

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



326

FROM: County Auditor-Controller

SUBMITTAL DATE:
December 22, 2006

SUBJECT: Internal Auditor's Report #2006-305 – County Fire Department First Follow-up Audit

RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2006-305 – County Fire Department First Follow-up Audit.


BACKGROUND: The Auditor-Controller has completed the First Follow-up Audit of the County Fire Department. The audit was limited to reviewing actions taken to implement the recommendations made in Internal Auditor's Report 2005-006, dated July 7, 2005.

The original audit report contained 17 recommendations, all of which required corrective action and; therefore, were reviewed as part of this audit. This follow-up audit found that of the 17 recommendations:

- Six recommendations were fully implemented.
- Ten recommendations were partially implemented.
- One recommendation was not implemented.

We will follow-up on the 11 recommendations that were not fully implemented in our Second Follow-up Audit of the Riverside County Fire Department within one year.

Departmental Concurrence

for 
ROBERT E. BYRD
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS:	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input checked="" type="checkbox"/>

C.E.O. RECOMMENDATION: Receive and File
The Executive Office will work closely with the Fire Department to ensure corrective actions are implemented in order to comply with the Auditors findings.

County Executive Office Signature 

000170031 0011: SE
RECEIVED RIVERSIDE COUNTY

Dept Recomm.: Policy
 Per Exec. Ofc.: Policy
 Consent Consent

Prev. Aan. Ref.: | **District:** | **Aaenda Number:**

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County of Riverside

INTERNAL AUDITOR'S REPORT

County Fire Department First Follow-up Audit

December 22, 2006

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



OFFICE OF THE
COUNTY AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, CPA
ASSISTANT AUDITOR-
CONTROLLER

December 22, 2006

Mr. John Hawkins, Fire Chief
Riverside County Fire Department
210 W. San Jacinto Avenue
Perris, CA 92570

Subject: Internal Auditor's Report #2006-305 – County Fire Department First Follow-up Audit

Dear Chief Hawkins:

We have completed the First Follow-up Audit of the County Fire Department. Our audit was limited to reviewing actions taken to implement the recommendations made in our original audit report, Internal Auditor's Report 2006-006, dated July 7, 2005.

We conducted our audit in accordance with auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the review provides a reasonable basis for our conclusions.

The original audit report contained 17 recommendations, all of which required corrective action and; therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Auditor's Report #2005-006.

This follow-up audit found that of the 17 recommendations:

- Six recommendations were fully implemented.
- Ten recommendations were partially implemented.
- One recommendation was not implemented.

We will follow-up on the 11 recommendations that were not fully implemented in our Second Follow-up Audit of the Riverside County Fire Department within one year.

Details of the status of the findings and recommendations identified in the original audit are provided in the body of our report.

We appreciate the cooperation and assistance extended to us by the Fire Department staff during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM
Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", written over a horizontal line.

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

Purchasing

Finding 1: The Fire Department did not enforce or monitor the purchasing policy in regards to super low value purchase orders.

Recommendation 1: Adhere to Purchasing Policy Letter No. 6-03 by monitoring the super low value purchase orders which limits purchases for facility and vehicle maintenance to \$2,000 per year.

Current Status 1: Partially Implemented.

The Fire Department formally implemented modifications to its purchasing policy in July 2006. Facility and vehicle maintenance purchase limits have been removed. Additionally, Fire Captains no longer have purchasing authority and the purchasing authority for Battalion Chiefs and their designees has been restricted. Facility maintenance related purchases must be routed through the Fire Department's Facility Maintenance Division and vehicle maintenance purchases must be approved by the Fleet Manager. Due to the limited time in which these policy changes have been in place, we were unable to perform tests that would sufficiently support that modifications had been adequately monitored and enforced.

Finding 2: Fire Department personnel made purchases without obtaining appropriate written authorization as required by Fire Department Purchasing Policy Letter No. 6-03

Recommendation 2: Adhere to Purchasing Policy Letter No. 6-03 by obtaining proper written or electronic approval from the appropriate personnel for all purchases. No items should be purchased without obtaining the proper authorization.

If the department considers this policy impractical, steps should be taken to amend the current purchasing policy, keeping in mind the controls over the purchasing procedures and the delegation of authority to the proper personnel.

Current Status 2: Partially Implemented.

We reviewed 72 expenditures greater than \$200 that occurred between November 2005 and August 2006. We determined that 21 of the expenditures (29 percent) did not meet former or current purchasing policy requirements for proper authorization. The Fire Department management expected to modify purchasing policy and implement the policy changes by November 2005; however, due to several changes in Department Head, changes to the policy were not completed until July 2006. The modifications were still being implemented at the time of review.

Cash Handling

Finding 3: There were several weaknesses in internal controls related to cash handling.

Recommendation 3.1: Develop and utilize a transfer of accountability document to adequately account for funds.

Current Status 3.1: Partially Implemented.

The Fire Department developed a Transfer of Accountability Memo. This document detailed the deposit amount, date, and other information relevant to the funds collected. The memo was to be signed by the two personnel transferring accountability and one additional person not directly involved with the transaction. We reviewed 58 deposits that required the use of the Transfer of Accountability Memo. We found the Transfer of Accountability Memo was missing or incomplete for 41 percent of these deposits.

Recommendation 3.2: Establish procedures to ensure checks are restrictively endorsed immediately upon receipt.

Current Status 3.2: Fully Implemented.

The Fire Department established procedures to ensure checks were restrictively endorsed immediately upon receipt. We observed that checks were restrictively endorsed upon receipt.

Recommendation 3.3: Immediately change the safe combination. Establish and implement a policy to change the safe combination upon the departure of any employees with knowledge of the combination. In addition, procedures should include maintaining historical record of those individuals with knowledge of the safe's combination. The record should indicate the employee's name, date the combination was changed, and termination or transfer dates of employees knowledgeable of the safe combination.

Current Status 3.3: Partially Implemented.

The Fire Department established and implemented a policy that would ensure adequate controls over the safe at the Hazard Reduction Division. The combination for this safe was immediately changed following the prior audit and has been changed upon departure of any employee with knowledge of the combination. There was a historical record as recommended. It should be noted that Riverside County Funds were also stored in safes at other locations. These safes were not property of Riverside County but owned by the State of California and therefore not addressed in the newly established County policy. The State of California has its own policies regarding the controls over its safes. We recommend that these safes be included in the County policy or not used to secure Riverside County Funds or assets.

Finding 4: Cash collections at the Indio Planning and Engineering Division and Murrieta Planning and Engineering Division were not delivered daily to the Perris Headquarters, in accordance with Board of Supervisors' Policy A-25 and Standard Practice Manual (SPM) No. 705, Paragraph 2.

Recommendation 4: All remote locations should make daily deposits of collections, in accordance with Board of Supervisors' Policy A-25 and the Auditor-Controller's Standard Practice Manual 705, Paragraph 2.

Current Status 4: Not Implemented.

The Fire Department required that its remote offices deliver deposits to the Perris office daily; however, the remote locations did not consistently meet this requirement. We reviewed the documentation for 19 deposits made between November 2005 and August 2006. The daily collections for these deposits ranged from \$616 to \$14,984 with the average deposit of approximately \$8,775. Fifty-eight percent of these deposits were not made daily as required; on average, collections were held over six days before being deposited. The remote offices

indicated that they had one individual performing all aspects of customer service and when demand was high, these individuals were unable to prepare and deliver collections to the Perris Administration office.

Finding 5: Inadequate segregation of accounting and cash handling duties existed at the multiple cash handling locations.

Recommendation 5: Assign an employee without cash handling duties the responsibility over the accounting functions, or implement additional compensating controls, as recommended in the Auditor-Controller's Internal Control Handbook, Chapter 2, Paragraph 2a.

Current Status 5: Partially Implemented.

The Fire Department developed additional compensating controls including a third signature requirement for the Transfer of Accountability Memo (see Current Status 3.1, Page 2). Use of the Memo was not required until the end of June 2006 and was still in the implementation phase at the time of review.

Fixed Assets

Finding 6: The Fire Department made various unauthorized work order changes on the approved purchase order for the fire trucks without obtaining proper approval.

Recommendation 6: Adhere to Ordinance 459.4 and County Purchasing Policy when entering into and/or making changes to procurement contracts.

Current Status 6: Fully Implemented.

The Fire Department used four procurement contracts to purchase capital assets during the audit period. We reviewed the related purchase orders and contract information in PeopleSoft Financials and determined the Fire Department was in compliance with Ordinance 459.4 and the County Purchasing Policy.

Finding 7: The Fire Department did not adequately track capitalized and non-capitalized assets.

Recommendation 7.1: Maintain a comprehensive list of all capitalized and non-capitalized assets, including the detailed description, serial number, location and the individual accountable for the asset.

Current Status 7.1: Partially Implemented.

The Fire Department maintains a comprehensive list of capitalized assets; however, the list only gives the general location of the assets and does not indicate the individual accountable. The Fire Department as a whole does not maintain a comprehensive list of non-capitalized assets. The Information Technology/Communications Unit maintains a listing of its non-capitalized assets categorized as "walk-away" in a database system, which includes the serial number, location, and individual accountable for the asset.

We attempted to locate 53 capitalized and non-capitalized assets purchased between April 1, 2005 and August 18, 2006. We found that 22 non-capitalized assets could not be tracked because the information needed to track the assets was not available. We also found that four

capitalized assets were not located and one asset belonging to the City of Blythe was recorded as a County asset.

With the assistance of the Fire Department's Finance department, we obtained the phone numbers for personnel that could either assist us in coordinating a time to view the asset at the various locations or obtain photographs of the assets via email. As of October 19, 2006, we were unable to obtain responses from personnel for eight of the assets.

Recommendation 7.2: Hold each fire station accountable for assets placed in their custody. Each fire station should be responsible for properly documenting any transfer of assets to another fire station and for promptly notifying the finance department of the transfer. Furthermore, the finance department should designate one individual the responsibility of periodically updating the fixed asset module to reflect all changes.

Current Status 7.2: Partially Implemented.

Of the 18 assets located, one did not have a Transfer of Asset form although it was transferred between fire stations.

The Fire Department has not yet established procedures for adequately tracking capitalized and non-capitalized assets. Consequently, a system for holding each fire station accountable for assets placed in their custody had not been established. Fire Department management indicated plans to develop procedures to track capitalized and non-capitalized assets. The finance department has designated one individual the responsibility of periodically updating the PeopleSoft Asset Module to reflect changes.

Finding 8: There was no documentation on file verifying the authorization and approval to dispose fire department assets, or the transfer of accountability document moving an asset from one agency to another.

Recommendation 8: Develop written policies to establish control over and provide guidance and procedures for the disposal of capital assets. At a minimum, the procedures should include: proper authorization for the disposal of assets; it should outline the forms to be completed upon disposal; responsibility for follow-up on the proceeds from sale of assets; and, responsibility for notifying the Auditor-Controller's Office of all deletions and changes within 30 days.

Current Status 8: Fully Implemented.

The Fire Department developed policies and procedures to ensure the disposal of fixed assets was adequately documented and reported. We reviewed the documentation for 17 fixed assets disposed during the audit period and found the disposals were adequately documented and deleted from the PeopleSoft Asset Module.

Finding 9: The Fire Department does not perform an annual physical inventory count of capitalized assets in accordance with the County Internal Controls Handbook (ICH) and generally accepted accounting principles (GAAP). In addition, the department does not maintain a copy of their certified fixed asset listing.

Recommendation 9.1: Perform an annual physical inventory count of all capitalized assets in accordance with ICH and GAAP.

Current Status 9.1: Partially Implemented.

Although the Fire Department had taken steps to improve its annual physical inventory count process, it did not perform the annual inventory count of all capitalized assets in accordance with County Internal Controls Handbook and Generally Accepted Accounting Principles. The Fire Department has assigned the responsibility for overseeing its annual physical inventory count to a staff member in its Finance Unit. Due to the size of the department and considerable number of asset locations, this staff member relies on asset records in the OASIS System and confirmation of assets by staff at the various locations to complete the annual count. The personnel confirming the existence of assets are not required to sign and date an inventory sheet attesting to the accuracy of their confirmation.

Recommendation 9.2: Update the fixed asset listing before certifying the report under oath. Also, a copy of the certified report should be maintained by the Department.

Current Status 9.2: Fully Implemented.

We reviewed the fixed asset listings for Fiscal Years 2004/2005 and 2005/2006 and determined there were no disposed assets on either listing. The Fire Department updated the fixed asset listing prior to certification under oath and maintained a copy of the certified report.

Finding 10: The Fire Department has not implemented a procedure for establishing the useful life for fire engines in the PeopleSoft Fixed Asset Module. Fire engines are assigned various estimated useful lives ranging from 72 to 180 months.

Recommendation 10: Implement a procedure for estimating the useful life for fire engines in the PeopleSoft Fixed Asset Module, in line with guidance provided by the Auditor-Controller's Office. Consistency must be practiced when evaluating the useful life of assets.

Current Status 10: Partially Implemented.

The Fire Department had implemented policies and procedures for estimating the useful life for fire engines in the PeopleSoft Fixed Asset Module. However, these policies and procedures had not been fully implemented at the time of review. We reviewed the estimated useful life data for 33 Fire Department fire engines and found that 19 did not have an estimated useful life that was consistent with Fire Department policy. Consequently, the depreciation expense for fiscal year 2005/2006 was overstated by approximately \$31,100.

Finding 11: The Fire Department has not recorded or capitalized numerous vehicles in the PeopleSoft Fixed Asset Module.

Recommendation 11: Ensure all acquisitions of fixed assets, including purchases, donations, and capital leases are properly recorded in the PeopleSoft Fixed Asset Module within 30 days of acquisition.

Current Status 11: Partially Implemented.

We reviewed documentation related to the acquisition of 27 vehicles. We found that the Fire Department notified the Auditor-Controller of these vehicles, although not consistently within 30 days of acquisition. The Fire Department has a newly hired employee responsible for ensuring acquisitions are properly processed. Since the employee has been performing this task, the notification time for vehicle acquisition has been reduced from 138 days to 20 days.

Finding 12: The Fire Department's accounting records do not include the capitalization of fire stations or any departmentally owned administrative buildings.

Recommendation 12.1: Develop a comprehensive inventory of all Riverside County Fire Department owned land, buildings, and building improvements in order to properly record them in the accounting records as soon as possible.

Current Status 12.1: Fully Implemented.

In April 2006, the Fire Department completed an inventory of all Riverside County Fire Department owned land, buildings and building improvements and consequently recorded 45 additional buildings in the PeopleSoft Asset Module.

Recommendation 12.2: Implement procedures to report new acquisitions within 30 days to the Auditor-Controller's Office. Buildings under construction should be recorded as building in progress.

Current Status 12.2: Fully Implemented.

The Fire Department implemented procedures to report new acquisitions to the Auditor-Controller's Office within 30 days and to record buildings under construction in the PeopleSoft Asset Module. Four buildings and building improvements under construction during the audit period were appropriately recorded in the PeopleSoft Asset Module.