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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

594-52200-10

REPORT DIGEST

**OFFICE OF THE STATE FIRE MARSHAL
FINANCIAL AND COMPLIANCE AUDIT
(In accordance with the Single Audit Act of 1984
and OMB Circular A-128)
For the Two Years Ended June 30, 1994**

SYNOPSIS

- Our auditors were unable to express an opinion on the Agency's financial statements due to inadequate accounts receivable records.
- The Fire Prevention Fund, the Agency's major revenue source, had insufficient revenue to meet estimated expenditures.
- Accounts receivable for the underground storage tank registration program are not adequately supported by Agency records and reports. This condition has existed since 1990.
- Critical computer systems were developed without the use of a structured methodology and are poorly documented.
- Improper designation of headquarters resulted in excess travel expenditures.
- Controls were lacking to ensure that federal grant reports were complete, accurate, and submitted timely.

{Expenditures and Activity Measures are summarized on the reverse page.}

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RECYCLED PAPER · SOYBEAN INKS

OFFICE OF THE STATE FIRE MARSHAL
FINANCIAL COMPLIANCE AUDIT
For The Two Years Ended June 30, 1994

EXPENDITURE STATISTICS	FY 1994	FY 1993	FY 1992
● Total Expenditures (All Funds)	\$13,790,837	\$12,415,746	\$11,173,904
<u>OPERATIONS TOTAL</u>	\$10,435,207	\$9,338,396	\$8,165,997
% of Total Expenditures	76%	75%	73%
Personal Services	\$5,994,085	\$5,325,213	\$4,749,874
% of Operations Expenditures	57%	57%	58%
Average No. of Employees	183	174	166
Other Payroll Costs (FICA, Retirement)	\$1,712,692	\$1,596,249	\$1,128,081
% of Operations Expenditures	16%	17%	14%
Contractual Services	\$576,699	\$593,887	\$607,522
% of Operations Expenditures	6%	6%	7%
All Other Operations Items	\$2,151,731	\$1,823,047	\$1,680,520
% of Operations Expenditures	21%	20%	21%
<u>GRANTS AND REFUNDS TOTAL</u>	\$3,355,630	\$3,077,350	\$3,007,907
% of Total Expenditures	24%	25%	27%
● Cost of Property and Equipment	\$2,819,040	\$2,319,562	\$1,970,781

SELECTED ACTIVITY MEASURES	FY 1994	FY 1993	FY 1992
● Statewide Arson Investigations	1,132	945	1,088
● Boiler and Pressure Vessel Safety Inspections	40,957	44,030	47,623
(By State Inspectors)	(14,485)	(15,169)	(17,412)
(By Insurance Inspectors)	(26,472)	(28,861)	(30,211)
● Fire Prevention Inspections	34,160	30,699	28,705
● Underground Tank Inspections	6,699	5,922	3,929

AGENCY DIRECTOR(S)
During Audit Period: Thomas L. Armstead Currently: Thomas L. Armstead

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE FUNDING

The Fire Prevention Fund (Fund 047) had insufficient revenue to meet the estimated expenditures of the Agency.

The Fire Prevention Fund is the major source of revenue for the operation of the Office of the State Fire Marshal. At the close of our fieldwork in October, 1994, our auditors noted that Fiscal Year 1995 Fund appropriations will exceed estimated Fund revenue by over \$4 million, or about 30 percent of total Agency appropriations. The Fund was projected to be depleted in 1995, which would severely impact the ability of the Office of the State Fire Marshal to carry out its missions.

The Fund's balance has been on a downward trend. In the last five years, June 30 balances have ranged from a high of \$15.6 million in 1990 to a low of \$6.5 million in 1994. Five million of the decrease resulted from funds transferred to the General Revenue Fund in Fiscal Year 1991. Other decreases were due to: a) a decline of \$700,000 in Fiscal Year 1994 revenues because of a change in the method of computing premiums subject to the fire risk premium tax; b) an estimated \$120,000 decrease in fee and license revenue; and c) other users of the Fund (the Fire Service Institute and the Chicago Fire Department) exceeded their share of the Fund by more than \$520,000.

The Agency has identified potential increases in revenue, including insurance taxing changes, user fees, and possible General Revenue funding. However, the Agency may also need to adjust short and long-term operating strategies to cope with reduced resources.

We recommended the State Fire Marshal pursue the changes necessary to balance revenue and expenditures. (Finding #1, page 9)

The Agency accepted this finding and had begun implementation.

INADEQUATE ACCOUNTS RECEIVABLE RECORDS

Accounts receivable for the underground storage tank registration program is not adequately supported by Agency records and reports.

The accounts receivable balance at June 30, 1994 was about \$1.7 million, of which over \$1.1 million, or 67 percent, was over one-year old. The Agency recently began rebilling part of these overdue accounts. However, no determination of the collectability of these accounts could be made.

About 56,000 underground tanks are registered with associated fees of either \$100 or \$500. At June 30, 1994 there was an unprocessed backlog of over 8,000 files for which the Agency has received \$238,600 in fees for which no billings had been sent. This money is placed in suspense until personnel can check files and generate invoices. It is not counted as

part of the accounts receivable balance.

Reconciliation of accounts receivable to monthly transactions has not been performed by the Agency and computer printouts for prior periods could not be generated. As a result, auditors were unable to satisfy themselves about accounts receivable which led to a disclaimer of an opinion on the Agency's financial statements.

We recommended that the Agency allocate sufficient staff and resources to the collection of accounts receivable, the elimination of the backlog, and the development of policies to ensure regular review, reconciliation, and rebilling. (Finding #2, page 11) **This finding has been repeated since 1990.**

The Agency is in agreement with the finding and recommendation. (For previous agency responses, see Digest Footnote 1.)

COMPUTER SYSTEMS ARE POORLY DOCUMENTED

Two critical computer systems, the Storage Tank Control System and the Boiler & Pressure Vessel Safety System, were developed without the use of a structured methodology or written standards. Computer systems developed without a structured methodology or written standards may not meet intended Agency objectives or may have insufficient controls. The Storage Tank Control System had virtually no supporting documentation which may hamper the Agency's ability to make required modifications to the system. The Agency is at risk because of the potential reliance on a single vendor that is knowledgeable of the system.

We recommended the Office of the Fire Marshal establish application systems development standards and structured system development methodologies. (Finding #3, page 16)

The Office of the State Fire Marshal accepted the finding and stated they will renew efforts accordingly.

IMPROPER DESIGNATION OF HEADQUARTERS

The Office of the State Fire Marshal improperly designated the headquarters for one employee as Springfield instead of Chicago. The employee, a division head, spent approximately 60 percent of his time in Chicago on travel status and about 20 percent of his time at his designated headquarters in Springfield. The remaining time was spent on travel status at locations other than Chicago or Springfield. In Fiscal Years 1993 and 1994, \$12,450 in travel expenses would have been saved if Chicago had been the designated headquarters (\$5,780 in FY 1993 and \$6,670 in FY 1994). The Agency changed the employee's headquarters designation after this was brought to their attention.

We recommended that Agency management monitor headquarter designations and file appropriate travel headquarters forms with the Legislative Audit Commission on a timely basis. (Finding #5, page 22)

The State Fire Marshal accepted the finding.

FEDERAL GRANT REPORTS FILED LATE

The State Fire Marshal did not have controls in place to ensure that federal grant reports were complete, accurate, and submitted timely. As a result, \$24,747 of costs incurred in October and November were charged to a grant closed in September, thus overstating the federal share.

We recommended that the Agency implement proper control procedures. (Finding #18, page 135)

The Agency accepts the finding and states it is moving to an accrual system of accounting which will eliminate the situation described in the finding.

OTHER FINDINGS

Our report contained nine additional compliance findings. We will review the Department's progress toward the implementation of our recommendations in our next audit.

Mr. Kent Hill, Manager, Division of Management Services, provided the agency's responses.

AUDITORS' OPINION

Our auditors do not express an opinion on the financial statements for the two years ended June 30, 1994. Accounts receivable, which materially affect the determination of financial positions and results of operations as of June 30, 1994 and 1993, were inadequately supported, and the scope of work undertaken was not sufficient to enable our auditors to express an opinion.



WILLIAM G. HOLLAND, Auditor General

WGH:KMC:pp
May 4, 1995

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit Findings	14	9
Repeated Audit Findings	2	5
Prior Recommendations Implemented or not Repeated	7	10

SPECIAL ASSISTANT AUDITORS

McGreal, Johnson and McGreal were our special assistant auditors for this audit.

DIGEST FOOTNOTES

#1: INADEQUATE ACCOUNTS RECEIVABLE RECORDS - Previous Agency Responses.

- 1994: "The Agency is in agreement with this finding and recommendation. The Agency is using the recommendation to serve as a checklist of deficiencies to be corrected in this system." (Response then details background and outlines correction strategies.)
- 1992: "The Agency accepts this finding. The Agency is taking steps to eliminate the backlog in order that the accounts receivable can be reviewed on a regular basis. The Agency is also investigating means to streamline the audit trail and the process of entering receipts."
- 1990: "The Agency accepts this finding...
"The Agency takes this finding seriously and has begun compliance with the items noted in the recommendation..."