailed listing of open invoices will be included with the aging report. The policy referenced in item #5 will address (1) Departments assisting with collections and (2) Subsequent collection efforts will be elevated to the City Attorney's Office.





# City of Galveston

## Finance Department

PO Box 779 | Galveston, TX 77553-0779  
| 409-797-3562

### Item #7:

**Finding:** The Finance Department has been inefficient with the collection of aging receivables.

**Solution:** See item #6 regarding collection procedures. In addition, the Finance team will specifically collaborate with the Fire Department on the collection of aged receivables pertaining to False Alarm invoices. These invoices will be printed on the Fire Department's letterhead.

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Debbie Jordan  
Accounting Manager

