Department of Commerce

State Fire Marshal - Code Enforcement Audit

Audit Period: July 2011 through April 2012

Results Summary:

Objective	Conclusion
Monitoring and Inspection Process	**Improvement Needed**
Permit and License Issuance	**Improvement Needed**

Report number: 2012-COM-02   **Issuance date: June 21, 2012**

Executive Summary

Background

The Ohio Department of Commerce (COM), Division of State Fire Marshal (SFM) is responsible for modernizing, promulgating and enforcing the Ohio Fire Code; designing and presenting fire prevention programs; analyzing fire-related criminal evidence; investigating the cause and origin of fires and explosions; training firefighters; providing fire safety education to business, industry and the general public; regulating underground storage tanks; testing and training; and licensing and certification support services.

The SFM Code Enforcement Bureau's main goal is to provide fire safety inspections to ensure a fire safe environment for facilities throughout the State of Ohio, including, but not limited to aboveground flammable and combustible liquid storage tanks; fire standard compliant cigarettes; fireworks facilities; hotels and motels; nursing homes; psychiatric and maternity wards; and schools.

The Code Enforcement Bureau also issues permits for the installation, removal, temporary out of service and abandonment of aboveground and underground flammable and combustible liquid storage tanks and piping if the permit is not issued by the local fire authority having jurisdiction. Underground storage tanks not regulated by the Bureau of Underground Storage Tank Regulations (BUSTR) or the local fire authority having jurisdiction are handled by the Code Enforcement Bureau. The Code Enforcement Bureau features inspection districts strategically located throughout the State of Ohio.

During the audit, OIA identified opportunities for SFM to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank SFM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform assurance work related to SFM with the completed between April 2012 and May 2012. The scope of this audit was limited to SFM, Code Enforcement Bureau. The following detailed audit objectives included:

- Evaluate the design and effectiveness of the monitoring/inspection process within the Bureau of Code Enforcement.

- Evaluate the design and effectiveness of the processes within the Bureau of Code Enforcement that support the issuance of permits and licenses.

Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report; however, they were considered as part of the audit objective conclusions.

Observation 1 – Credit Card Payment Processing

Credit card information is considered to be sensitive and the controls surrounding any credit card payment processing must hedge against the risk of credit card fraud.

Currently, the credit card form (Form) is completed by the facility owner and sent via email or fax. The credit card information can also be acquired over the phone and the Form is completed by an office assistant. An emailed form would be printed and then the email is deleted. Although policies and procedures required credit card information to be redacted and eventually shredded, processing sensitive information increases the risk of fraud and abuse. Additionally, email and fax are not considered a secure form of communication.

Recommendation

Explore payment options that minimize employees have direct exposure to credit card information. When considering solutions, management should ensure sensitive credit card information is sufficiently controlled. Consider solutions that align with agency-wide processes that involve legal and finance participation.

Management Response

A standardized process is maintained throughout the entire Department for the processing of credit card payments. Training is held, standardized forms are utilized, written policy and procedures are followed, and auditing is conducted to ensure the financial integrity of the credit card collection process. As part of the process, the Department accepts credit card information via phone, fax, mail, and email. General information, including credit card account information, is recorded on a standardized form. The account information is later redacted once processing is complete. The Office of Internal Audit has identified these processes as having moderate risk.

In response, the Department will establish a committee consisting of fiscal, administrative and information technology employees to examine these practices, assess the risk, and consider alternative options within the next 60 days. Following this period, findings of this committee will be reported back to agency officials as well as the Office of Internal Audit. The report will identify any corrective action necessary.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Bureau Chief	September 2012

Observation 2 – Policies and Procedures

An effective quality assurance or complaint resolution process includes formally documented policies and procedures. Procedures should define roles, designate responsibilities, and detail actions necessary to achieve management's objectives. In addition, policies and procedures help ensure the continuity of the process in the event of personnel turnover.

Facility owners are granted grace periods to abate violations identified during inspection. However, there is not a formal policy providing guidance for establishing grace periods or standardizing the amount of time granted for each type of violation. Additionally, supervisors perform quality assurance reviews of inspectors on a monthly basis. However, there is not a formal policy outlining the process or its frequency. Furthermore, Code Enforcement has an informal policy of inspecting complaints within 3 business days. Testing revealed that 24% of complaint locations were inspected 5 or more days after the complaint was received (5 days gives some flexibility for weekends or holidays).

The lack of formally documented policies and procedures may lead to inconsistent granting of grace periods, inconsistent administration of the quality assurance process, inconsistent handling of complaints received, or failure to achieve management's objectives.

Recommendation

- Document formal policies and procedures for granting abatement grace periods.

- Standardize grace periods granted per violation type (to the extent practicable).

- Document formal policies and procedures for the quality assurance process including items such as: who will perform the reviews, what elements will be evaluated, what tools will be used, the frequency of reviews, etc.

- Document formal policies and procedures regarding complaint resolution.

Management Response

The Department will develop formal procedures related to grace periods, the quality assurance process and complaint resolution. The Department will forward the procedures to the Office of Internal Audit when they are completed.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Bureau Chief	June 2013

Observation 3 – Segregation of Duties

Adequate internal controls establish segregation of duties to prevent asset misappropriation. Incompatible duties include: custody of assets; authorization or approval of related transactions; and recording or reporting of those transactions. Procedures should be designed to prevent employees from performing incompatible duties.

At the time of our review, the office assistant would manually enter inspection fee amounts for each invoice, receive mailed payments, record revenue in the system and prepare the deposit. The lack of adequate segregation of duties could result in undetected errors or misappropriation of assets.

Recommendation

Implement policies and procedures to ensure incompatible duties are segregated such that no individual is responsible for any two of the following: custody of assets; authorization of transactions; or recording of transactions. Procedures could include:

- Reassign responsibility for either billing of fees or receipt of revenue.

- Develop a system to automatically populate inspection fees based upon type of inspection.

- Formalize and document the management review procedure reconciling inspections performed, amounts billed and amounts received.

Management Response

The Department has segregated the invoicing duties from the revenue receiving duties. The duties have been segregated as follows: the invoicing is performed by the Office Assistant and the check/credit card entry is performed by the Clerk. Management's procedures for reconciling inspections performed, amounts billed and amounts received will be formalized and documented. In addition, when CAVU is implemented in 2013, invoice amounts will automatically populate based upon inspection type.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Bureau Chief	September 2012

Observation 4 – Storage Tank Inspection Tracking

An effective application process to obtain a license or permit requires consistency in recording and tracking to verify all requirements have been met.

Currently, the owner submits an application, which is reviewed by the office staff, and a permit is issued. Upon receipt of a permit, the owner must contact SFM to schedule an inspection. Testing revealed six files that contained expired permits or extensions that had not been inspected. Also, one storage tank application had been completed through inspection but was still in the pending files rather than scanned into the electronic records management system.

The lack of consistency in tracking and follow-up for storage tank files may lead to untimely inspection or operation of uninspected storage tank facilities.

Recommendation
Develop and implement a formal documented process that tracks storage tank files and ensures inspections are conducted timely. Consider designing an automated mechanism to identify whether an inspection occurred within 180 days from the time the permit was granted to ensure each storage tank is inspected.

Management Response
The Department will develop a formal process for tracking storage tank files. Tools will be built in to CAVU to enable monitoring.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Bureau Chief	December 2012

Observation 5 – Formalize Re-Inspection Process

An effective re-inspection process requires standard procedures to ensure re-inspections are scheduled and performed when violations are noted in a previous inspection.

Currently, if a facility requires a re-inspection due to violations observed, the inspector has the option to place a re-inspection date within that specific file in the system. This date triggers a reminder in the inspector's calendar. This is currently not a required field. Testing results showed one inspection where violations continued to exist after a re-inspection but no further re-inspections were conducted and no citations have been issued for this facility.

The lack of consistency with documenting follow-up re-inspections increases the risk that violations are not remediated because either a re-inspection is not conducted or a citation is not issued.

Recommendation

Explore the ability for the system to require a re-inspection date or an issuance of a citation when violations are unresolved. This would help ensure that all violations are either cited or remediated.

Management Response

The Department will provide training to inspectors to ensure proper use of the re-inspection date field.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Bureau Chief	September 2012

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee