



County of Riverside

INTERNAL AUDITOR'S REPORT

Riverside County Fire Department

July 7, 2005

Office of
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County Auditor-Controller

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July 7, 2005

Mr. Craig E. Anthony, Fire Chief
Riverside County Fire Department
210 W. San Jacinto Avenue
Perris, CA 92570

Subject: Internal Auditor's Report # 2005-006 – Riverside County Fire Department

Dear Chief Anthony:

We have completed an audit of the Riverside County Fire Department. We conducted the audit during the period December 2004 through April 2005, for operations of September 1, 2002 through March 31, 2005.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal procedures.

We conducted our audit in accordance with the 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 audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the Fire Department has internal controls in place over the cash handling process; however, they are not consistently applied or adhered to by all the divisions of the County Fire Department. In addition, we determined the department has inadequate internal controls over the purchasing and fixed asset processes and functions.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank the Riverside County Fire Department's management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
County 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
District Attorney
Grand Jury
Rob Rockwell, Executive Office

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Executive Summary

Overview

Riverside County was one of the first in California to endorse and support cooperative and integrated fire protection for the greatest efficiency and economy, authorizing funds to augment the State effort as early as 1906. Since 1921, the County has appointed the California Department of Forestry Chief as the County Fire Chief. It has appropriated County funds to augment and improve the level of protection of an additional 3,570,000 acres of local responsibility area, and protect lives and structural property in the unincorporated areas of the County.

The Riverside County Fire Department is one of the largest regional fire service organizations in California. It operates 93 fire stations, providing fire suppression, emergency medical, rescue, and fire prevention services. The Department is staffed with approximately 865 career and 900 volunteer personnel, and currently serves approximately 1,545,000 residents in an area of 7,004 square miles. Riverside County Fire Department serves sixteen of the twenty-four cities in the County as well as one Community Services District. Funding for the department is obtained from various sources such as the County general fund and city general and benefit assessment funds, redevelopment and other sources. Riverside County Fire Department's combined State, County, and contract cities budget is over 153 million dollars.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the department's processes and fiscal procedures in the following areas:

- Purchasing
- Cash Handling
- Fixed Assets

Overall Conclusion

Based upon the results of our audit, we determined the Fire Department has internal controls in place over the cash handling process; however they are not consistently applied or adhered to by all the divisions of the County Fire Department. In addition, we determined the department has inadequate controls over the purchasing and fixed asset processes and functions.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Objectives

To determine:

- the existence and adequacy of internal controls over the purchasing, cash handling and fixed asset processes; and
- the reliability and validity of financial records and transactions over fixed assets.

Methodology

To accomplish our objectives, we:

- performed a financial analysis for the period of July 1, 2002 through January 31, 2005;
- conducted interviews and performed walk-throughs with department personnel;
- completed narratives and flowcharts of various processes;
- performed a risk assessment of the County Fire Department;
- conducted operational reviews and observations;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- reviewed and performed detailed testing of the department's purchasing process to ensure adherence to the County Purchasing policy and to the Fire Department Purchasing Policy Letter No. 6-03;
- verified receipts were properly safeguarded prior to deposit, deposited in a timely manner, properly maintained, monitored and recorded; and,
- reviewed and performed detailed testing of the department's acquisition, monitoring and disposal process of capitalized assets.

Results

Purchasing

Authority to purchase or contract is the exclusive right of the Board of Supervisors and the County Purchasing Agent. The Board of Supervisors delegated authority for purchasing and contracting to the County Purchasing Agent (Director of Purchasing), via County Ordinance 459.4. In short, all contract/purchase orders to procure goods or services must be approved by the Purchasing Agent or Board of Supervisors.

The County Purchasing Agent has delegated his authority to his staff with varying limitations. The Purchasing Agent and his staff make specific delegation via, Low Value Purchase Authorizations (LVPA), Super Low Purchase Authorizations (SLPA), and Extended Low Value Purchase Authorizations (ELVPA). The Riverside County Fire Department incorporated the use of Reduced Low Value Purchase Authorizations (RLVPA) to differentiate between the spending authorities of a Division Chief from the Battalion Chief and Fire Captain.

The Riverside County Fire Department utilizes a purchase requisition, Form 42.9, as the media to request, communicate, authorize, and track procurement requests. A purchase requisition is required for all purchases over \$200 and must include a complete description, quantity, price, and a justification for each purchase. A purchase requisition, Form 22.9, is also utilized by the department for items requested from the Service Center Catalog.

Super Low Value Purchase Orders (SLVPO) are utilized for purchases under \$200 per vendor, per day, including any sales tax and freight charges. Fire Captains are authorized to make purchases under \$200 without written Battalion Chief's approval up to a limit of \$2,000 per fiscal year for the upkeep of stations and vehicles. Stations are responsible for tracking their own spending against the authorized threshold, with Fire Department Finance Division reviewing and auditing their compliance. Invoices are signed by a Fire Captain or higher rank and returned to County Finance for prompt payment to the vendor. When a Fire Captain exceeds the \$2,000 threshold for the upkeep of the station and vehicles, purchase requisitions are required for all purchases and must include a Battalion Chief or higher level approval.

Reduced Low Value Purchase Orders (RLVPO) are utilized with a spending limit of \$1,000 per vendor, per day, including any sales tax and freight charges. Battalion Chiefs are authorized to approve purchases up to \$1,000 without written Division Chief approval. All RLVPO purchases must be submitted on a Purchase Requisition (Form 42.9) and forwarded to the Service Center with proper signatures of approval. The Service Center will either procure the item or authorize the stations to complete the purchase within their venue.

Low Value Purchase Orders (LVPO) are utilized for purchases with a spending limit of \$2,500 per vendor, per day, including any sales tax and freight charges. Division Chiefs are authorized to make purchases up to \$2,500 without written Deputy Chief approval. Purchases over \$1,000 must be accompanied by three competitive bids, unless the vendor is on contract with the county for the item being purchased. All LVPO purchases must be submitted on a Purchase Requisition (Form 42.9) and forwarded to the Service Center with proper signatures of approval. The Service Center will either procure the item or authorize the stations to complete the purchase within their venue.

Extended Low Value Purchase Orders (ELVPO) are utilized for purchases with a spending limit of \$25,000 per vendor, per day, including any sales tax and freight charges. Deputy Chiefs are authorized to make purchases up to \$25,000 without written County Fire Chief approval. Through proper procurement procedures, the departmental buyer must formally bid purchases for goods totaling more than \$10,000, unless the item is on contract with the County.

Only the County Fire Chief is authorized to approve purchases greater than \$25,000. The departmental buyer must formally bid purchases for goods totaling more than \$10,000 or services totaling more than \$25,000. These purchases must be submitted on a Purchase Requisition (Form 42.9) and forwarded to the Service Center with proper signatures of approval. The Service Center will either procure the item or authorize the stations to complete the purchase within their venue.

Finding 1

The Fire Department does not enforce nor monitor the purchasing policy in regards to super low value purchase orders. Fire Captains of all fire stations are authorized to make purchases under \$200 without written Battalion Chief approval up to a limit of \$2,000 per fiscal year for facility and vehicle maintenance. However, management has indicated the Fire Department Finance Division does not have the personnel to audit and monitor these super low value purchase orders. Based upon the results of our testing, we determined the fire stations are not adhering to this policy and are making purchases for facility and vehicle maintenance for amounts above the \$2,000 threshold per fiscal year.

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.

Management's Reply

Concur. Every Division Chief is now given a cost breakdown by station monthly. The report includes both encumbrances and expenditures for

each Fire Station. It is the Division Chief's responsibility to monitor the Fire Stations spending and take corrective action for non-compliance.

Finding 2

A component of an effective internal control environment is the existence of written policies and procedures. They define management's position and guide employees in the performance of their duties. Although the Fire Department has established purchasing policies and procedures for assets, we determined these policies are not administered or adhered to by the department based on the following results:

- The Department's purchasing policy requires all purchases over \$2,500 to be submitted and approved on a Purchase Requisition Form 42.9 by all of the following: Battalion Chief, Division Chief and Deputy Chief. We noted four of thirteen instances where the Form 42.9 was not always approved by all required personnel; with the only approval obtained by the personnel with the highest rank.
- The Department's purchasing policy requires all purchases over \$25,000 to be approved and authorized solely by the County Fire Chief. Eleven instances are noted where purchases over \$25,000 were not properly approved by the Fire Chief, but approved by the Deputy Chief of Administration. Although the Fire Chief verbally delegated authority of approval to the Deputy Chief of Administration for purchases over \$25,000, no formal documentation of this authorization exists.
- A non-budgeted item was purchased and paid without proper written approval. An instance was noted where a shade structure was purchased for a fire station in the amount of \$12,311. No written approvals for the purchase were documented. Management indicated a verbal approval was obtained by the Deputy Chief for the item; however, this process diminishes and weakens the controls established for the purchasing process. The Department's purchasing policy requires all purchases of \$2,500 to \$25,000 to be submitted on a Purchase Requisition Form 42.9 with a Deputy Chief's authorization.

Without obtaining proper approval for purchases, an opportunity for fraudulent transactions to occur exists.

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.

Management's Reply Concur. The Fire Department will be modifying its Purchasing Policy.

- The policy will exclude written approval on items approved during the Board of Supervisors budget approval process. The Fire Chief prior to submitting the budget to the Board approves these items.
- The policy will be modified to allow for delegation of the Fire Chief's authority to executive staff for reoccurring operation requests. (I.E. Inventory replenishment, routine operational purchases, etc...)
- The policy will allow for the highest level of authority on the purchase request as being acceptable. All chains of command will not be necessary if the highest required is authorizing the purchase.
- All non-contract purchases will require written authorization, either with a 42.9 or e-mail.

The estimated date of corrective action is October 31, 2005.

Cash Handling

Results

We noted the cash handling process followed good internal control procedures where cash collections were restricted to the following seven locations for all departmental receipts: Ben Clark Training Center, Cost Recovery Division, Hazard Reduction Division, Indio Planning and Engineering Division, Murrieta Planning and Engineering Division, Perris Headquarters, and Riverside Planning and Engineering Division. Receipts were stored in locked cabinets or safes with limited access, checks were restrictively endorsed upon receipt, and Official County Receipts were issued for all monies received. Cash receipts were reconciled daily with the deposit report and supporting documentation. Procedures existed to ensure collections were recorded accurately and promptly with management's review.

Finding 3

Weaknesses of internal controls over the safeguarding of cash are noted in the following areas:

- Transfer of receipts from one employee to another is not evidenced by written documentation at the Indio and Murrieta Planning and Engineering Divisions. Chapter 2, Section 2, h (5) of the Auditor-Controller's Internal Control Handbook states, "funds transferred from one employee to another should be immediately verified and evidenced by a written, signed receipt." Without immediate verification of the amount transferred and creation of a signed transfer document in the presence of both parties, individual accountability cannot be established.
- Checks received via the mail in the Hazard Reduction Division are not restrictively endorsed immediately upon receipt. Office procedure require the endorsement of checks to occur when payments are entered into OASIS at the end of the month, and are ready for deposit with the Accounting Technician II, in the Finance Division. The Auditor-Controller Internal Control Handbook, Chapter 2, Paragraph 2.g. states that checks should be restrictively endorsed upon receipt. The absence of this control allows for possible theft and abuse of funds.
- The Hazard Reduction Division does not change the combination to the safe after an individual with knowledge of the combination is terminated, retired or transferred. In addition, the department does not have a written policy to maintain a historical document of persons knowledgeable of the combinations, termination date, if applicable, and safe combination change date.

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

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

The estimated date of corrective action is October 31, 2005.

Management's Reply Concur. A transfer document has been established and procedures will be developed to ensure the usage of the document between support staff and finance staff. A policy regarding safe combinations will be developed and implemented Department wide.

Finding 4 Cash collections at the Indio Planning and Engineering Division and Murrieta Planning and Engineering Division are 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. In addition, deposits are not made in a timely manner. The Murrieta Planning & Engineering Division does not deposit receipts for up to a period of 173 days. Seventeen receipts collected between June 12 and December 1, 2004, (\$4,460.31) were deposited on December 2, 2004. As a result of untimely deposits, interest revenue is lost. Based on our analysis of interest lost from untimely deposits, we determined the amount to be immaterial. However, collections are retained longer than necessary, therefore increasing the vulnerability to loss, misappropriations and theft.

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

Management's Reply Concur. The staff in the Desert currently do not have access to make daily bank deposits. It is not feasible or cost effective for someone to drive from the Desert to Perris every day. Therefore, the remote offices will mail their deposits to the Perris office.

Finding 5 Inadequate segregation of accounting and cash handling duties existed at the following remote locations: Ben Clark Training Center, Cost Recovery Division, Hazard Reduction Division, Indio Planning and Engineering Division, Murrieta Planning and Engineering Division, and Riverside Planning and Engineering Division. One person received cash, prepared the Official County Receipt, prepared the deposit, and posted to the accounting records. Per Paragraph 2a Chapter 2 of the Auditor-Controller's Internal Control Handbook, no person should be assigned as the only control element over cash handling functions. Without adequate segregation of duties, there is a potential for cash shortages/thefts to occur without being detected during the normal course of business.

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.

Management's Reply Concur. The Fire Department understands and concurs with the requirement, but has limited staff in this area. It is not cost effective considering the amount of each deposit to hire additional staff. The Department will make every effort with the current staff levels to comply.

Results

Fixed Assets

Asset purchases are budgeted and approved by the Board of Supervisors. Purchases greater than \$10,000 are processed through the County's Purchasing Department utilizing the bid process. All requisitions for assets are verified and approved by someone other than the person preparing the purchase order.

Apparatus funded by Riverside County Fire Department and the California Department of Forestry currently totals approximately 449 pieces of equipment. This equipment includes: fire engines, ambulances, water tenders, communication units, breathing support units and hazmat units; all to protect and serve the citizens of Riverside County.

Finding 6

The Board of Supervisors approved the purchase of 20 fire engines at \$299,122 each, from the lowest bidder with an option to buy additional engines as funds became available. County Purchasing obtained bids, selected the lowest bidder, and obtained Board of Supervisors approval to waive the Local Area Preference Vendor. The cost of awarding the contract for the purchase of 20 fire engines, based on the Local Area Preference, would have resulted in an additional cost of \$264,817 above actual base bid price from the vendor with the lowest bid; roughly the cost of one new fire truck. Given the anticipated purchase of 18 additional fire trucks over the next three years, this cost for Local Area Preference could have resulted in an additional difference of \$238,335, for a total amount of \$503,152, or roughly the cost of nearly two new fire trucks.

The Fire Department made various unauthorized work order changes on the approved purchase order for the fire trucks without obtaining proper approval. During the development process, the Fire Department requested twelve work changes from the vendor in the amount of \$21,822 per fire engine, resulting in a 7.3% increase per fire engine. The County Purchasing Agent was not informed of these changes; therefore, no written contract change was made between the Agent and the vendor. The work changes included additional equipment added to each of the fire engines. The changes in work orders resulted in an additional cost to the County of \$21,822.15 for each of the 29 fire engines purchased (three of which were purchased on behalf of contract cities) for a total of \$632,842.

Ordinance 459.4, the County's Purchasing Manual and the Fire Department's Purchasing Policy dictates that purchases to procure goods or services must be approved by the County Purchasing Agent or the Board of Supervisors. In addition, the Board of Supervisors and the Purchasing Agent are the only authorized representatives who may at

any time, by written order, make changes within the general scope of an agreement. If any such change causes an increase or decrease in the cost of, or the time required for the performance of any part of the work under a contract, an equitable adjustment shall be made in the contract price or delivery schedule, or both, and the contract shall be modified in writing accordingly.

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

Management's Reply Concur. The Fire Department's current executive management team is committed to complying with Ordinance 459.4 and County Purchasing Policy.

Finding 7 The Fire Department does not maintain a comprehensive list of either capitalized nor non-capitalized assets, including the detailed description, serial number, location and the individual accountable for the asset. It was also noted that there is no accountability for the transfer of assets within the fire station facilities, nor is the PeopleSoft Fixed Asset Module updated to reflect the transfers or disposals of fixed assets.

To perform our detailed testing, we requested the detailed description and location for a selected sample of 46 assets. Over a period of 2 weeks, the Fire Department personnel devoted much time to researching the status and location of the assets. Through much time and effort put forth by both the department's personnel and the audit team, we were able to verify the location of 42 of the 46 assets selected for testing. The ineffective controls over the monitoring of fixed assets resulted in the inability to locate 4 assets, which included: 2 communication systems, which were reported by management to be located in Sacramento with a vendor currently building a communication system; a generator, which was not found at the station specified by the finance department; and an engine with an unknown location.

The County of Riverside currently does not have a policy established related to the acquisition, monitoring and disposal of non-capitalized assets. The Auditor-Controller's Office is currently in the process of drafting a policy to address these important concerns. However, management of each department in the County of Riverside is responsible to account for County property in his/her possession or charge, as required by the Auditor-Controller Internal Control Handbook (ICH) Chapter 7. This responsibility should include the establishment of controls over the acquiring, monitoring and disposal, of capitalized and non-capitalized assets. The absence of internal controls over the

safeguarding of fixed assets could result in theft, loss or misrepresentation.

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.

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.

Management's Reply Concur. The Fire Department has requested additional staff in FY 05/06 budget. This staff will assist in maintaining an accurate capitalized asset listing. The Department currently utilizes the PeopleSoft module for all capitalized assets and their location. Additional staff will allow the Department to update this asset listings changes, deletions, or additions occur on a monthly basis.

The procurement policy will be updated to ensure the accuracy of the asset listing in PeopleSoft.

Although, the County of Riverside does not have a policy related to the acquisition, monitoring, and disposal of non-capitalized assets, the Divisions (IT, Comm, Inventory) currently maintain their own database of non-capitalized assets that have a material resale value.

Finding 8 Fixed Assets are disposed of without adequate documentation supporting the disposal, such as:

- Proper authorization from Supervisory Personnel;
- Transfer of accountability to County Purchasing;
- Follow-up on County Purchasing for auction proceeds;
- Salvaged items are disposed without County Purchasing Agent approval; and,
- Deletion of assets on County's Fixed Asset Listing.

During the audited period of September 2002 to March 2005, at least 35 vehicles were sent to auction. There is no documentation on file verifying the approval and authorization by management and the transfer of accountability from one agency to another for the disposed assets. Upon inquiry of the auditor, management requested proof of the auction and its proceeds from the County Purchasing Department. The

County Purchasing Department provided documentation of auction proceeds for 31 of the 35 vehicles.

Further research indicated that prior to our test period, an additional 17 vehicles were disposed of either by auction or damaged fleet. The Fire Department was unable to provide disposal records for these 17 assets. The County Purchasing Department provided proof of auction sales for 3 of the 17 vehicles. Furthermore, none of the disposed assets were deleted from the Fire Department's fixed asset records.

The Auditor-Controller's Office Standard Practice Manual (SPM) No. III-E-2-1.1 defines the disposal process for assets. It is mandatory of all county departments to immediately notify the Auditor-Controller's Office of all disposed assets utilizing Form SPM AM-7 or 940-111 within 30 days of any change. Without proper controls over the disposal process of capital assets, the risk of misappropriation of assets increases drastically.

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, outline the forms to be completed upon disposal, responsibility for follow-up on sale proceeds of assets and responsibility for notifying the Auditor-Controller's Office of all deletions and changes within 30 days.

Management's Reply Concur. Once the Department receives FY 05/06 additional budgeted personnel, the procurement policy and procedures will be updated to include the disposition of assets.

Finding 9 The Fire Department does not perform an annual physical inventory count of capitalized assets as required 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. However, the Auditor-Controller's Office provided us with a copy of the certified report as of June 30, 2004. Upon the results of our testing, we found the listing was certified under oath without the listing being properly updated to reflect all acquisitions and disposals during the fiscal year.

Not properly updating the fixed asset listing to reflect all acquisitions and disposals during the fiscal year may result in either the overstatement of deleted assets, or the understatement of omitted additions. Based on our testing, the current fixed asset listing as of March 2005, is overstated by 44 vehicles with a total value of

\$1,955,345. At least 27 vehicles (\$1,241,683) of the 44 vehicles should have been deleted from the accounting records prior to June 30, 2004.

SPM III-E-2-1.1, Section III, H, requires each department to update the fixed asset listing and have management certify the accuracy of the report. This SPM enforces California Government Code Section 24051 which specifically states that on or before July 10th in each year, each county officer or person in charge of any office, department, service, or institution of the county shall file with the county clerk, or with the County Auditor, an inventory under oath, showing in detail all County property in his or her possession or in his or her charge at the close of business on the preceding June 30th.

Recommendation 9.1 Perform an annual physical inventory count of all capitalized assets in accordance with County Internal Controls Handbook and generally accepted accounting principles (GAAP).

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.

Management's Reply Concur. The Fire Department will keep a copy of the report given to the Auditor Controller once a year. Once the Department receives FY 05/06 additional budgeted personnel, the Department will complete a physical inventory annually prior to submitting the annual asset listing.

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, such as: 72 months, 84 months, 129 months and 180 months.

The Fire Department inconsistently utilizes 72 to 180 months for the estimation of useful life of fire engines. According to management, fire engines are utilized for approximately 20 years; however, environmental factors and location may cause a fire engine to have a different estimation of useful life. Based on the results of our testing, 8 fire engines were disposed of with the useful life averaging 19 years. We believe assigning a 72 month estimated useful life to an asset that may be used for 20 years may not be a feasible estimate, since the asset would be valued at \$0 within 6 years while it may be utilized for an additional 14 years.

Based on the results of our testing of recent fire engine purchases, 16 of 26 engines purchased by the Fire Department were recorded and capitalized in the fixed asset module. Of the 16 engines capitalized, 6

engines were assigned a 72 month useful life, 1 engine was assigned 84 months and 1 engine was assigned 120 months. The table below summarizes the annual depreciation for the engines. The table also shows the difference for applying a different life span other than 20 years.

	72 Months	84 Months	120 Months	Total
Number of Engines Capitalized:	14	1	1	16
Actual:				
Life in Years	6	7	10	
Cost Per Engine	\$320,944	\$320,944	\$320,944	
Annual Depreciation per Engine	\$53,491	\$45,849	\$32,034	\$131,374
Total Annual Depreciation	\$748,874	\$45,849	\$32,034	\$826,757
If Capitalized in 20 Years:				
Life in Years	20	20	20	
Annual Depreciation per Engine	\$16,047	\$16,047	\$16,017	\$48,111
Total Annual Depreciation	\$224,658	\$16,047	\$16,017	\$256,722
Difference:	\$524,216	\$29,802	\$16,017	\$570,035

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.

Management's Reply Concur. The Fire Department will request guidance from the Auditor-Controller's Office on establishing a useful life of Fire Engines.

Finding 11 The Fire Department has not recorded nor capitalized numerous vehicles in the PeopleSoft Fixed Asset Module. Due to insufficient records provided by the Fire Department, we were unable to verify the quantity and dollar amount of those vehicles missing from the fixed asset module. However, approximately 39 vehicles are estimated to be omitted from the fixed asset listing. Of the 39 vehicles, at least five vehicles were donated to the Fire Department, without proper documentation in the Fire Department's fixed asset records. The remaining 34 vehicles were acquired by the department (one under a lease) but not recorded in the accounting records. All 39 are currently

in operation and maintained by the Fire Department's Fleet Division. Of the 39 vehicles, at least 11 were acquired in fiscal year 2005. All others were not recorded in the year acquired.

SPM III-E-2-1.1 requires the Auditor-Controller be notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets. SPM 901 requires equipment donated to the County be recorded at its fair market value as of the date of donation. In addition, equipment acquired under a capital lease purchase agreement should be capitalized at the fair market value or present value of the minimum lease payments.

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.

Management's Reply Concur. The Fire Department has requested additional personnel in FY 05/06 Budget. Once the Department receives the personnel, assets will be entered into PeopleSoft monthly along with any donated assets previously missed. The assets purchased in 2005 will be entered prior to June 30, 2005.

Finding 12 The Fire Department's accounting records do not include the capitalization of fire stations or any departmentally owned administrative buildings. The County Fire Department currently services 93 fire stations. In discussions with management, stations are owned by either: the State of California, the Riverside County Fire Department or contracting cities. In addition, land is donated to the County by cities or developers, owned by the city or state, or purchased by the County. However, the cost of purchase or the donation is not recorded in the accounting records. This causes the Riverside County's Comprehensive Annual Financial Report (CAFR) to be significantly understated by the value of County Fire Department owned fire stations, which is non-measurable at the time of the audit.

SPM 905, *Processing Capital Assets: Building and Improvements*, indicates buildings and structures with a cost greater than \$150,000 are to be capitalized. Buildings and structures donated to the County are to be recorded at fair market value at the date of donation. Accordingly, the department is required to notify the Auditor-Controller's Office within 30 days of acquisition.

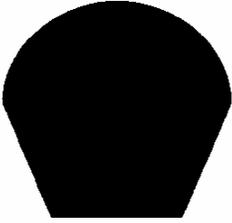
SPM 907, *Processing Capital Assets: Land*, indicates any acquisition of land or acceptance of donated land, should be coordinated through the County's Facilities Management Department, which in turn, should notify the Auditor-Controller's Office for proper recording.

The department recognizes the significance of this issue and declares to devote their efforts in rectifying the problem.

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.

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.

Management's Reply Concur. The Fire Department has requested an Accountant position in the FY 05/06 budget. Once this position is filled, one of the tasks will be to develop an inventory and enter all Riverside County Fire Department owned land, buildings, and building improvements.



RIVERSIDE COUNTY FIRE DEPARTMENT

210 West San Jacinto Avenue • Perris, California 92570 • (951) 940-6900 • Fax (951) 940-6910

Craig E. Anthony
Fire Chief

Proudly serving the
unincorporated
areas of Riverside
County and the
Cities of:

- Banning
 - ◆
 - Beaumont
 - ◆
 - Calimesa
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 - Canyon Lake
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 - Coachella
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 - Desert Hot Springs
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 - Indian Wells
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 - Lake Elsinore
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 - La Quinta
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 - Moreno Valley
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 - Palm Desert
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 - Perris
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 - Rancho Mirage
 - ◆
 - San Jacinto
 - ◆
 - Temecula
- Board of Supervisors
- Bob Buster,
District 1
 - John Tavaglione,
District 2
 - Jeff Stone,
District 3
 - Roy Wilson,
District 4
 - Marion Ashley,
District 5

DATE: June 20, 2005

TO: Auditor-Controller
Audits-and Specialized Accounting Division

FROM: Craig E. Anthony, Fire Chief
Fire Department 

SUBJECT: Reply to Draft Audit Report

Recommendation Number__1__:

We recommend the Fire Department adhere to their 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.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

Every Division Chief is now given a cost breakdown by station monthly. The report includes both encumbrances and expenditures for each Fire Station. It is the Division Chief's responsibility to monitor the Fire Stations spending and take corrective action for non-compliance.

c. Actual/estimated Date of Corrective Action: 5/16/05

d. Estimated cost to implement recommendation (If material)

\$ 0

Recommendation Number__2__:

We recommend the Fire Department adhere to their Purchasing Policy Letter No. 6-03 by obtaining proper written or electronic approval from the appropriate personnel for all purchases. No items without written approval 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.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

The Fire Department will be modifying its Purchasing Policy.

- The policy will exclude written approval on items approved during the Board of Supervisors budget approval process. The Fire Chief prior to submitting the budget to the Board approves these items.
- The policy will be modified to allow for delegation of the Fire Chief's authority to executive staff for reoccurring operation requests. (I.E. Inventory replenishment, routine operational purchases, etc...)
- The policy will allow for the highest level of authority on the purchase request as being acceptable. All chains of command will not be necessary if the highest required is authorizing the purchase.
- All non-contract purchases will require written authorization, either with a 42.9 or e-mail.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (if material)**

\$ 0

Recommendation Number 3 :

A transfer of accountability document should be developed and used to document transfer of accountability for funds.

Establish procedures to ensure that checks are restrictively endorsed immediately upon receipt.

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 name, date the combination was changed and termination or transfer dates of employees knowledgeable of the safe combination.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

A transfer document has been established and procedures will be developed to ensure the usage of the document between support staff and finance staff. A policy regarding safe combinations will be developed and implemented Department wide.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 4:

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

a. **Management position concerning the recommendation:**

X Concur Disagree

b. **Comments:**

The staff in the Desert currently do not have access to make daily bank deposits. It is not feasible or cost effective for someone to drive from the Desert to Perris every day. Therefore, the remote offices will mail their deposits to the Perris office.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 5:

An employee without cash handling duties should be assigned the accounting functions, or the application of additional compensating controls should be put in place, as recommended in the Auditor-Controller's Internal Control Handbook, Chapter 2, Paragraph 2a.

a. **Management position concerning the recommendation:**

X Concur Disagree

b. **Comments:**

The Fire Department understands and concurs with the requirement, but has limited staff in this area. It is not cost effective considering the amount of each deposit to hire additional staff. The Department will make every effort with the current staff levels to comply.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 6:

We recommend the Fire Department adhere to Ordinance 459.4 and County Purchasing Policy when entering into and/or making changes to procurement contracts.

a. **Management position concerning the recommendation:**

X Concur Disagree

b. **Comments:**

The Fire Department's current executive management team is committed to complying with Ordinance 459.4 and County Purchasing Policy.

c. **Actual/estimated Date of Corrective Action:** 01/01/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 7:

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.

The Fire Department Finance Division should hold each fire station accountable for each asset 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.

a. **Management position concerning the recommendation:**

X Concur Disagree

b. **Comments:**

The Fire Department has requested additional staff in FY 05/06 budget. This staff will assist in maintaining an accurate capitalized asset listing. The Department currently utilizes the PeopleSoft module for all capitalized assets and their location. Additional staff will allow the Department to update this asset listing as changes, deletions, or additions occur on a monthly basis.

The procurement policy will be updated to ensure the accuracy of the asset listing in PeopleSoft.

Although, the County of Riverside does not have a policy related to the acquisition, monitoring, and disposal of non-capitalized assets, the Divisions (IT, Comm, Inventory) currently maintain their own database of non-capitalized assets that have a material resale value.

c. **Actual/estimated Date of Corrective Action:** 01/31/06

It may take up to 3 months to request and hire additional personnel. The remaining time will be needed to complete the recommendation

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 8:

The Fire Department should 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, outline the forms to be completed upon disposal, responsibility for follow-up on sale proceeds of assets and responsibility for notifying the Auditor-Controller's Office of all deletions and changes within 30 days.

a. **Management position concerning the recommendation:**

X Concur Disagree

b. **Comments:**

Once the Department receives FY 05/06 additional budgeted personnel, the procurement policy and procedures will be updated to include the disposition of assets.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (If material)**

\$

Recommendation Number 9:

The Fire Department should perform an annual physical inventory count of all capitalized assets in accordance with County Internal Controls Handbook and generally accepted accounting principles (GAAP).

We recommend the Fire Department take appropriate actions to verify the fixed asset listing is properly updated before certifying the report under oath. Also, a copy of the certified report should be maintained by the Department.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

The Fire Department will keep a copy of the report given to the Auditor Controller once a year. Once the Department receives FY 05/06 additional budgeted personnel, the Department will complete a physical inventory annually prior to submitting the annual asset listing.

c. **Actual/estimated Date of Corrective Action:** 01/31/06

It may take up to 3 months to request and hire additional personnel. The remaining time will be needed to complete the recommendation.

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 10 :

Implement a procedure for the estimation of 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.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

The Fire Department will request guidance from the Auditor-Controller's Office on establishing a useful life of Fire Engines.

c. **Actual/estimated Date of Corrective Action:** 10/31/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 11 :

Take appropriate actions to verify 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.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

The Fire Department has requested additional personnel in FY 05/06 Budget. Once the Department receives the personnel, assets will be entered into PeopleSoft monthly along with any donated assets previously missed. The assets purchased in 2005 will be entered prior to June 30, 2005.

c. **Actual/estimated Date of Corrective Action:** 01/31/06/

It may take up to 3 months to request and hire additional personnel. The remaining time will be needed to complete the recommendation

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 12 :

The Fire Department should develop a comprehensive inventory of all Riverside County Fire Department owned land, buildings, and building improvements to properly record them in the accounting records as soon as possible.

The Fire Department should 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.

a. **Management position concerning the recommendation:**

 X Concur Disagree

b. **Comments:**

The Fire Department has requested an Accountant position in the FY 05/06 budget. Once this position is filled, one of the tasks will be to develop an inventory and enter all Riverside County Fire Department owned land, buildings, and building improvements.

c. **Actual/estimated Date of Corrective Action:** 12/31/05

d. **Estimated cost to implement recommendation (If material)**

\$ 0

