

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana State University
Fire and Emergency Training Institute
Baton Rouge, Louisiana

February 28, 2002



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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Fire and Emergency Training Institute

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Office of the Legislative Auditor
State of Louisiana

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February 20, 2002

DR. JERRY J. BAUDIN, VICE CHANCELLOR
FOR FINANCE, ADMINISTRATIVE SERVICES
AND COMPTROLLER
LOUISIANA STATE UNIVERSITY AND A&M COLLEGE

MR. CARROL L. HERRING, DIRECTOR
FIRE AND EMERGENCY TRAINING INSTITUTE
Baton Rouge, Louisiana

Transmitted herewith is our investigative audit report on the Louisiana State University - Fire and Emergency Training Institute. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendation, as well as your response. Copies of this report have been delivered to the Louisiana State University - Fire and Emergency Training Institute; the Honorable Doug Marcus, District Attorney for the Nineteenth Judicial District of Louisiana; and others as required by law.

Respectfully submitted,

Donald G. Kyte, CPA, CFE
Legislative Auditor

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Executive Summary

Investigative Audit Report Louisiana State University Fire and Emergency Training Institute

Background (See page 5.)

Highlights...

FETI found discrepancies and notified the State Fire Marshal. The Legislative Auditor received information that FETI paid for services that were not received.

LSU Fire and Emergency Training Institute (FETI) was created by the Louisiana Legislative Act 84 of 1963 "to equip, operate, and maintain an in-service Fireman Training Program." In 1979, Act 528 stated that "Louisiana State University is hereby officially designated as the agency of this state to conduct, at its Baton Rouge campus, training for in-service firemen on a statewide basis . . ."

Management of FETI noted certain transactions indicating that FETI had been overcharged by Louisiana Fire Extinguisher, Inc. FETI notified the Louisiana State Fire Marshal of these concerns. The Office of the Legislative Auditor received information from the Louisiana State Fire Marshal indicating that FETI paid for services not received.

Finding (See pages 7-10.)

From July 1998 through August 2001, Louisiana Fire Extinguisher, Inc., improperly billed LSU Fire and Emergency Training Institute (FETI) causing FETI to pay Louisiana Fire Extinguisher \$45,804, including:

From July 1998 through August 2001, FETI paid LA Fire Extinguisher \$45,804 for services that may not have been provided or were billed at excessive rates.

- (1) \$35,409 for recharging fire extinguishers on 1,731 occasions where it appears these services were not actually provided;
- (2) \$3,848 for recharging extinguishers where the services were billed at excessive rates; and
- (3) \$655 for maintenance services that were not actually performed.

In addition, FETI made duplicate payments to Louisiana Fire Extinguisher totaling \$3,898. FETI employees failed to ensure that services were received and one FETI employee instructed officials of LA Fire Extinguisher to submit invoices in a manner that would circumvent LSU purchasing policies, resulting in the payment of improper invoices.

Recommendation (See page 11.)

We recommend that FETI implement appropriate internal controls over purchases and inventory and adhere to these controls without falter. These controls should include the following:

FETI should ensure that all items invoiced are received, payments are made from invoices with attached delivery tickets, and maintain an accurate inventory.

- (1) create and maintain an accurate inventory for all extinguishers and other equipment and maintain this inventory in a current manner;
- (2) verify the accuracy of all delivery tickets by physically inspecting for delivery and comparing it to the ticket;
- (3) require all vendors that deliver to FETI to notify the purchasing agent or other employee overseeing inventory;
- (4) ensure that all purchases fully comply with LSU purchasing policies and procedures;
- (5) hold delivery tickets for payment until an invoice is received; and
- (6) only pay invoices that have an attached delivery ticket.

Finally, we recommend that the District Attorney for the Nineteenth Judicial District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Management's Response (See pages 13-15.)

During the time in which the noted discrepancies occurred, FETI did not have appropriate procedures or internal controls in place. The person assigned responsibility for the fire extinguishers was not properly trained. No verifications were made of extinguishers picked up or delivered.

The following actions have already been taken: (1) vendor contract terminated, (2) requested repayment of duplicate payments, (3) PFTI now refills its fire extinguishers in-house, and (4) the matter has been referred to the Office of Human Resources Management.

In addition, PFTI will take specific action to address each of the recommendations included in this report.

Background and Methodology

LSU Fire and Emergency Training Institute (originally LSU Fireman Training) was created by the Louisiana Legislative Act 84 of 1963¹ to equip, operate, and maintain an in-service Fireman Training Program.² In 1979, Act 528 stated that “Louisiana State University is hereby officially designated as the agency of this state to conduct, at its Baton Rouge campus, training for in-service firemen on a statewide basis. . . .”

The Office of the Legislative Auditor received an allegation that LSU Fire and Emergency Training Institute was invoiced and paid for services that it did not receive. The Louisiana State Fire Marshal provided this information to the Office of Legislative Auditor and asked for investigative audit assistance. LSU Fire and Emergency Training Institute initially had concerns regarding invoicing for services not received and brought these concerns to the attention of the Louisiana State Fire Marshal.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the FETI; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the FETI; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable state laws.

The results of our investigative audit are the finding and recommendation herein.

FINDING

Fire Extinguisher Services

From July 1998 through August 2001, Louisiana Fire Extinguisher, Inc., improperly billed LSU Fire and Emergency Training Institute (FETI) causing FETI to pay Louisiana Fire Extinguisher \$46,884, including:

- (1) \$38,480 for recharging fire extinguishers on 1,731 occasions where it appears those services were not actually provided;
- (2) \$3,848 for recharging extinguishers where the services were billed at excessive rates; and
- (3) \$4,556 for maintenance services that were not actually performed.

In addition, FETI made duplicate payments to Louisiana Fire Extinguisher totaling \$3,896. FETI employees failed to ensure that services were received and one FETI employee instructed officials of LA Fire Extinguisher to submit invoices in a manner that would circumvent LSU purchasing policies, resulting in the payment of improper invoices.

FETI performs firemen training at its Baton Rouge facility. FETI regularly uses portable fire extinguishers during its training activities. These extinguishers require frequent recharging. Once used, discharged extinguishers are stored in a designated area and are later picked up by an outside contractor for recharging. Once recharged, the outside contractor returns the extinguishers to FETI. Louisiana Fire Extinguisher, Inc., held the contract for servicing fire extinguishers from July 1, 1998, to August 20, 2001, and was paid \$232,016. The specifications required LA Fire Extinguisher to provide chemical extinguishing agent (powder), CO₂ cartridges, and labor to recharge the extinguishers. The terms of the contract required that this be done in accordance with National Fire Protection Association procurement 10 (NFPA 10) and the manufacturer's recommendations.

Payments for Services Not Actually Rendered

LA Fire Extinguisher billed FETI for 9,353 fire extinguisher recharges from July 1, 1998, through August 20, 2001. However, according to FETI records, only 7,622 extinguishers were used in classes during this time period. Therefore, it appears that LA Fire Extinguisher billed FETI for recharging extinguishers on 1,731 occasions that FETI did not actually receive the service. Officials of both LA Fire Extinguisher and FETI agreed to improperly invoice maintenance services as



recharging extinguishers may explain a portion of this excess. Because FETI employees did not properly count the discharged extinguishers picked up and the recharged units returned by LA Fire Extinguisher, the excess cannot be fully explained. These excessive billings resulted in FETI paying LA Fire Extinguisher \$38,403 for services that may not have been received. FETI cancelled the remainder of the contract with LA Fire Extinguisher on August 20, 2001.

Mr. John Medina, LA Fire Extinguisher's sales representative, stated that Mr. David Newman, FETI employee, instructed him to invoice testing services as recharging. Mr. Newman agreed that maintenance services (testing) were billed as recharging extinguishers but stated that this happened on only four or five occasions and cost at most \$2,000. He also stated that this did not happen in the last year and a half.

Recharge Services Billed at Excessive Rates

On 22 occasions, LA Fire Extinguisher billed FETI for recharging a 300-pound extinguisher with purple-4, a specific extinguishing agent, when LA Fire Extinguisher actually recharged the extinguisher with a less expensive product thereby over-billing FETI \$3,846. FETI owns one 300-pound, purple-4, wheeled extinguisher. Purple-4 powder is more expensive than regular powder and is purple in color. According to Mr. Henry Grant, president of LA Fire Extinguisher, the purple-4 extinguisher was always refilled with purple-4 powder.

However, during October 2001, an Amsul representative and Louisiana State Fire Marshal's representatives inspected all of FETI's extinguishers. Most of FETI's extinguishers were manufactured by Amsul, Incorporated. This inspection revealed that the 300-pound purple-4 extinguisher contained regular white powder, not purple-4 powder. FETI instructors also stated that they never saw purple-4 discharged from FETI equipment during the term of LA Fire Extinguisher's contract. In addition, LA Fire Extinguisher billed for two purple-4 extinguisher refills in one delivery on nine occasions, even though FETI owns only one 300-pound purple-4 extinguisher.

Maintenance and Servicing of FETI Extinguishers

LA Fire Extinguisher billed FETI for maintenance services that were not actually performed. During June 2001, FETI ordered LA Fire Extinguisher to return all of the state owned fire extinguishers. In the months to follow, LA Fire Extinguisher returned extinguishers to FETI. The delivery tickets and invoices for some of these extinguishers indicated that LA Fire Extinguisher had replaced 30 of the gas tubes inside these extinguishers. During October 2001, the Amsul representative and representatives of the Louisiana State Fire Marshal inspected each of the returned extinguishers and found no evidence that the gas tubes had been recently changed. LA Fire Extinguisher invoiced FETI \$427 for 15 of the gas tubes, \$238 for eight gas tubes, and \$199 for the remaining seven. FETI paid LA Fire Extinguisher \$655 but did not pay the \$199 invoice.

Use of Improper Extinguishing Agent and Seals

LA Fire Extinguisher's contract required the servicing of the extinguishers to comply with NFPA 10 and the manufacturer's recommendations. NFPA 10 defines recharging (refilling) as the replacement of the extinguishing agent and expellant (gas). It also states that the recommendations of the extinguisher manufacturer are to be followed. Ansa's operations manual states that only Ansa approved extinguishing agents may be used and the use of other recharging materials may cause malfunction or damage to the extinguisher resulting in possible injury to the operator.

LA Fire Extinguisher officials agreed that they did not recharge FETI's extinguishers with the proper Ansa approved extinguishing agent. Mr. Grace stated that LA Fire Extinguisher was not an authorized Ansa distributor and does not use Ansa powder. Mr. Marvin Harrell, LA Fire Extinguisher employee, stated that he recharges FETI's extinguishers with ChemGuard B/C training powder. This powder is not Ansa approved.

LA Fire Extinguisher also used non-approved parts when it recharged FETI's extinguishers. Most of FETI's Ansa extinguishers have an expellant gas cartridge on the side of the extinguisher. Each time the gas cartridge is recharged, a seal must be replaced. The inspection of the extinguishers performed by the Ansa representative and representatives of the Louisiana State Fire Marshal's office revealed that the gas cartridges had brass seals, which are not approved by Ansa. According to Mr. Grace, LA Fire Extinguisher used only Ansa parts on the extinguishers. Mr. Medeiros, LA Fire Extinguisher's sales representative, stated that non-Ansa filled cartridges were used as replacements.

We are unable to quantify the cost of the apparent breach of contract as it relates to the use of improper extinguishing agent, gas cartridges, and maintenance.

FETI Failure to Comply With Internal Controls

LSU has implemented written purchasing policies to provide internal control over its purchases. However, FETI employees did not adhere to these controls and Mr. David Newman instructed officials of LA Fire Extinguisher to submit invoices in a manner that would circumvent LSU purchasing policies, resulting in the payment of improper invoices.

LSU policies provide for control over the purchases of FETI if adhered to as established. These policies generally provide that FETI may make purchases of less than \$500 from local vendors without competitive pricing as long as the price is reasonable. Purchases that exceed \$500 but do not exceed \$2,000 require the purchaser to obtain multiple quotes and search for the lowest responsible vendor. Purchases exceeding \$2,000 are made through a competitive bid process. The policies specifically prohibit the splitting of purchases to manipulate the level of required control.

RECOMMENDATION

We recommend that PFTI implement appropriate internal controls over purchases and inventory and adhere to those controls without failers. These controls should include, at a minimum, the following:

- (1) create and maintain an accurate inventory for all sawingshaws and other equipment and maintain this inventory in a current manner;
- (2) verify the accuracy of all delivery tickets by physically inspecting the delivery and comparing it to the ticket;
- (3) require all vendors that deliver to PFTI to notify the purchasing agent or other employee overseeing inventory;
- (4) ensure that all purchases fully comply with LSU purchasing policies and procedures;
- (5) hold delivery tickets for payment until an invoice is received; and
- (6) only pay invoices that have an attached delivery ticket.

Finally, we recommend that the District Attorney for the Fifthteenth Judicial District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response



LOUISIANA STATE UNIVERSITY
UNIVERSITY OF THE SOUTH

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

January 25, 2002

Dr. Daniel O. Kyle, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-0397

Dear Dr. Kyle,

Enclosed is the University's response to the recent investigative audit report concerning the Fine and Emergency Training Institute of LSU and A&M College.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Booth

Vice Chancellor for Finance and Administrative Services
and Comptroller

Enclosure

cc: Chancellor Mark Emmert



MANAGEMENT RESPONSE

January 25, 2002

The information presented herein represents the University's response to the recent investigative audit report submitted by the Office of the Legislative Auditor concerning LSU's Fire and Emergency Training Institute (FETI).

This audit was occasioned by discrepancies noted by FETI during a cost benefit analysis involving the possibility of replacing services being performed by an outside contractor with "in-house" personnel. These discrepancies pertained to activities in the July 1998 - July 2001 time frame, and were reported to the State Fire Marshal's Office. That office then contacted the Legislative Auditor's Office.

LSU has been in the process of reorganizing FETI and improving its operations since 1995, after receiving numerous complaints from fire department officials throughout the State regarding FETI's management and operations. In August 1999, LSU removed the Director of FETI, and appointed a new Director of FETI, who had previously held positions as FETI's Director from 1983 through 1991, and as the State Fire Marshal from 1991 through 1993. In addition to changing the top management of FETI, the reporting line of that operation was changed from LSU's Division of Continuing Education to the Office of Academic Affairs.

During the time frame in which the noted discrepancies occurred, FETI did not have appropriate procedures or internal controls in place over the functions of handling fire extinguishers in need of servicing, and of subsequently approving payments to the outside contractor engaged to provide these services. The person assigned these responsibilities was not properly trained to perform his duties, and was not given, nor did he maintain, an inventory of all fire extinguishers at FETI. Additionally, when pickups or deliveries of serviced equipment were made by the vendor, no verifications were performed of the number of extinguishers involved in these transactions.

In order to address the situation at FETI, the University has already taken the following action: 1) the contract with the vendor involved has been terminated; 2) an invoice for the identified duplicate payments has been sent by the University to that company; 3) FETI now performs the refilling of its fire extinguishers by use of "in-house" personnel, and is in the process of obtaining a new vendor for repairs and maintenance of fire extinguishers; and 4) this matter has been referred to the University's Office of Human Resources Management for appropriate personnel action.

In addition, an internal audit will be conducted in the near future to assess the adequacy of the controls implemented to address recommendations included in the audit report, as described below.



The specific actions to be taken by FEIT to address the recommendations submitted in the Legislative Auditor's report include the following:

1) Maintaining a current, accurate inventory of all equipment

FEIT is in the process of completing an inventory of all fire extinguishers and other equipment. The extinguishers will be inventoried with numbered brass tags, tracked by computer, and accurate maintenance records maintained.

2) Verifying the accuracy of vendor pickup/deliveries

Records will be maintained for all servicing pickups made by outside vendors. Deliveries will be counted and compared to delivery ticket information prior to their acceptance. If there is a discrepancy between the delivery and the delivery ticket, a change will be made to the delivery ticket, and the vendor will be contacted with the discrepancy.

3) Requiring vendors to make pickup/deliveries to a specific area and to designated individuals

A specific area will be designated for the pickup/delivery of any equipment purchases or any equipment returned after being serviced or repaired, and particular individuals will be assigned the responsibility of verifying the accuracy of these transactions.

4) Insuring that all purchases comply with applicable policies and procedures

Persons responsible for initiating servicing and repair of FEIT equipment will be trained regarding compliance with all applicable purchasing policies and procedures. These persons will document the requested services/repairs, obtain the appropriate approvals, and update applicable maintenance records.

5) Matching delivery tickets with vendor invoices prior to submitting payment

FEIT has hired a new Business Manager, who will be responsible for authorizing payment of services rendered. Prior to authorizing payment, invoices will be compared to delivery tickets for accuracy of invoice information. In addition, proper authorization for the servicing or repair of equipment will be obtained to ensure the services were authorized by FEIT. All delivery tickets will be held for payment until an invoice is received from the vendor, and any invoices received for which no delivery ticket exists will be searched for proper disposition.

6) Seeking restitution from the vendor for all overpayments made

In addition to any action to be taken by the District Attorney's Office, LSU has sent a letter to the vendor requesting a refund of identified duplicate payments made.