

# Audit Highlights



Highlights of performance audit report on the State Fire Marshal Division issued on January 7, 2014. Legislative Auditor Report # LA14-09.

## Background

The State Fire Marshal Division was created within the Insurance Division of the Department of Commerce in 1965 and moved to the Department of Motor Vehicles and Public Safety in 1993. The Division's mission is to protect life, property, and the environment from fires and hazardous materials in the State of Nevada. This is accomplished through the development and application of fire codes and standards, fire prevention education, fire service training, fire protection engineering, licensing, and permitting. In addition, the Division performs investigative and enforcement services delivered directly or in coordination with the public safety community.

In fiscal year 2013, the Division had 21 employees located in its Carson City, Elko, and Las Vegas offices. The Division's operating account had over \$3 million in revenues, including \$676,000 in appropriations and over \$1.5 million in fees. Fiscal year 2013 expenditures totaled \$2.6 million.

The Division is responsible for permitting and regulating hazardous materials within the State. Hazardous material facilities permitted by the Division include businesses that store substances which could threaten the health and safety of the public. As of June 2013, the Division had 5,170 facilities with hazardous material permits.

## Purpose of Audit

The purpose of this audit was to evaluate the Division's permitting and licensing processes, and controls over revenue collections. Our audit focused on the Division's activities for the 12-month period ending March 31, 2013, and included permitting activities up to June 2013.

## Audit Recommendations

This audit report contains three recommendations to improve the hazardous materials program and internal controls over revenues.

The Division accepted the three recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

# State Fire Marshal Division

## Department of Public Safety

## Summary

Many businesses that store hazardous materials have not been identified and permitted in accordance with program requirements. As a result, the Division has not been able to achieve equitable regulation of the hazardous materials program. With increased efforts by the Division to identify hazardous material facilities and enforcement assistance from local governments, we estimate the Division could collect an additional \$250,000 in annual permit fees. Identifying and permitting facilities that store hazardous materials is required by federal and state laws to help ensure public safety. Similar problems were identified during our audit in 2007; however, implementation of prior audit recommendations was not sustained. Therefore, the Division needs to develop efficient and effective procedures to identify and permit businesses storing hazardous materials, and improve guidance to help businesses understand reporting requirements.

The Division collected and deposited fees in accordance with state requirements. We tested about 40% of the Division's fee receipts and found payments were deposited timely, permit payments were properly recorded, and fee adjustments were proper. Although staff properly deposited and recorded the money collected, improvements can be made to the Division's internal controls regarding separation of duties.

## Key Findings

The Division has not identified and permitted many businesses that are highly likely to store hazardous materials, resulting in inequitable regulation of the hazardous materials program. From our review of 16 types of businesses, 1,686 of 3,895 facilities (43%) did not have a required permit. With increased efforts by the Division to identify hazardous material facilities and enforcement assistance from local governments, we estimate the Division could collect an additional \$250,000 in annual permit fees. Collection of permit fees is used to fund programs to train firefighters and help protect the public. Similar weaknesses were identified during our audit in 2007; however, procedures developed in response to our audit were not currently in use. (page 7)

The Division needs to develop efficient and effective methods to help identify facilities storing hazardous materials. Our audit focused on reviewing types of facilities that were highly likely to need a hazardous materials permit. We researched the internet and obtained information available from state and local agencies to identify specific facilities. We also queried the Division's database to determine whether each facility had a permit. During our audit, the State Fire Marshal was very helpful and open to suggestions for improving the program. The Division is currently working on improving the permitting process using the state's business portal. (page 11)

Many businesses with a hazardous materials permit do not understand what types and quantities of hazardous materials should be reported. Some businesses report chemicals when not required, and other businesses underreport hazardous materials. As a result, hazardous materials information is not always correct and some facilities may waste resources reporting unnecessary information. Confusion regarding reporting requirements stems from three main issues: (1) International Fire Code requirements are difficult to understand, (2) guidance by the Division is not sufficient, and (3) some of the Division's information is inaccurate or outdated. (page 13)

The Division has licensed fire protection businesses as required by state law. This includes businesses which service, install, or sell fire extinguishers, fire alarm systems, or fire sprinkler systems. We tested 40 fire protection businesses identified from internet searches and found all 40 were licensed by the Division. Furthermore, we called five businesses with expired licenses and confirmed a license was no longer needed. During fiscal year 2013, the Division collected over \$550,000 in licensing fees. (page 17)

The Division has not adequately separated the duties of staff processing hazardous materials permit payments. The same employee records payments in the hazardous materials database and makes the bank deposit. In addition, reconciliations are not performed between permit payments received and amounts deposited by someone independent of the receipt and deposit process. Without adequate separation of duties, including periodic reconciliations of permit payments to deposits, the Division is at risk funds could be misappropriated. Internal controls are important in this area since the Division processed over \$1.4 million in hazardous material payments in fiscal year 2013. This amount includes approximately \$900,000 in hazardous material fees collected for the State Emergency Response Commission. (page 18)