

Internal Audit Report 2018-020

**Riverside County
Fire Department
Change of Department Head Audit
(Fire Chief)**

Report Date: March 4, 2019



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March 4, 2019

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

Subject: Internal Audit Report 2018-020: Riverside County Fire Department, Change of Department Head Audit (Fire Chief)

Dear Mr. Newman:

In accordance with Board of Supervisors Resolution 83-338, we completed a change of department head audit for Riverside County Fire Department (Fire Chief). This audit is conducted to assess internal controls over the transfer and safeguarding of revolving funds and capital assets when there is a change in department head.

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 determined:

- 1) Transfer of responsibility for revolving funds and capital assets to the newly appointed Fire Chief was processed timely and documented with required forms.
- 2) Internal controls over the revolving funds are adequate to ensure safeguarding of the funds. However, the internal controls to ensure the safeguarding of capital assets are not operating effectively. Specifically, the capital asset listing did not agree with the Riverside County financial system listing.

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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. Management's responses are included in the report.

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's (Fire Department) responsibility is to be a public safety agency that protects life, property, and the environment. The Fire Department has an adopted budget of \$325 million for FY 2018-19 and has 280 authorized positions to fulfill their mission. *County of Riverside, Fiscal Year 2018-19 Adopted Budget, November 2018, 160.*

The Fire Department has experienced two instances of department head changes in the last year. The first one occurred in January 30, 2018, and an interim Fire Chief was appointed until a new Fire Chief was hired permanently. The second change of department head occurred in August 1, 2018. We performed audit procedures for both instances.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the transfer of revolving funds and capital assets when there is a change in department head. In addition, to assess the internal controls over the safeguarding of revolving funds and capital assets.

Audit Conclusion

Based upon the results of our audit, we determined:

- 1) Transfer of responsibility for revolving funds and capital assets to the newly appointed Fire Chief was processed timely and documented with required forms.
- 2) Internal controls over the revolving funds are adequate to ensure safeguarding of the funds. However, the internal controls to ensure the safeguarding of capital assets are not operating effectively. Specifically, the capital asset listing did not agree with the Riverside County financial system listing.

Revolving Funds

Background

Under the authority of Government Code Section 29320-29334, the Riverside County Board of Supervisor's adopted Board Resolution 74-156 on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The Board of Supervisors also adopted Board Resolution 83-338 on November 1, 1983, authorizing the Riverside County Auditor-Controller to audit revolving funds of any officer accountable for such resources upon transfer of such resources to a new officer.

The Fire Department has one revolving fund, with an authorized balance of \$1,000, maintained in the form of a bank account. The revolving fund is primarily used to pay for business expenses and employee training. The checkbook is locked in a safe and access is limited to two individuals. The use of revolving funds requires management's approval. In addition, the checkbook is reconciled monthly to the bank statement and approved by a manager.

Objective

To determine if the required forms for the transfer of accountability of revolving funds from the predecessor to the new Fire Chief were completed, and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of the revolving funds.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller Standard Practice Manual (SPM) Form AR-1, *Revolving Fund Request Order & Change Form* for the establishment and transfer of the revolving funds
- Interviewed key personnel and reviewed department procedures over the revolving funds
- Verified revolving fund reconciliations were prepared
- Performed a surprise cash count and reconciled to the fund assignment amounts
- Verified adequate segregation of duties existed
- Performed limited testing on replenishment transactions

Findings: None noted

The Fire Department has an established process in place for the use of the revolving funds. Access to the revolving fund cash is limited to the fund custodian. We physically observed the petty cash funds are kept in locked boxes in locked drawers with access limited.

Based upon the results of our testing, we determined revolving funds were transferred to the new Fire Chief of the Riverside County Fire Department in a timely manner and adequate internal controls are in place over the transfer and safeguarding of revolving funds.

Capital Assets

Background

Capital assets are tangible assets of significant value which have a utility that extends beyond the current year, and are broadly classified as land (valued at \$1 or more), buildings and improvements, infrastructure, and equipment (acquisition cost of \$5,000 or greater).

Per the Riverside County Auditor-Controller's Standard Practice Manual (SPM) 515, *Capital Asset Certification*, a department must "submit an SPM Form AM-1, *Inventory Of County Property For Capital Assets*, and capital asset inventory listing as soon as there is a change in department head position."

As of January 30, 2018, when the first instance occurred for the change of department head, the Fire Department maintained 1,104 capital assets in the Riverside County financial system asset module, consisting of owned vehicles, leased vehicles, equipment, buildings, software, and land with the combined acquisition cost of \$75.1 million. When the second instance occurred for the change of department head, the Fire Department maintained 1,078 capital assets with a combined acquisition cost of \$72.8 million.

Objective

To determine if the required SPM Form AM-1, *The Inventory of County Property for Capital Assets*, for the transfer of accountability of capital assets from the predecessor to the new Fire Chief was completed and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of capital assets.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and applicable standards
- Established the date of the department head change
- Verified proper forms were completed for transfer of accountability of capital assets and submitted to the Riverside County Auditor-Controller's Office
- Selected a judgmental sample of capital assets to verify adequate internal controls exist over the safeguarding of assets.
- Selected a judgmental sample and verified the existence of 20 capital assets that were transferred to the new department head

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- Identified additional capital assets during field review and traced the capital assets to the Riverside County financial system asset module.

Finding 1: Capital Asset Listing

The location of five assets did not agree with the Riverside County financial system listing. In addition, two capital assets were surplus and were not removed from the Riverside County financial system listing. Per SPM 513, *Capital Asset Tags*, when an asset is to be moved from one location to another, the department must complete an SPM Form AM-6, *Capital Asset Transfer*, and the location change must be noted in the Riverside County financial system. Furthermore, SPM 514, *Capital Asset Disposal*, requires that for assets surplus, a completed SPM Form AM-7, *Capital Asset Disposition*, must be submitted to the Riverside County Auditor-Controller's Office with supporting documentation. The Fire Department does not have a system in place to ensure assets are updated in the Riverside County financial system when they are moved. Asset inventory control is essential to ensure the Fire Department assets are adequately safeguarded, financial records are accurate, and county policies and procedures are adhered to.

Recommendation 1

Ensure capital assets are tracked and surplus in accordance with SPM 513, *Capital Asset Tags* and SPM 514, *Capital Asset Disposal*.

Management's Response

Concur. The Department completes an annual inventory of all assets at the end of the fiscal year. As part of this inventory, each Battalion and Bureau must certify the assets listed at their location and its condition. We have corrected the discrepancies found and will diligently continue an annual inventory verifying location and condition. The Department is reviewing the current procedure regarding the movement and surplus of assets and will modify as necessary to ensure the financial system is updated accordingly."

Actual/estimated Date of Corrective Action: **June 30, 2019**

Auditor's Comment

It is important for the Fire Department to ensure the accuracy of the capital asset annual inventory. Items identified as surplus, but not removed from the Riverside County financial system occurred in FY 16/17, yet their procedures did not capture the inaccuracy of their capital assets.