

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



ITEM
2.6
(ID # 9825)

MEETING DATE:
Tuesday, May 21, 2019

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2018-003: Riverside County Fire Department Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2018-003: Riverside County Fire Department Audit

ACTION:Consent


Paul A. Angulo, County Auditor-Controller 5/5/2019

MINUTES OF THE BOARD OF SUPERVISORS

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

BACKGROUND:

Summary

We have completed an audit of the Riverside County Fire Department to provide management and the Board of Supervisors with an independent assessment of internal controls over fuel inventory, salaries invoice review, vehicles parts and maintenance.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to fuel inventory, salaries invoice review, vehicles parts and maintenance.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$0	\$0	\$0	\$0
NET COUNTY COST	\$0	\$0	\$0	\$0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	n/a

C.E.O. RECOMMENDATION: Approve

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

Riverside County Auditor-Controller - Internal Audit Report 2018-003: Riverside County Fire Department Audit.


 Stephanie Peter, Principal Management Analyst 5/14/2019

Internal Audit Report 2018-003

**Riverside County Fire Department
Audit**

Report Date: April 9, 2019



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ACC | **AUDITOR
CONTROLLER**
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Oscar Valdez
Assistant Auditor-Controller

April 9, 2019

Chief Shawn C. Newman
Riverside County Fire Department
210 W. San Jacinto Ave
Perris, CA 92570

Subject: Internal Audit Report 2018-003: Riverside County Fire Department Audit

Dear Chief Newman:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Fire Department to provide management and the Board of Supervisors with an independent assessment of internal controls over fuel inventory, salaries invoice review, vehicle parts and maintenance.

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 sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to fuel inventory, salaries invoice review, vehicle parts and maintenance.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report.

Internal Audit Report 2018-003: Riverside County Fire Department Audit

Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

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Executive Summary

Overview

The Riverside County Fire Department (Fire Department) is an integrated, regional fire protection system that provides fire emergency medical services, technical rescue, and hazardous material response to approximately 1.6 million residents in unincorporated areas, 20 cities and one community service district within County of Riverside.

The Fire Department contracts for emergency response from the California Department of Forestry and Fire Protection (State) to serve as the Fire Department. All emergency response services are provided from 95 fire stations utilizing about 1,050 State firefighters, 276 administrative and support personnel, and an average of 150 reserve volunteer firefighters. *County of Riverside, Fiscal Year 2018-19 Recommended Budget, June 2018, 121.*

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over fuel usage, salaries invoice review, vehicle parts and maintenance.

Audit Scope and Methodology

Following a risk based approach, our scope initially included the following:

- Cost Recovery
- Fuel inventory Controls
- Operation Requirements
- Purchasing Practices
- Salaries Invoice Review
- Vehicle Parts and Maintenance Reimbursements
- Vehicle Readiness

Through inquiry, observations, and examination of relevant documentation, we focused our scope to internal controls over fuel inventory, salaries invoice review, vehicle parts and maintenance.

Audit Highlights

Existing Conditions

The current processes have not mitigated the following areas:

- Review of two fueling locations revealed large discrepancies between the manual logs and actual inventory during one of the months tested

Internal Audit Report 2018-003: Riverside County Fire Department Audit

- The Fire Department does not have a procedure in place to review invoices from the State employee salary reimbursements. These invoices are paid without review by county department staff
- Vehicles parts are not inventoried, tagged, or tracked. The Fire Department stores all county vehicle parts in a shared storage container with the State without proper internal controls to safeguard the inventory
- The Fire Department does not seek reimbursement for maintenance work or county vehicles parts used on state owned vehicles. This is a missed opportunity for the county to recover the cost since county employees work on state-owned vehicles

Improvement Opportunities

The improvement opportunities are in the following areas:

- Add interface connections to dispensers to facilitate automatic verification of users, recording, and monitoring of fuel usage. This recommendation was issued during the 2010 audit report, the Fire Department has not implemented as of report date
- Implement procedures for the review and approval of state invoices for employee salaries
- Conduct periodic inventory and tag all stored vehicle parts. Parts used during maintenance should also be tracked on maintenance orders. This recommendation was issued during the 2010 and 2014 audit report follow up, the Fire Department has not implemented as of report date
- Implement procedures to keep track of maintenance completed and parts used on state owned vehicles. Also, ensure billing the State for work performed on state-owned vehicles occurs

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to fuel inventory, salaries invoice review, vehicle parts and maintenance.

Fuel Inventory

Background

The Fire Department maintains 95 fire stations and the Ben Clark Safety Training Center (Ben Clark Center) stocked with diesel and unleaded fuel. This number includes County, City Partners, and State stations. The Fire Department pays for fuel delivered to 62 of these stations including the Ben Clark Center. The fuel is primarily used to refuel fire engines and heavy duty trucks. The Fire Department does not purchased fuel or maintain any fueling locations at State Fire stations.

The Fire Department fueling stations are not linked to an automated fuel management system like those used by other county departments. The system used by these county departments, automatically track fuel usage which provide accurate fuel usage information. The Fire Department employees manually record fuel used on log sheets placed near the pumps. The data collected is then given to the Fire Department finance division to process and maintain the fuel inventory totals.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over fuel inventory.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and contracts
- Conducted interviews and performed walk-throughs with maintenance and office personnel
- Reviewed fuel usage documentation and reconciliations for two fire stations
- Reviewed prior years audit reports findings and recommendations

Finding 1: Monitoring of Fuel Usage

In our review of the fuel pump logs and reconciliations, two stations out of the 62 operated by Fire Department, had significant shortages recorded by employees. We reviewed four months with the highest discrepancy showing a shortage of 265.3 gallons for one station, compared to actual inventory of 868.4 gallons recorded in the Fire Department financial system. Standard Practice Manual 1001, *Internal Controls*, states, "County departments and agencies shall establish, document and maintain an effective system of internal controls to safeguard and track assets." Fuel users did not complete the required logs to accurately track fuel used.

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The lack of adequate internal controls over the fire stations pumps increases the risk of:

- Fuel theft
- Inaccurate fuel logs
- Reconciliation inconsistencies
- Inaccurate logging of user logs, vehicles ID, and employees ID
- Inaccurate fuel inventory
- Unrecovered reimbursements or unauthorized use

Recommendation 1

Add interface connections to dispensers to facilitate automatic verification of users, recording, and monitoring of fuel usage. In the 2010 audit, the same issue was reported, but the department has not made corrections as of the date of this report.

Management Response

Concur. We are evaluating all our fuel sites and will determine the cost of upgrading each site to a computerized system. We have approximately sixty-two (62) fueling stations and it may take several years to accomplish the upgrade due to budget constraints. In addition, we are working closely with County Fleet Services on the bid of a fleet services system, which would include a fueling component. Once the bid is completed, we will evaluate the ability to fund the system. Based on the current system, the estimated onetime cost is \$594,520 and a reoccurring maintenance cost of \$303,508. The total implementation estimate for this interface upgrade is estimated to be \$898,028."

Actual/Estimated Date of Corrective Action: June 30, 2024

"Based on our ability to fund, our goal is to implement an integrated Software system by December 2019. The upgrade of all fuel sites will be a longer process and the estimated completion date is June 2024 for full conversion of all fueling locations."

Estimated cost to implement recommendation: \$898,028

Salaries Invoice Review

Background

The Fire Department accounts payable section reviews and processes all departmental financial transactions. Its purchasing section follows the County of Riverside Ordinance 459. Under the agreement with the State, the Fire Department will reimburse the State for actual services rendered. Invoices include actual cost for salaries and benefits for state personnel employed, charges for operating expenses and equipment, and administrative charges in accordance with the contract. These reimbursements are done on a monthly basis.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the accounts payable process to review State invoices for accuracy.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and ordinances
- Conducted interviews and performed walk-throughs with office personnel
- Reviewed a sample of salaries expenditures and traced to supporting documentation
- Reviewed a sample of cost reimbursement from State
- Reviewed and documented six months of employees' salaries

Finding 2: Salary Invoices Review

A walkthrough performed over the reimbursement procedures process, revealed the Fire Department does not review prior to approval, the State invoices submitted for payment of state employee salaries. The Fire Department relies on state management to review cost for salaries and benefits for state employees billed to the county. Standard Practice Manual 1001, *Internal Controls*, states, "County departments and agencies shall establish, document and maintain an effective system of internal controls," including, "Review and Reconciliation: Records are routinely examined and reconciled to determine that transactions were properly processed." Without adequate review of State invoices by the Fire Department, Riverside County increases the risk of paying invoices that may have overcharged or unauthorized charges by the State.

Recommendation 2.1

Fire Department conduct reviews of all costs by an authorized county employee with approval authority.

Management Response

“Concur. A County employee currently reviews all the operating costs outlined in our Cal Fire Services invoice. This review will be expanded to include the salaries detailed on the invoice utilizing an accounting method of sampling. We will document these reviews and include an approval process after the review completion.”

Actual/Estimated Date of Corrective Action: March 31, 2019

“We will begin this process with the FY 18/19 2nd Quarter invoice, which should be received in January/February 2019.”

Estimated cost to implement recommendation: 0.00

Recommendation 2.2

Develop procedures to review invoices submitted by State for its employee's salaries.

Management Response

“Concur. We will develop procedures. A County employee currently reviews all the operating costs outlined in our Cal Fire Fire Services invoice. This review will be expanded to include the salaries detailed on the invoice utilizing an accounting method of sampling. We will document these reviews and include an approval process after the review completion.”

Actual/Estimated Date of Corrective Action: March 31, 2019

“The procedures will be completed by March. We will begin this review process with the FY 18/19 2nd Quarter invoice, which should be received in January / February 2019.”

Estimated cost to implement recommendation: 0.00

Vehicle Parts and Maintenance

Background

The Fire Department operates two automobile repair shops (repair shops), located in Indio and Perris. These repair shops are managed by county and state employees. Both locations maintain inventories of spare parts, tools, and supplies. The repair shops maintain other fire equipment, such as hose adapters, nozzles, and fire extinguishers. During high fire season, and in mutual collaboration, county mechanics work on state owned vehicles and state employees work on county owned vehicles to expedite repairs. However, this collaboration is not indicated on the agreement between the Fire Department and the State.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over vehicle parts and maintenance reimbursements.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and contracts
- Conducted interviews and performed walk-throughs with maintenance and administrative personnel
- Reviewed prior years audit reports and work papers

Finding 3: Internal Controls Over Vehicle Parts

Fire Department vehicle parts are not tracked, tagged, or inventoried. Standard Practice Manual 1001, Internal Controls, "County departments and agencies shall establish, document and maintain an effective system of internal controls." The Fire Department does not have a procedure in place to ensure all vehicle parts are tracked, tagged, and inventoried. Lack of oversight can lead to loss, theft, misappropriation, or unauthorized use of county assets.

Recommendation 3.1

Fire Department ensure vehicles parts are properly tracked, tagged, and catalogued when received. Parts should also be inventoried monthly.

Management Response

“**Concur.** We have hired a storekeeper and are in the process of establishing a location for the vehicle parts. Once the location is established, procedures will be developed and inventory will be regularly monitored.”

Actual/Estimated Date of Corrective Action: December 31, 2019

“The completion date of a location is based on our budget and the purchasing bidding process of the location. We are looking at several options that satisfy our needs while keeping costs to a minimum.”

Estimated cost to implement recommendation: 35,000

Recommendation 3.2

Develop vehicle parts inventory procedures. These procedures should be signed off by department head.

Management Response

“**Concur.** Procedures will be developed with the establishment of our inventory parts location.”

Actual/Estimated Date of Corrective Action: December 31, 2019

“We estimate having the full procedures completed soon after the completion of our parts location.”

Estimated cost to implement recommendation: 0.00

Finding 4: Maintenance Reimbursements

The Fire Department does not seek reimbursements for work performed on state-owned vehicles. The agreement with the State indicates the county will be reimbursed for the cost of using county personnel and equipment, including any cost associated with parts used during state vehicle maintenance. The Fire Department does not have an approved policy, procedure, or agreement to track work performed and parts used on state-owned vehicles. This weakens its ability for the Fire Department to accurately invoice State for work performed on state-owned vehicles. County will lose funds for not seeking reimbursement for work performed and parts used on state-owned vehicles.

Recommendation 4

Develop procedures to maintain compliance with the established agreement with the State.

Management Response

“**Concur.** Our Cooperative Agreement with Cal Fire does not specifically identify the integrated cooperation that occurs within our Fleet Bureau. We will work to better identify and define this cooperation in our Cooperative Agreement and develop any necessary procedures.”

Actual/Estimated Date of Corrective Action: July 1, 2020

“Our Cooperative Agreement with CalFire expires on June 30, 2020. The next opportunity to update contract language will be in a new agreement beginning July 1, 2020.”

Estimated cost to implement recommendation: 0.00