

**Internal Audit of the Emergency Services Department  
By the Internal Audit Division  
Indian River County Clerk of the Circuit Court and Comptroller  
Edward Halsey, Internal Audit Director  
May 31, 2018**

The Internal Audit Division was directed to conduct an audit of two matters related to the Emergency Services Department. Here a working definition of internal auditing is in order. The Institute of Internal Auditors defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This report covers two separate and unrelated matters. The first matter (Part One) addressed is the alleged theft of tires, diesel fuel, and automotive supplies. The second matter (Part Two) addressed is the design and building services contract with Barth Construction for Station #14.

**PART ONE  
Alleged Theft of Tires, Diesel Fuel, and Automotive Parts**

**Background**

The Arrest Warrant, Clerk Case No: 2018CF406, dated March 26, 2018, Indian River County, Florida, State of Florida vs. Brian S. Burkeen cites six counts. The first count is first degree grand theft (over \$100,000) involving tires. The remaining five counts are for dealing with stolen property. The five counts were dropped. The main charge has been updated to be first degree grand theft pursuant to a scheme or course of conduct to defraud.

On March 27, 2018 Jeffrey R. Smith, Indian River County Clerk of the Circuit Court and Comptroller, requested the Internal Audit Director conduct an audit of the Emergency Services Department's alleged tire thefts. During the week of April 2, 2018 the Internal Audit Director became aware of two other possible categories of theft besides tires. The first one involves Brian Burkeen's diesel fuel purchases made on a County fuel credit card. The second one involves charges of automotive parts for personal usage with a County purchasing card. The Internal Audit Director met with Indian River County Sheriff's Office detective Greg Farless on April 5, 2018 to discuss these two possible theft categories and to provide documentation. Brian Burkeen has not been charged with the theft of diesel fuel or automotive parts.

Part one of this report is about fraud. A working definition of fraud may be necessary for the reader to better understand what is needed to prevent it in the future. According to the Institute of Internal Auditors glossary, fraud is "any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage."

The fraud triangle has three sides – pressure or incentive, opportunity, and rationalization. This report delves into the opportunity side of the fraud triangle. Opportunity is the ability to commit the fraud. In this situation, it appears there was principally one factor that enabled a member of senior management, Brian Burkeen, to circumvent established controls. That factor was a total lack of oversight coupled with unfettered trust by his superior.

Internal control is the responsibility of management. The COSO model (Committee of Sponsoring Organizations of the Threadway Commission) defines internal control as follows: “Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance.” Operations objectives include safeguarding of assets, which is relevant to this report. The Internal Audit Division, independent from management, evaluates the internal controls and recommends improvements.

## Findings

- See the attached schedule of alleged tire thefts totaling \$319,527.92 (including \$27,402.05 of unpaid tires) and 1,469 tires between January 2012 and February 2018. The purchases were made at Goodyear. The total of \$319,527.92 is comprised of the following:
  - a) From the time period of January 2012 thru February 2018, invoices for tires which did not have installation charges were deemed to be tires paid for by the County but never used for County purposes. This determination was arrived at based on several criteria: 1) The Emergency Services fleet operation does not have a “Mount and Balance Tire Machine” which means there was no reason for Brian Burkeen to buy and pick up any unmounted tires, 2) Documented evidence that Mr. Burkeen never brought new tires to County Fleet Operations Center for installation on any Emergency Services fleet vehicle which further negates any legitimate reason to buy and pick up unmounted tires, and 3) Described in the warrant for Mr. Burkeen’s arrest, the Goodyear Store Manager stated that he questioned Mr. Burkeen on why he was purchasing and picking up so many tires. Mr. Burkeen’s response to the Store Manager was that the County had a policy of replacing for free any citizen’s tires damaged as a result of pot holes on county roadways and that is why he needed so many tires. There is no such policy.
  - b) Included in the total is the \$27,402.05 worth of invoices for tires that have yet to be paid for by the County, but were picked up by Mr. Burkeen prior to his retirement and charged to the County. The County Administrator has denied payment for these invoices, and the County Commission at the May 1, 2018 Board meeting upheld the County Administrator’s decision.
- Brian Burkeen wrote on many of the tire invoices being processed for payment, false notations such as “stock” or various vehicle numbers for tires which do not match any fleet vehicle. These notations were an attempt to cover alleged thefts and circumvent internal control procedures. Automotive related purchases were controlled by Brian Burkeen who was in charge of the fleet.
- Segregation of duties is the concept of having more than one person complete a task. The segregation of duties is an internal control intended to prevent fraud. There are generally four areas for adequate segregation of duties – authorization function, documentation function, custody of asset, and reconciliation or audit. There has always been a policy for segregation of duties for countywide purchases. The tire theft matter is a textbook case of a total lack of compliance with an established practice of segregation of duties. Brian Burkeen took on three types of duties:

authorizing the tire purchases, the documentation function, and custody of assets. Nonexistent was the reconciliation by an independent third party such as an equipment mechanic.

- Another area of concern was the decision to stop using the tire expense general ledger account to record tire purchases. Beginning in fiscal year 2016, tire purchases were recorded in the maintenance heavy equipment account. This appears to conform with the practice in other departments. There was a belief that the aging fleet had resulted in greater amounts of maintenance expenditures. This move may have obscured the ever increasing amounts of tire purchases. In fiscal year 2016 there were 12 budget line transfers totaling \$52,795 to accommodate increasing amounts of tire purchases. In fiscal year 2017 there were 12 budget line transfers totaling \$84,900. According to the Staff Assistant, the line transfers were approved by John King. This fact was confirmed by the Budget Department.
- The tire invoices were processed for payment without a receiving report signed off by the Emergency Services Department equipment mechanics. The absence of the sign off from the equipment mechanics created opportunity for fraud. The equipment mechanics never received the tires.
- On June 17, 2016 and again on June 29, 2016 former Finance Director Diane Bernardo contacted by email the Emergency Services Director John King to question and make recommendations about the issue of signing off on invoices. The emails were not about tire purchases. Diane Bernardo stated “Right now Jennifer (Staff Assistant) is signing off along with you. I would like to propose Don Jones (Mechanic) sign off on the car parts so he can verify the parts are being used and then forward the invoice to Jennifer for coding.” No changes were made by the department based on the recommendations.
- On August 30, 2017 now Finance Director Elissa Nagy contacted by email John King requesting information on how receipt of items are verified at the Emergency Services Department. The request was not related to a tire invoice. The purpose was to question and make recommendations. John King forwarded the email to Brian Burkeen. Mrs. Nagy and Senior Accountant Raeanne Cone had a conference call with Mr. Burkeen to discuss this issue. Recommendations were made to have additional staff verify receipt of goods by signing off on invoices. Mr. Burkeen’s response was that he would take care of it. No changes were made by the department based on the recommendations.
- Director King approved for payment about 5,000 invoices each year or about 100 invoices each week. The approval of this volume of invoices would be a significant task considering the Director’s main responsibilities.
- The Staff Assistant Jennifer Pridgeon did not bring to Director King’s attention the high volume of tire purchases even though she confronted Brian Burkeen about the matter. She stated that she reported directly to Brian Burkeen not to John King and adhered to an established chain of command existing in the Emergency Services Department.
- Brian Burkeen made diesel fuel purchases since January 2012 in the amount of \$12,038.50 or 4,428.65 gallons with a County fuel credit card. These purchases came into focus on a monthly basis because the download of monthly fuel transactions for the fuel report flagged purchases that were not his usual unleaded fuel purchases. Mr. Burkeen was asked by Finance Department staff to provide explanations for the diesel purchases. He dictated the explanations to Emergency Services Department staff who in turn forwarded the information via email to Finance Department staff preparing the monthly fuel reports. At the time the explanations seemed plausible – that is, Mr. Burkeen purchased diesel fuel on behalf of fire trucks because he was supposedly out on calls with them. Mr. Burkeen would enter the engine number into the card system to indicate the engine number he was filling rather than the required vehicle mileage. Upon further investigation, it was discovered that it would be an extremely rare occurrence when an emergency truck or ambulance

would need as much diesel fuel at one time as Mr. Burkeen purchased. This is further verified by the fact that fire and rescue personnel routinely top off emergency vehicles on a regular basis. In addition, it has been determined that each Emergency Services vehicle in the fleet is assigned a gas card that stays with that vehicle. There would be no reason for Mr. Burkeen to use the card assigned to his vehicle to fill up another vehicle in the fleet instead of the card assigned to that vehicle. It is suspected that these diesel fuel purchases were actually for personal rather than for work related use. Sheriff's Office detective Greg Farless is investigating the matter. Brian Burkeen has not been charged for theft of diesel fuel.

- If in fact these fuel purchases were not for County use, state fuel tax returns would have to be amended.
- In a review of Brian Burkeen's purchasing card purchases there were two questionable purchases in the amounts of \$75.73 made October 13, 2017 and \$435.64 made November 17, 2017. Both purchases were for air bag related parts from Lou Bachroot Freightliner in Ft. Pierce. Brian Burkeen has owned a Freightliner truck, which he bought in October 2017. The one Freightliner truck in the Emergency Service Department fleet does not have air bags. Sheriff's Office detective Greg Farless is investigating the matter. Brian Burkeen has not been charged for theft of auto parts through the purchasing card.
- The Internal Audit Director visited the Emergency Operations Center Garage to meet with equipment mechanics Don Jones and Mike Ferraro. Various automotive parts were observed. An estimate of \$25,000 was made of value of the automotive inventory including brake parts, fans, alternators, spare tires, and batteries. These items are currently being expensed as purchased.
- In a meeting with Emergency Services Department staff, it was learned that shipments are dropped off at the Emergency Operations Center warehouse whether or not an employee is present to receive the shipment.
- In summary, the estimate of the overall alleged theft loss is \$332,077.79 made up of the following:

Tires – Paid	\$ 292,125.87
Tires – Unpaid	27,402.05
Diesel Fuel	12,038.50
Automotive Parts	511.37
Total	<u>\$ 332,077.79</u>

## Recommendations

- Require that invoiced items delivered to the Emergency Services Department be accompanied by a signed receiving report or similar documentation before ever being approved and processed for payment by the department head. This internal control requirement should be expanded to other categories of goods received beyond the automotive shop. Update the process of approving invoices for payment to require additional signatures from employees who are responsible for work areas to which an invoice pertains.
- Provide training to the Emergency Services Department staff in the areas of Internal Control and their responsibilities to protect the County.
- Have the Budget Department review expenses on a quarterly basis to identify any expenses which are increasing above a certain threshold percentage in order to identify problem areas.
- Have the Internal Audit Division conduct periodic audits of the purchasing card purchases.

- Have the Finance Department and the Emergency Services Department review monthly the Wright Express fuel invoices for any discrepancies. If there are discrepancies, the Emergency Services Department should provide supporting detail to the Finance Department. This is currently being done by the Finance Department.
- Require all Purchase Orders for tires to have attached a list of the exact tire specifications, i.e. size, that may be needed and indicate the vehicle unit number for those tires. This will result in more specific and precise budgeting for tires as well as eliminate the acquisition of tires that do not apply to any Emergency Service vehicle.
- Put the automotive parts inventory on the general ledger and have the auto parts purchases shown in the general ledger as additions to the automotive parts inventory rather than as charges directly to expense. Only through reductions to inventory can automotive parts be charged to expense. This would require monthly journal entries to be recorded in the Finance Department with support for work orders on fire or rescue vehicles provided by the Emergency Services Department automotive shop. Require the Emergency Services Department equipment mechanics to do quarterly inventory counts which would be later reconciled to the general ledger by the Finance Department. Require the Finance Department staff to do an annual inventory count. The Emergency Services Department might consider purchasing software to track the auto parts inventory flows and also to provide the Emergency Services Department a running repair and maintenance history of each vehicle. The objective here is to parallel or mimic the County's regular Fleet Department's practices and controls.
- Check departmental vendor spending when new blanket purchase orders are entered after the beginning of the fiscal year (to see if they are doubling up and entering a new blanket order for \$50,000 after maxing out another). The County proactively instituted these controls.
- Spot check invoices on contract or piggyback purchase orders to ensure invoices are in compliance with contractual pricing. The Purchasing manual should be updated to emphasize the department's responsibility to verify contract pricing on every invoice. The County proactively instituted these controls.
- Require documentation/ justification for any change order requested to blanket purchase orders. The County proactively instituted these controls.
- Perform vendor audits in Munis (the County's accounting system) at least once per year to flag significant increases in spending. The County proactively instituted these controls.
- Refuel vehicles at County Fleet whenever feasible. Along with this, set a policy that every Emergency Services Department vehicle when not refueled at County Fleet to be refueled only with the assigned fuel card for that vehicle.
- For new Board employees there will be included in the Employee Handbook an ethics oath to be signed by the employee.
- The Emergency Operations Center needs to have an employee present at all times at the warehouse to receive shipments.

## **PART TWO**

### **Station #14 - Design and Building Services – Barth Construction**

#### **Background**

Jeff Smith, Indian River County Clerk of the Circuit Court and Comptroller, requested the Internal Audit Director conduct an audit of the Station #14 Barth Construction design and building services contacts and related expenditures. As of this date, the final payment on the Work Order #2 agreement has not been made.

On August 8, 2011 Indian River County BOCC entered into an agreement with Barth Construction to build fire rescue stations. This was done on a RFP (Request for Proposal) basis. This was an agreement to provide professional design and build services to Indian River County. The first page of the agreement states “Whereas, in accordance with Design/Builders’ Competitive Negotiations Act, Section 287.055, Florida Statutes, the County has selected Design/Builder to provide professional architecture, site planning, civil, structural and building engineering, related site work for the planning, design and construction or repair, renovation retrofitting and improvement of fire stations for Indian River County together with demolition and removal of stations;”

According to Article 4. Term; Time for Completion, “This agreement shall remain in effect for a term of five (5) years (“Initial Term”), unless otherwise sooner terminated as provided herein. The Initial Term may be extended by the County for a maximum of three (3) years (“Extension Term”).” According to the First Extension to Agreement for Providing Professional Design and Building Services for Indian River County, Florida, the first renewal term commenced effective as of September 13, 2016 and ended on September 13, 2017.

The Part 1 Agreement for design-build services for station #14 was made December 16, 2014 in the amount of \$145,660. The Work Order #2 for design/build agreement phase 1 with Barth Construction, Inc. was executed December 20, 2016, in the amount of \$2,446,869.

#### **Findings**


- The Work Order #2 agreement in the amount of \$2,446,869 did not require 10% retainage to be withheld from each invoice.
- See spreadsheet of the Work Order #2 payments through Application for Payment #12 with several line items which have exceeded the contract amount and several which are under budget with no change orders explaining the differences. Overall, the total build amount is \$110,191.44 under the original contract amount of \$2,446,869. There were no change orders executed during the construction period, only on the final Application for Payment #12.

#### **Recommendations**


- Discuss the merits of having an exclusive design-builder agreement for the construction of future fire rescue stations. The County has already decided to procure design-builder services through a different method.

- Require that all future emergency services construction contracts require 10% retainage to be withheld from invoices to protect the County.
- Require that the construction company in the future execute change orders during the construction process. The current practice is to make a reconciliation on final payment but we recommend that intermittent change orders are executed whenever a particular line item exceeds or is under the original budgeted amount.
- Require department line item verification for those items that go over the contract amounts.

Respectfully submitted,

  
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Jeffrey R. Smith  
Clerk of the Circuit Court and Comptroller

5/31/18  
Date

  
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Edward Halsey  
Internal Audit Director

5/31/18  
Date

Indian River County  
Tire Theft Recap - Goodyear  
Brian Burkeen

<u>Year</u>	<u>Amount</u>	<u># Tires</u>
2012	1,402.48	12
2013	1,259.76	6
2014	2,766.96	12
2015	12,031.82	54
2016	66,930.32	338
2017	133,562.61	573
2018	101,573.97	474
Total	<u>319,527.92</u>	<u>1,469</u>





