

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

111



**FROM:** County Auditor-Controller

**SUBMITTAL DATE:**  
October 27, 2011

**SUBJECT:** Internal Audit Report 2011-304: County of Riverside Fire Department Cooperative Services Agreements with Local Agencies, Follow-up.

**RECOMMENDED MOTION:** Receive and file Internal Audit Report 2011-304: County of Riverside Fire Department Cooperative Services Agreements with Local Agencies, Follow-up.

**BACKGROUND:** We have completed the Follow-up Audit of Cooperative Service Agreements with Local Agencies. Our audit was limited to reviewing actions taken as of April 6, 2011, to correct the findings noted in our original audit report 2009-027-002 dated December 24, 2009.

(Continued)

*Paul Angulo*

Paul Angulo, CPA/MA  
County Auditor-Controller

<b>FINANCIAL DATA</b>	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

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

**C.E.O. RECOMMENDATION:**

APPROVE

BY: *Karen L. Johnson*  
Karen L. Johnson

**County Executive Office Signature**

ATTACHMENTS FILED WITH THE CLERK OF THE BOARD

Departmental Concurrence

- Policy
- Consent
- Policy
- Consent

Dep't Recomm.:  
Per Exec. Ofc.:

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2.12

**BACKGROUND continued:**

The original audit report contained five findings, all of which required corrective action and; therefore, were reviewed as part of this audit. For an understanding of the original audit, Internal Audit Report 2009-027-002, please refer to [www.auditorcontroller.org](http://www.auditorcontroller.org). This follow-up audit found that of the five findings, three were corrected and two were partially corrected.

We will follow-up on the two partially corrected findings in our second Follow-up Audit of Cooperative Service Agreements with Local Agencies within one year.



# County of Riverside

## INTERNAL AUDIT REPORT

2011-304

### County of Riverside Fire Department Cooperative Service Agreements with Local Agencies Follow-up

October 27, 2011

Office of  
**Paul Angulo, CPA, MA**  
County Auditor-Controller

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



**COUNTY OF RIVERSIDE  
OFFICE OF THE  
AUDITOR-CONTROLLER**

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**COUNTY OF RIVERSIDE  
AUDITOR-CONTROLLER**

**Paul Angulo, CPA, MA  
AUDITOR-CONTROLLER**

October 27, 2011

Chief John Hawkins  
Fire Department  
210 W San Jacinto Ave.  
Perris, CA 92570

**Subject: Internal Audit Report 2011-304: County of Riverside Fire Department,  
Cooperative Service Agreements with Local Agencies, Follow-up**

Dear Chief Hawkins:

We have completed the Follow-up Audit of Cooperative Service Agreements with Local Agencies. Our audit was limited to reviewing actions taken as of April 6, 2011, to correct the findings noted in our original audit report 2009-027-002 dated December 24, 2009.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our opinion.

The original audit report contained five findings, all of which required corrective action and; therefore, were reviewed as part of this audit. For an understanding of the original audit, Internal Audit Report 2009-027-002, please refer to [www.auditorcontroller.org](http://www.auditorcontroller.org). This follow-up audit found that of the five findings, three were corrected and two were partially corrected.

Summarizing the partially corrected findings:

- The methodology to include the cost of Hazmat as a component of the cost allocation to contracting cities is in place. However, the money recuperated through cost recovery efforts is currently not being allocated in the same manner. We have discussed this with the Fire Department and they agreed to allocate cost recovery revenue in the same manner.

- Processing times of cost recovery billings to non-contracting parties remains a concern. The Fire Department currently takes an average of 113 days to issue the first billing and an average of 199 days to receive payment from when the hazmat incident occurred.

Further details of the findings identified in the original audit are provided in the body of this report. We will follow-up on the two partially corrected findings in our second Follow-up Audit of Cooperative Service Agreements with Local Agencies within one year.

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

Paul Angulo, CPA, MA  
Auditor-Controller

A handwritten signature in black ink, reading "Russell S. Dominski". The signature is written in a cursive style with a large, sweeping initial "R".

By: Russell S. Dominski  
Interim Chief Internal Auditor

cc: Board of Supervisors  
Executive Office  
Grand Jury

**Finding 1:**

The current practice of billing only the parties responsible for creating hazardous materials incidents puts the financial burden almost totally on the county. The allocation of Hazmat's operating costs to contracting agencies was discontinued when a new allocation methodology was put into effect in 2006. The current County Fire Administration is unaware of a compelling justification for not allocating Hazmat operating costs.

The Hazmat operating cost is about \$5 million per year. For a two-year period ending December 31, 2008, the department recovered an average of \$49,500 per year from responsible parties. During that same period, the department responded to 597 Hazmat incident calls of which, 347 or 58% were within jurisdictions of contracting cities (Table 1). Based on incident responses, the contracting agencies' proportionate share of the Hazmat operating costs was approximately \$2.9 million. The current practice has the practical effect of the county absorbing the majority of Hazmat operating costs.

**Table 1: Hazardous Materials Incident Calls**

Calendar Year	Number of Calls	Calls within Contracting Agencies	%
2008	291	167	57%
2007	306	180	59%

**Recommendation 1:**

Update the cost allocation plan to include Hazmat operations as a program component so that contracting agencies are billed their basic share of Hazmat operating costs. Costs that are not recovered through periodic cost allocation should be billed at a rate that will enable the county to recover full costs.

**Current Status 1: Partially Corrected**

The Fire Department has included 50% of Hazmat's cost of operations as a program component of the cost allocation. It is important to note that the total operating cost of Hazmat has been reduced gradually since the original audit report was issued from \$5 million to about \$2.5 million as a result of budget cuts. As a result, Hazmat's budget for FY 2011/12 is shown as follows:

Hazmat's Cost for FY 2011/12	Personnel	Operating	Hazmat Vehicle Replacement Cost	Subtotal	Budgeted cost recovery	Total budgeted cost
	\$2,260,004	\$335,757	\$38,745	\$2,634,506	<\$478,000>	2,156,506

The current methodology shares 50% or \$1,130,002 of personnel cost with contracting cities through the cost allocation process while the other 50% of the personnel cost is sustained by the county in accordance with Government Code 51350. However, the current process allocates all revenue recovered through the Department's cost recovery efforts amongst all contracting parties, offsetting the actual cost respectively (see table above). As a result, we find this process

to be inconsistent with their overall cost allocation process. We have discussed this with the Fire Department and they agreed to allocate cost recovery revenue in the same manner.

**Finding 2:**

The department uses the California State rates for billing the parties responsible for creating hazardous materials incidents because the department has not developed its own Hazmat rates based on actual costs. The use of the state rates is not in keeping with the Government Code Section 51350 and County Board Policy B-4 stipulating that actual costs are to be recovered.

**Recommendation 2:**

Develop Hazmat billing rates based on actual operating costs. We envision a need for at least two rates: one rate for billing non-contracting agencies for the full Hazmat cost, and another rate for billing contracting agencies for costs that are not recovered through the cost allocation

**Current Status 2: Corrected**

The Fire Department has developed its own Hazmat rates for equipment and personnel. The personnel rates were reviewed by the Auditor Controller's Office in May 2011 and approved by the Board of Supervisors in June 2011. The Fire Department is now in compliance with Government Code Section 51350 and County Board Policy B-4.

**Finding 3:**

As of September 22, 2009, the department had not billed the parties responsible for creating 147 Hazmat incidents. Twenty-two of these incidents are more than three years old. We estimated the unbilled charges to be about \$576,000 (Table 2).

**Table 2: Unprocessed Charges**

Responsible Party	Number of Unprocessed Charges	Estimated Total Charges
Individual	67	\$ 224,000
Business	80	352,000
Total	147	\$ 576,000

**Recommendation 3**

Process all pending Hazmat bills and bring all Hazmat claims status to current. Review procedures to ensure the prompt processing of charges going forward.

**Current Status 3: Partially Corrected**

Of the Hazmat incidents identified in previous audit (see table above), \$81,592 was recovered and another \$44,538 is in "processed" status. The other incidents totaling \$449,870 were determined unrecoverable due to the two year statute of limitations (Health and Safety Code 13009, 13009.1 and 13009.6). Processing times of cost recovery billings remains a concern. The Fire Department currently takes an average of 113 days to issue the first billing and an average of 199 days to receive payment from when the hazmat incident occurred. To improve on their processing efficiency, the department has dedicated more resources to the cost

recovery efforts, hiring additional help and improving their procedures. This has been an ongoing process given the budget constraints.

**Finding 4:**

We noted the following errors in the cost allocation plans:

- a. Fiscal Year 2008/09: The number of yearly incident calls made by the City of Banning was entered as 2,848, instead of 3,848, causing a \$54,131 understatement of costs allocated to the contracting city of Banning.
- b. Fiscal Year 2009/10: Salaries of Deputy Chiefs and Division Chiefs were entered incorrectly which could potentially result in overbilling of contracting agencies in the amount of \$13,034. Management has been made aware of this situation so that appropriate adjustments could be made when the billings are actually prepared.

Currently, a second staff member is being cross-trained to assume the cost allocation plan preparation to allow the Deputy Chief for Administration to devote more time in overseeing the cost recovery process.

**Recommendation 4.1**

Resolve billing errors, as noted above, with the contracting agencies.

**Recommendation 4.2**

Complete the employee cross-training so that the cost allocation can be delegated to this person as early as practicable

**Current Status 4: Corrected**

The Fire Department corrected the errors noted in the FY2008/09 and FY2009/10 cost allocation plans and billed the City of Banning for the understated amount.

An employee was trained on and was delegated the responsibility for preparing the cost allocation with management reviewing the work. The department plans to continue training other employees on the cost allocation process.

**Finding 5:**

The cost allocation policy and procedures are not formally documented. ACO Standard Practice Manual Policy 104 (Internal Control) establishes that the maintenance of well-documented policies and procedures are the foundation for good internal control.

**Recommendation 5**

Document the cost allocation policies and procedures to guide staff and help ensure continuity of work during employee absence or turnover.

**Current Status 5: Corrected**

The Fire Department has developed draft policies and procedures for cost allocation and continues to work on its procedure manual to improve the cost allocation process.