

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



ITEM: 2.12
(ID # 15644)

MEETING DATE:
Tuesday, June 29, 2021

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2021-011: Riverside County Fire Department Audit, All Districts. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2021-011: Riverside County Fire Department Audit

ACTION:Consent


Tanya Harris, Assistant Auditor Controller 6/23/2021

MINUTES OF THE BOARD OF SUPERVISORS

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

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: n/a	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

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 application controls, capital assets, inventory, overtime, revolving fund, service center warehouse expenditures, vehicle maintenance, and vendor discounts.

Please see report for audit results.

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's Office - Internal Audit Report 2021-011: Riverside County Fire Department Audit



Stephanie Perez, Principal Management Analyst 6/23/2021



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OFFICE OF THE
AUDITOR-CONTROLLER

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Riverside County Auditor-Controller

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Assistant Auditor-Controller

June 29, 2021

Bill Weiser
Fire Chief
Riverside County Fire Department
210 W. San Jacinto Avenue
Perris, CA 92570

Subject: Internal Audit Report 2021-011: Riverside County Fire Department Audit

Dear Chief Weiser:

In accordance with Board of Supervisors Resolution 83-338, we completed the audit of the Riverside County Fire Department to provide management and the Board of Supervisors with an independent assessment of internal controls over application controls, vehicle maintenance, service center warehouse expenditures, vendor discounts, inventory, capital assets, revolving fund, overtime. As a result of an incident reported through the Riverside County Auditor-Controller's Office Fraud Waste and Abuse program, the results of the incident review indicated no evidence of fraud. However, we did identify various internal control weaknesses over the areas addressed in the incident report and proceeded to conduct the audit to further evaluate the internal controls. Our conclusion and details of our audit are documented in the body of this audit report.

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.

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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.

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. 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
Jeffrey A. Van Wagenen Jr., County Executive Officer
Grand Jury

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Executive Summary

Overview

Riverside County Fire Department (Fire Department) is responsible for providing fire and emergency medical services, technical rescue, and hazardous materials response. The Fire Department has 95 fire stations and provides emergency responses to Riverside County residents, 20 partner cities, and 1 community services district. The Fire Department has an adopted budget of \$364 million for FY 2020-2021 and has 279 authorized county positions to execute its responsibilities. *County of Riverside, Fiscal Year 2020-21 Adopted Budget, 256.*

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 application controls, capital assets, inventory, overtime, revolving fund, service center warehouse expenditures, vehicle maintenance, and vendor discounts. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information.

Audit Scope and Methodology

We conducted the audit from October 26, 2020, through April 28, 2021, for operations from July 1, 2018, through April 28, 2021. From a risk-based perspective, our scope included the following:

- Application controls
- Vehicle Maintenance
- Service Center Warehouse Expenditures
- Vendor Discounts
- Inventory
- Capital Assets
- Revolving Fund
- Overtime

Audit Highlights

Summary of Existing Conditions

The current processes have not mitigated the following risk areas:

- Sharing of login credentials within Fleetmate circumvented segregation of duties controls. Sharing login credentials increases the risk of opportunity for misappropriation.
- Fire Department does not adequately maintain, monitor, and upload supporting documentation for daily vehicle inspections and scheduled vehicle maintenance within Fleetmate.
- Split purchases were identified in multiple purchase orders. Splitting purchase orders result in unauthorized commitments and increases the likelihood of improper payments and circumvents county procurement policies.
- Expenditures are not linked to established county contracts. Linking expenditures to contracts is a control designed to ensure contract limitations and terms and conditions are monitored.
- Fire Department is not capturing vendor discounts offered by vendors for prompt payment. Best practices encourage agencies to capture discounts as often as possible to maximize financial benefit.
- Warehouse inventory at the service center did not always match the item quantities listed in the Riverside County financial system. An inventory system that tracks inventory in real time creates an efficient manner to account for inventory.
- Fire Department service center warehouse does not have a security camera system in place to monitor warehouse operations. Camera systems provide monitoring and detective controls to aid in safeguarding assets and resolving discrepancies.
- Fire Department's Riverside County financial system inventory module does not allow for adequate monitoring of adjustments to warehouse inventory. Monitoring adjustments aid in identifying trends on items susceptible to unauthorized use or disposition.
- Key inventory management functions at the warehouse did not have adequate segregation of duties. Inadequate segregation of duties can lead to inaccurate inventory listings and misappropriation of items.

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- Two mechanic shop vehicle parts rooms contain obsolete items in storage. Managing excess obsolete inventory can increase productivity and improve storage capacity.
- Inadequate inventory tracking over items maintained within mobile service vehicles issued to Fire Technicians. Effective and efficient vehicle parts inventory aids in controlling, tracking, and safeguarding inventory.
- Capital assets were not in the location indicated in the Riverside County financial system. Accurate tracking is an internal control designed to safeguard capital assets from obsolescence, misuse, and theft.
- Capital assets were not disposed/surplused in accordance with Standard Practice Manual 514, *Disposal of Capital Asset*. This practice ensures accurate reporting requirements are met, capital assets are adequately accounted for, and processes are consistent throughout county departments.
- County tags were not affixed to capital assets as required in Standard Practice Manual 513, *Asset Tags*. Maintaining a positive identification of capital assets is important to identify individual assets and aid in the annual physical inventory.
- Revolving fund reconciliations do not include evidence of dates to determine if reconciliations are adequately reviewed. Review dates aid in determining whether reconciliations are reviewed in a timely manner to ensure irregularities are identified and funds are safeguarded.
- Revolving fund reconciliations were not reviewed by a supervisor as required by SPM 603, *Revolving Funds*. Proper delegation of authority is a detective control designed for management to identify and follow-up on unexpected or unusual activity.
- Fire Department does not require overtime pre-approval to be submitted in writing and does not maintain overtime request information. Documented pre-approval is a control designed to ensure management has control of overtime, approves overtime use when necessary and appropriate, and is well documented.

Summary of Improvement Opportunities

The improvement opportunities are in the following areas:

- Develop a department policy prohibiting password sharing and ensure the policy is communicated to department staff.
- Request and maintain department staffs written acknowledgement and understanding of the password sharing policy.

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- Ensure the department's maintenance management software is utilized to provide accurate and reliable vehicle maintenance records.
- Ensure all records are uploaded to the department's maintenance management software to provide accurate and complete vehicle maintenance records.
- Improve the process of maintaining documentation of the performance of daily vehicle inspections.
- Require a supervisor sign off on daily inspections performed for heavy equipment to ensure daily inspections are adequately monitored and completed.
- Ensure compliance with the Riverside County Purchasing Manual as it relates to purchasing authority limitations.
- Ensure purchase orders are linked to Riverside County contracts and management consistently monitors the linking of purchases to respective contracts.
- Develop policies and procedures to ensure vendor discounts are captured.
- Ensure department confirms goods/services received immediately after receipt.
- Ensure department is processing vendor payments in a timely manner after receiving confirmation of goods/services for vendors who offer discounts for timely payment.
- Develop a process to ensure inventory is updated within the Riverside County financial system immediately after requisitioned items have been removed or added to inventory.
- Establish an adjustment monitoring process to have inventory adjustments reviewed by appropriate management prior to performing adjustment.
- Implement a security camera system that provides coverage of stored inventory items and inventory receiving and shipping areas.
- Ensure there are adequate segregation of duties for the handling, tracking, and recording of inventory items. If adequate segregation of duties are not possible due to staffing, develop a compensating control to monitor inventory items.
- Perform a review of inventory items and dispose/surplus any items that are deemed obsolete/damaged and provide no further use for the department.

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- Develop a process for tracking inventory items stored in fire technician vehicles.
- Develop minimum inventory levels for vehicle parts inventory to manage on hand quantities.
- Utilize a system to aid in the tracking of vehicle parts inventory in real time.
- Develop a Riverside County financial system report to provide inventory adjustment details to include items being adjusted, date of adjustments, and staff performing adjustments.
- Ensure capital asset locations are updated in the Riverside County financial system.
- Ensure capital assets are disposed/surplused in accordance with Standard Practice Manual 514, *Disposal of Capital Asset*.
- Ensure capital assets are affixed with a county tag in accordance with Standard Practice Manual 513, *Asset Tags*.
- Update the Fire Department bank reconciliation form to include a section for the reconciliation review date and
- Ensure monthly revolving fund reconciliations are reviewed by adequate level of supervision.
- Develop policies and procedures to ensure overtime is pre-approved, documented in writing, and documentation for overtime requests is maintained.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls over application controls, capital assets, inventory, overtime, revolving fund, service center warehouse expenditures, vehicle maintenance, and vendor discounts.

Application Controls

Background

FleetMate System (Fleetmate) is a fleet maintenance management software utilized by Riverside County Fire Department to assist in the vehicle maintenance process as well as tracking work orders, invoices, maintenance schedules, repairs due, and service history records. Fleetmate is an intranet application meaning that the system is accessed via private network connection which gives users the ability to access the system only inside the fire stations.

Application controls within information systems ensure proper confidentiality, integrity, and availability to the data stored within the system. Authentication is a control which confirms a user's identity to provide access to a systems sensitive information. Sensitive information is any information that must be protected from unauthorized access to maintain the information security of an organization or an individual. Authentication is often achieved by using login credentials such as a username and password. Authentication relies on the presumption that the user is authorized to use the system and that only the user knows the login credentials to gain access.

Objective

To verify the existence and adequacy of internal controls over Fire Departments fleet maintenance management system.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of county information security standards.
- Conducted interviews and performed walk-throughs with department personnel.
- Verified Fleetmate users were disabled timely.
- Reviewed Fleetmate user profile access to determine if adequate segregation of duties exist.

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- Analyzed time off, overtime, and regular paid time reported by department staff and verified if employees accessed Fleetmate on days reported off.

Finding 1: Fleetmate Segregation of Duties

Login credentials were shared between a supervisor and staff which provided access to work order information customarily edited by a department supervisor's and office staff. The ability to edit work order information is reserved for the designated staff not involved in the maintenance of Fire vehicles to foster adequate segregation of duties. Segregation of duties are designed to ensure the work of one individual is independent of the individual who serves to check on the work of another. Segregation of duties reduces the risk of undetected errors and limits the opportunity for misappropriation of assets or concealment of intentional misinformation. As a best practice, application users should not be allowed to share passwords. Unique user ID's and passwords are designed to ensure each user is uniquely identified to allow an organization to maintain an effective audit trail for employees and individual accountability.

Recommendation 1.1

Develop a department policy prohibiting password sharing and ensure the policy is communicated to department staff.

Management's Response:

"Concur. The department will re-issue Board Policy A-50 Electronic and Media Use policy to employees within the Fleet Bureau and outline the expectations with the Department's Fleet Software."

Actual/estimated Date of Corrective Action: August 31, 2021

Recommendation 1.2

Request and maintain department staffs written acknowledgement of the password sharing policy.

Management's Response:

"Concur. The Fire Department will continue to require every new employee to sign the acknowledgment of receipt of Board Policy A-50 Electronic Media and Use Policy and

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place it within their official personnel file. We will ensure the specific employees working in Fleetmate have this appropriate policy signed within their personnel file.”

Actual/estimated Date of Corrective Action: August 31, 2021

Vehicle Maintenance

Background

The goals and objectives of a vehicle maintenance program are to maintain vehicles to promote the safety and comfort of passengers, operators, and protect the public. Preventive maintenance and repair activities promote the reliability of county vehicles by minimizing service interruptions caused by vehicle or equipment failure. Adequate maintenance of vehicles and equipment promotes cost-efficiency of operations and helps the departments maintain compliance with applicable local, state, and federal regulations as they relate to vehicle operations, repairs, and cleaning. Fire Department utilizes Fleetmate system to aid in its vehicle maintenance scheduling.

California Code, Vehicle Code 34505.5 requires vehicles such as Fire Engines be part of a systematic inspection, maintenance, and lubrication service and require inspections at least every 90 days or more often to ensure safety. California Code further states no vehicle “shall be operated on the highway other than to a place of repair until all defects listed during the inspection conducted have been corrected and attested to by the signature of the motor carrier’s authorized representative.”

All regulated vehicles weighing over 1-1/2 tons are subject to safety interval, compliance inspections, administrative inspections, and service intervals. Fire Department service intervals are as follows:

- Service A - 1,000 miles or 30 days whichever occurs first
- Service B - 6000 miles or 6 months whichever occurs first
- Service C - 24,000 miles or 12 months whichever occurs first

Objective

To verify the existence and adequacy of controls over the maintenance scheduling for Fire Department vehicles.

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Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of vehicle government codes and Fire Department vehicles maintenance procedures.
- Obtained listing of all Fire Department vehicles requiring maintenance services through Fire fleet repair shops.
- Verified the required daily inspections and maintenance have been performed timely.
- Verified inspections were approved by an appropriate staff level.

Finding 2: Fleet Vehicle Maintenance Controls

Based on our review of vehicle maintenance processes, we identified the following:

- Fire Department is not fully utilizing Fleetmate system to monitor and schedule vehicle maintenance. Fire Departments Pamphlet 36805, *Vehicle Maintenance Procedure and Record*, states, “a system of complete service and inspection covering all operating components of each vehicles provides the basic preventative maintenance tool.” Department procedures list service intervals as follows:
 - A Service – 1,000 miles or 30 days whichever occurs first.
 - B Service – 6,000 miles or 6 months whichever occurs first.
 - C Service – 24,000 miles or 12 months whichever occurs first.

A request was made to the department for a report listing the department vehicles with a “Service B” and a “Service C” due. The department was unable to provide a “Service C” due report as Fleetmate system was not set up to generate this report. In our review of the provided “Service B” report, we identified 60 Fire fleet vehicles which were overdue for a service ranging from 37,796 miles or 56 days. Fire department management stated the large discrepancies in overdue service was due to vehicle alerts not being cleared for vehicles within Fleetmate system causing the reports information to be unreliable in assessing vehicles that require maintenance. As such, we were unable to determine departments compliance with vehicle maintenance requirements through Fleetmate system. This highlights how the Fleet maintenance staff is not using the system to its potential or are inconsistent with how system records are maintained.

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- Information maintained within Fleetmate system is incomplete as it relates to vehicle maintenance. We selected a random sample of nine Fire Department vehicles and compared physical work order documentation with electronic work order information maintained within Fleetmate system. In our review, we identified seven (78%) of nine where the information that was maintained physically was not uploaded in Fleetmate system. Fire management stated information was missing from Fleetmate due to staff not uploading the necessary records. The objective of completeness of information is to ensure that all information within a system is accurate, consistent, and valid to increase the reliability of the information within. Furthermore, *California Vehicle Code 34505.5 (2017)*, states every motor carrier shall require vehicles to be “inspected at least every 90 days, or more often if necessary, to ensure safe operation.” Fleetmate system is utilized by Fire Department to assist in the vehicle maintenance scheduling process and the incompleteness of the information renders the system inefficient and ineffective in accomplishing the departments objectives, maintaining compliance with government vehicle codes, and department policies.
- Fire Department was unable to provide complete daily inspection records for three (33%) of the nine vehicles sampled. Fire Department does not maintain adequate supporting documentation for daily vehicle inspections. During our review of nine randomly selected Fire Department vehicles, we requested documentation to support the required daily inspections were completed. As such, we were unable to determine if the daily vehicle inspections were completed as required. California Code of Regulations, Title 13 (Motor Vehicles), Division 2, Chapter 6.5, Section 1221 requires a driver, before driving a motor vehicle to “inspect each vehicle daily to ascertain that it is in safe operating condition and equipped as required by all provisions of law, and all equipment is in good working order.” Daily vehicle inspection is a control designed to aid vehicle operators in identifying issues which may become potentially dangerous and increase the liability of the county in case of vehicle accident.

Recommendation 2.1

Ensure the department’s maintenance management software is utilized to provide accurate and reliable vehicle maintenance records.

Management’s Response:

“**Concur.** The Department is in the process of implementing a new fleet management system with County Fleet Services. The development/procurement of this new system began in October 2018. The system is scheduled to go live in September 2021.”

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Actual/estimated Date of Corrective Action: August 2022

Recommendation 2.2

Ensure all records are uploaded to the department's maintenance management software to provide accurate and complete vehicle maintenance records.

Management's Response:

"Concur. The Department is in the process of implementing a new fleet management system with County Fleet Services. The development/procurement of this new system began in October 2018. The system is scheduled to go live in September 2021. All appropriate records and those pertinent to the efficiency of operations will be uploaded into the fleet management system."

Actual/estimated Date of Corrective Action: August 2022

Recommendation 2.3

Improve the process to maintaining documentation of daily vehicle inspections performed.

Management's Response:

"Concur. The vehicle operators are tasked with the completion of daily inspections on vehicles prior to their use."

Actual/estimated Date of Corrective Action: August 2021

Recommendation 2.4

Require adequate supervision to sign off on daily inspections performed for heavy equipment to ensure daily inspections are adequately monitored and completed.

Management's Response:

"Concur. A CalFire chief officer is on duty at every fire station to ensure the vehicle's operator is following established regulations."

Actual/estimated Date of Corrective Action: August 2021

Service Center Warehouse Expenditures

Background

Riverside County Purchasing and Fleet Services Department is responsible for implementing policies and procedures set forth in the Riverside County *Purchasing Policy Manual* (September 1, 2016). The Director of Purchasing is the Purchasing Agent for Riverside County and can delegate his/her authority to Riverside County staff with limitations that vary depending on the level of authority granted. See Table A for a summary of delegation of purchasing authority.

Table A: Summary of Delegation of Purchasing Authority

Position	Purchase Order Authority	PO's Against PeopleSoft Contracts
Low Value Purchase Authority (LVPA)	\$5,000 per day per vendor	\$25,000 per day per vendor
Buyer I	\$25,000 per day per vendor	\$100,000 per day per vendor
Buyer II	\$50,000 per day per vendor	\$100,000 per day per vendor

Purchasing authority limitations will vary depending on whether purchases are made against county contracted vendors and non-county contracted vendors. "County staff may be granted low value purchase authority upon successful completion of required training. Low value purchase authority allows departmental staff the ability to issue purchase orders up to the amount of \$5,000 per day per vendor and issues purchase orders up the dollar value of \$25,000 against existing PeopleSoft contracts" (*Purchasing Manual, September 2016*).

Expenditures of \$5,000 or greater, require county departments to obtain a minimum of three written quotes from potential vendors to ensure the best use of taxpayer dollars. The *Purchasing Policy Manual* describes the splitting of purchase orders as follows, "Deliberate attempts to split orders, where the purpose is keeping total cost of each order down below bid limits, and failure to combine orders when practical for the best interest of the county in order to circumvent the limitations, is prohibited and may result in disciplinary actions reduced or suspended purchasing authority.

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Objective

To verify the existence and adequacy of controls over service center warehouse expenditures.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of county procurements policies and procedures.
- Interviewed key personnel regarding procurement expenditure processes.
- Obtained a listing of all expenditures for the Fire Department during the review period of the audit to analyze and identify split purchase orders.
- Obtained a listing of all Fire Department staff with delegated purchasing authority.
- Analyzed department expenditure data for the audit period to identify instances of split purchase orders at the \$5,000 and \$25,000 limitations.

Finding 3: Purchase Orders

Fire Department is not in compliance with the Riverside County Purchasing Manual. We identified the following in our review of Fire Department low value purchase authority service center warehouse expenditures:

- Thirty-two of 112 (28%) instances, totaling \$529,292, in which purchase orders were split and circumvented Low Value Purchase Authority of \$5,000 per day per vendor limitations for expenditures with non-contracted vendors.
- Twelve of 112 (11%) instances, totaling \$326,721, in which purchase orders were split and circumvented Low Value Purchase Authority limitations of \$25,000 per day per vendor for expenditures against contracted vendors.

The Purchasing Policy Manual states, “low value purchase authority allows departmental staff the ability to issue LVPOs up to the amount of \$5,000 per day per vendor and issues purchase orders up to the dollar value of \$25,000 against existing PeopleSoft Contracts.” The Purchasing Policy Manual further states, “deliberate attempts to split orders, where the purpose is keeping total cost of each order down

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below bid limits, and failure to combine orders when practical for the best interest of the County in order to circumvent the limitations, is prohibited.” The splitting purchase orders can result in unauthorized commitments and increases the likelihood of improper payments. Furthermore, when purchase orders are split into smaller components, it circumvents the formal bid requirements designed to ensure the best use of taxpayer dollars.

Recommendation 3

Develop a process to maintain compliance with purchasing authority limitations as set forth in the Riverside County Purchasing Manual.

Management’s Response:

“**Concur.** The errors have been reviewed with the appropriate staff and additional training has been provided. With the end of Covid restrictions, the Purchasing Bureau will be conducting regular meetings/training sessions for all procurement processors.”

Actual/estimated Date of Corrective Action: October 2021

Finding 4: Contract Monitoring

We reviewed expenditure information for 3 staff with low value purchase authority for the review period of the audit and verified purchase orders are not linked to established county contracts to ensure contract limits are not exceeded and contracts are adequately monitored. We identified 5 purchase orders totaling \$35,691 which were not linked to a county contract. Contracts are established between Riverside County and vendors to procure goods/services and typically include pricing agreements, terms and conditions, and limits on expenditures. Purchase orders were not linked to contracts do to department oversight. Linking expenditures to contracts is a control designed to ensure contract limitations are monitored and ensures departments are within a contract’s terms and conditions.

Recommendation 4.1

Ensure purchase orders are linked to Riverside County contracts.

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Management's Response:

"Concur. The errors have been reviewed with the appropriate staff and additional training has been provided. With the end of Covid restrictions, the Purchasing Bureau will be conducting regular meetings/training sessions for all procurement processors."

Actual/estimated Date of Corrective Action: October 2021

Recommendation 4.2

Ensure management is monitoring expenditures to verify purchase orders are linked to county established contracts.

Management's Response:

"Concur. The Department will seek to create a report/query from the PeopleSoft Financial system to assist with this monitoring."

Actual/estimated Date of Corrective Action: December 2021

Vendor Discounts

Background

Prompt payment discounts are incentives offered by vendors to encourage faster payments. Discounts for early payment may be incorporated into the base of the contract or offered on individual invoices. The discount is available if payment is made within the specified prompt payment period.

The amount of the prompt payment discount is typically one or two percent if payment is made within 10 days. However, the amount of the discount and the time in which you have to take advantage of the prompt payment discount can vary from business to business. To a large extent, a vendor's prompt payment discount is based on what is common for the vendor's line of business. Some vendors offer generous trade discounts, while others offer no trade discounts at all.

Full payment is normally due within 30 days if the department does not take advantage of the prompt payment discount. The vendor's prompt payment discount may be shown as the credit terms on the invoice or purchase order. Prompt payment discounts are generally listed in the following format: "1/10, "2/15", or "4/20" all indicating the amount of the percentage discount offered and the number of days the department has to take advantage of the discount. In these examples a one, two or four percent discount is being offered if the payment is made within 10, 15, or 20 days respectively.

County departments should strive to take advantage of prompt payment discounts as provided by respective vendors

Objective

To determine the adequacy of internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Methodology

To accomplish these objectives, we:

- Conducted interviews and performed walk-throughs with fiscal staff.
- Obtained a listing of all invoice processed within the audit period.

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- Performed an analysis to identify vendors that offered prompt payment discounts and verified the amount in missed discounts.
- Identified four vendors that offer prompt payment discounts: GM Business, Life Assist, Staples, and Turnout Maintenance.
- Selected a sample of 30 invoices with missed discounts to determine the lapse in processing invoices.
- Obtained and reviewed supporting documentation for invoices to verify the timeliness of confirmation of goods/services and processing invoices.

Finding 5: Missed Discounts

Fire Department is not capturing vendor discounts offered for prompt payment of invoices. Based on our review of processed invoices during the audit period for the four vendors GM Business, Life Assist, Staples, and Turnout Maintenance. We identified the following:

- 4,330 (77%) of 5,634 invoices were not paid within the vendors discount terms causing the department to miss out on prompt payments discounts totaling \$65,566. (See: Table B).

Fire Department does not pay invoices until accounts payable staff have received confirmation from county personnel that goods or services have been received. Based on our review supporting documentation for 30 invoices sampled, we identified the following:

- Thirty (100%) invoices reviewed, confirmation for goods or services received was not immediately provided to accounts payable by Fire Department personnel.
- Thirty (100%) invoices were not processed timely by accounts payable upon receiving confirmation of goods/services. The payment of invoices ranged from 4 days and 68 days after accounts payable received confirmation of goods/services with an average of 29 days in the 30 sampled invoices.

Best business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

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Table B: Summary of missed discounts

Vendor	Discount Terms	Total Amount of Expenditures	Discounts Captured	Discounts Missed
GM Business	3% 20 net 30	\$45,662.52	\$86.37	\$1,276.81
Life Assist	2% / Net 30	\$2,839,900.48	\$12,468.11	\$44,039.44
Staples	3% 10 net 30	\$599,235.45	\$770.45	\$17,146.99
Turnout Maintenance	1% / Net 30	\$60,807.00	\$33.00	\$576.00
TOTAL		\$3,545,605.45	\$13,357.93	\$63,039.23

Recommendation 5.1

Develop policies and procedures to maximize the amount of vendor discounts the department would be able to capture.

Management’s Response:

“Concur. Accounts Payable procedures will be reviewed for efficiencies.”

Actual/estimated Date of Corrective Action: July 2021

Recommendation 5.2

Ensure Fire Department is confirming goods/services received immediately after receipt.

Management’s Response:

“Concur. The Department will work with each Fire Station and Bureau on receipt confirmation. An invoice will not be processed until confirmation is obtained.”

Actual/estimated Date of Corrective Action: July 2021

Recommendation 5.3

Ensure Fire Department is processing vendor payments in a timely manner after receiving confirmation of goods/services for vendors who offer discounts for timely payment.

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Management's Response:

"Partially Concur. Accounts Payable procedures will be reviewed for efficiencies. The department will also evaluate the cost effectiveness of adding personnel to accomplish processing payments within 10 days of receipt to realize a prompt payment discount. One Accounting Assistant II position has an annual budgetary cost of \$72,357 for FY 21/22. If additional position(s) are necessary, it will be a mid-year or following fiscal year budget request."

Actual/estimated Date of Corrective Action: June 2022

Auditor's Comments:

Our recommendation is not to hire additional staff but to prioritize vendors who offer discounts in order to ensure payments are processed within the vendors prompt payment discount terms.

Inventory

Background

Perpetual inventory is an accounting method of maintaining up to date inventory records that accurately reflect the level of goods on hand. The ability to accurately count physical inventory is only one factor that must be considered in improving the reliability of inventory records. Physical inventory is critical in verifying that inventory exists and that on-hand balances agree with financials. Inaccurate and unreliable inventory information impairs the county's ability to (1) know the quantity, location, condition, and value of assets it owns, (2) safeguard its assets from physical deterioration, theft, loss, or mismanagement, (3) prevent unnecessary storage and maintenance costs or purchase of assets already on hand, and (4) determine the full costs of government programs that use these assets.

The inventory process has three primary areas where duties must be segregated: physical counting of assets, recording of transactions, and approval of transactions. Management must ensure that the normal job activities of the person performing the physical count do not include custodial activities such as receiving, shipping, and storing physical assets. Personnel recording transactions that affect the on-hand quantities should not be responsible for the physical custody of the inventory or approval of adjustments.

A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying segregation of duties is that no employee or group of employees have complete control over a key function or activity. In general, the principal incompatible duties to be segregated are:

- Custody of assets
- Authorization or approval of related transactions affecting those assets
- Recording or reporting of related transactions

Objective

To verify the existence and adequacy of internal controls over inventory management.

Audit Methodology

To accomplish these objectives, we:

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- Obtained an understanding of board policies and applicable standards.
- Interviewed department management and staff to gain an understanding of warehouse inventory and adjustment processes.
- Selected a sample of inventory items to conduct inventory count and observe the inventory.
- Reviewed warehouse inventory adjustments supporting documentation for accuracy and segregation of duties.

Finding 6: Warehouse Inventory Controls

Based on our review of Fire Departments warehouse inventory, we identified the following:

- Three of six (50%) warehouse inventory items sampled did not match with item quantities listed in the departments inventory system. Fire Department inventory system does not track inventory item quantities in real time. Warehouse requisitions are submitted through a different system than the inventory system. Once requisition items are removed from warehouse inventory, the inventory item quantities should be updated into the departments inventory system. Per discussion with Fire Department officials, an update in warehouse inventory quantities can take over 24 hours.
- Fire Department warehouse does not have an adequate security camera system to monitor warehouse inventory items. In our review, we identified one camera was located in the warehouse which does not provide coverage of key warehouse areas. A security camera system can aid in investigating item discrepancies and is a deterrent to theft as crimes are less likely to be committed when a person knows they are being monitored. Additionally, security camera systems can provide quality control by monitoring to ensure items are received/shipped correctly and safely.
- Fire Department does track adjustments to inventory quantities. In our review, we verified the Riverside County financial system does not provide an adequate audit trail to provide information such as dates, quantities, history, and names of staff performing adjustments. As such, adequate monitoring such as review and approval of any inventory adjustments are not documented and are left without a proper audit trail. Adequate monitoring aids in identifying trends on items susceptible to unauthorized use or disposition.

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Recommendation 6.1

Develop a process to ensure inventory is updated in the Riverside County financial system immediately after requisitioned items have been removed or added to inventory.

Management's Response:

"Concur. The Fire Department utilizes the PeopleSoft System for inventory management. The Department will evaluate the need of additional staffing or technology to ensure inventory is updated immediately."

Actual/estimated Date of Corrective Action: June 30, 2022

Recommendation 6.2

Establish an adjustment monitoring process that requires review by an appropriate level of management prior to performing inventory adjustments.

Management's Response:

"Concur. This issue was brought to our attention in October 2020. An adjustment procedure outlining an approval process was implemented on October 29, 2020."

Actual/estimated Date of Corrective Action: October 29, 2020

Recommendation 6.3

Develop a report from the Riverside County financial system to provide inventory adjustment details to include items being adjusted, date of adjustments, and staff performing adjustments.

Management's Response:

"Concur. A request will be submitted to RCIT to develop this report from the PeopleSoft system."

Actual/estimated Date of Corrective Action: Unknown; based upon response from RCIT.

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Recommendation 6.4

Implement a security camera system that provides coverage of stored inventory items and inventory receiving and shipping areas.

Management's Response:

"Concur. The camera system in place currently covers the dock area of the warehouse only. The department will work with CalFire, Human Resources, and IT to place cameras inside the facility."

Actual/estimated Date of Corrective Action: December 31, 2021

Finding 7: Segregation of Duties

In our review, we identified there is a lack of segregation of duties over key inventory management functions. We identified a warehouse storekeeper with a custody role and a record-keeping role. Standard Practice Manual 1001, *Internal Control* states, "Duties should be divided or segregated so that no one person has complete control over a key function of activity." Furthermore, United States General Accounting Office, *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, states, "The key areas of segregation are (1) physical custody of assets, (2) processing and recording of transactions, and (3) approval of transaction... personnel recording transactions that affect the on-hand quantities should not be responsible for the physical custody of the inventory." By not adequately segregating duties over key inventory processes, the risk of misuse and misappropriation of assets increases.

Recommendation 7

Ensure there are adequate segregation of duties for handling, tracking, and recording inventory items. If adequate segregation of duties is not possible due to staffing, develop compensating controls to monitor inventory items.

Management's Response:

"Concur. The department will evaluate the need of additional staff or technology to provide adequate segregation."

Actual/estimated Date of Corrective Action: June 2022

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Finding 8: Vehicle Parts Inventory

Based on our review of Fire Department fleet vehicle parts warehouse inventory, we identified the following:

- We verified both the Indio and Perris mechanic shops have large amounts of obsolete items in their inventory. Department management stated that obsolete inventory has not been disposed or surplus because the items do not have use for the department, and the long length of time it takes to dispose inventory. Managing excess obsolete inventory can increase productivity and improve storage capacity.
- Inadequate tracking of inventory maintained within service vehicles issued to Fire Technicians. We identified vehicles issued to Fire Technicians contain various vehicle parts and the department does not have a process in place to monitor and track the items within.
- Fire Department does not maintain a listing for their vehicle parts inventory. In our review, we identified the Indio and Perris mechanic shops inventory for vehicle parts do not have an inventory listing, nor are there minimum inventory levels maintained. Additionally, no periodic inventory counts are performed to ensure the completeness of inventory items. The department does not have an inventory system in place to adequately track inventory in real time. Effective and efficient vehicle parts inventory aids in controlling, tracking, and safeguarding inventory. Furthermore, not maintaining minimum inventory levels can increase delays in vehicle repairs which can have an impact on the department's objectives during emergencies.

Recommendation 8.1

Perform a review of inventory items and dispose/surplus any items that are deemed obsolete/damaged and provide no further use for the department.

Management's Response:

"Concur. Perform a review of inventory items and dispose/surplus any items that are deemed obsolete/damaged and provide no further use for the department."

Actual/estimated Date of Corrective Action: August 2021

Recommendation 8.2

Develop a process for tracking inventory items stored in Fire Technician vehicles.

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Management's Response:

"Concur. The Department is in the process of implementing a new fleet management software with County Fleet Services. The development/procurement of this new system began in October 2018. The system is scheduled to go live in September 2021. It is anticipated the new software may provide this functionality."

Actual/estimated Date of Corrective Action: August 2022

Recommendation 8.3

Develop minimum inventory levels for vehicle parts inventory.

Management's Response:

"Concur. The Department is in the process of implementing a new fleet management system with County Fleet Services. The development/procurement of this new system began in October 2018. The system is scheduled to go live in September 2021. The new system will have an inventory component."

Actual/estimated Date of Corrective Action: August 2022

Recommendation 8.4

Develop and implement a system to aid in the tracking of vehicle parts inventory in real time.

Management's Response:

"Concur. The Department is in the process of implementing a new fleet management system with County Fleet Services. The development/procurement of this new system began in October 2018. The system is scheduled to go live in September 2021. The new system will have an inventory component that will allow bar coding functionality. The bar coding functionality will be evaluated to provide additional efficiency."

Actual/estimated Date of Corrective Action: August 2022

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).

As of February 1, 2021, the Riverside County Fire Department maintained 1,129 capital assets in the Riverside County financial system asset management module, consisting of structures, vehicles, field equipment, fixed equipment, office equipment, leased equipment, and software, with the combined acquisition cost of \$77.5 million.

Objective

To assess the adequacy of internal controls over the safeguarding of capital assets.

Audit Methodology

To accomplish these objectives, we:

- Obtained a listing of capital assets tracked in the Riverside County financial system asset module.
- Verified the existence of capital assets that were transferred to the new department director.
- Verified proper forms were completed for the retirement of capital assets.

Finding 9: *Capital Asset Compliance*

Fire Department is not in compliance with county capital asset procedures. Out of 45 sampled capital assets, we identified the following:

- Two capital assets were not at the location indicated in the Riverside County financial system. SPM 513, *Asset Tags*, states, "In the event an asset is to be moved from one location to another, or from one department to another, a Form AM-6 must be completed." SPM 513 further requires a location change to be updated in the Riverside County financial system.

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- Three capital assets were not disposed/surplused in accordance with Standard Practice Manual 514 (SPM 514), *Disposal of Capital Asset*. SPM 514 states, “Capital assets that are no longer needed by a department must be transferred to the custody of the Supply Services Division of the Purchasing and Fleet Services Department for disposal.” Standard Practice Manual 505, *Accounting For: Equipment*, states, “The Departmental capital asset coordinator is responsible for completing Form AM-7 to dispose of an asset.”
- Three capital assets were not updated with sufficient information to accurately identify capital assets in the Riverside County financial system. County tag numbers or serial numbers were missing for capital assets. As such, we were unable to verify the capital assets. SPM 513, states, “All purchased capital equipment for use by the County shall be assigned a county property asset tag number.” Additionally, SPM 513 states that tagging is important to, “provide an accurate method of identifying individual capital assets.”
- Two capital assets were not affixed to the asset sampled. SPM 513 requires county departments to “Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will assist with the physical inventory.” Tagging capital assets is an internal control designed to provide a method for identifying capital assets and aid in the annual capital asset physical inventory. The practice ensures accurate reporting requirements are met, capital assets are adequately accounted for, and processes are consistent through departments.
- County tags did not agree to the information reported in the Riverside County financial system for two capital assets. Specifically, county tags attached to capital assets did not agree with the assets information as listed in the financial system. By not properly tagging capital assets, Fire Department was not in compliance with SPM 513. Proper tagging ensures information is accurate and reliable and aids certifying capital assets.

Recommendation 9.1

Ensure capital asset locations are updated in the Riverside County financial system.

Management’s Response:

“Concur. Assets will be updated in the PeopleSoft Financial system.”

Actual/estimated Date of Corrective Action: August 31, 2021

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Recommendation 9.2

Ensure capital assets are disposed/surplused in accordance with Standard Practice Manual 514, *Disposal of Capital Asset*.

Management's Response:

"Concur. All assets will be surplused utilizing proper procedures."

Actual/estimated Date of Corrective Action: August 31, 2021

Recommendation 9.3

Ensure capital assets are affixed with a county tag in accordance with Standard Practice Manual 513, *Asset Tags*.

Management's Response:

"Concur. The County tags will be placed on assets upon receipt of official asset tag."

Actual/estimated Date of Corrective Action: August 31, 2021

Recommendation 9.4

Ensure accurate capital asset information is updated in the Riverside County financial system in accordance with Standard Practice Manual, *Asset Tags*.

Management's Response:

"Concur. Assets will be updated in the PeopleSoft Financial system."

Actual/estimated Date of Corrective Action: August 31, 2021

Revolving Fund

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.

Fire Department has one revolving fund with an authorized balance of \$1,000, maintained in the form of petty cash or bank account. The revolving fund is primarily used to pay for travel and training expenses.

Objective

To assess the adequacy of internal controls over the safeguarding of revolving funds.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller's Office Standard Practice Manual 603, *Revolving Fund*, for the establishment and transfer of revolving funds.
- Interviewed key personnel regarding the use of revolving funds.
- Verified revolving fund reconciliations were prepared.
- Performed a surprise cash count and reconciled to the fund assignment amounts.
- Reviewed for adequate segregation of duties.
- Reviewed supporting documentation for transactions.

Finding 10: Reconciliation Reviews Are Not Dated

Five of five (100%) revolving fund reconciliations randomly selected, did not contain the dates to evidence when prepared reconciliations were reviewed. As such, there is no evidence that reconciliations were reviewed timely. The Auditor-Controller's Standard Practice Manual 603, *Revolving Funds* (SPM 603), states, "reconciliations must be properly reviewed and approved by a supervisor." Fire Department bank reconciliation form does not include a section for the reconciliation review date. Reconciliations

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evidenced with proper signatures and dates for review is an internal control to ensure errors or unauthorized activities do not go undetected for long periods of time.

Recommendation 10

Update the Fire Departments bank reconciliation form to include a section for the reconciliation review date.

Management's Response:

"Concur. A date has been added to our reconciliation form."

Actual/estimated Date of Corrective Action: May 2021

Finding 11: Reconciliation Review Delegation of Authority

Revolving fund reconciliations are not reviewed by a supervisor as required by *SPM 603, Revolving Funds*. The review of reconciliations has been delegated to a staff in a non-supervisory role. *SPM 603, Revolving Funds*, states, "reconciliations must be properly reviewed and approved by a supervisor." Proper delegation of authority for review of reconciliations is a detective control designed for management to compare information and identify unexpected or unusual activity and perform follow-up when necessary.

Recommendation 11

Ensure revolving fund reconciliations are reviewed by adequate level of supervision.

Management's Response:

"Concur. The reconciliation will be reviewed and signed by a supervisor."

Actual/estimated Date of Corrective Action: May 2021

Overtime

Background

Overtime may be required due to vacancies, emergencies, special events, staffing shortages, workload fluctuations, etc. Riverside County pays overtime to employees to address delivery of essential services and other business needs as required. Overtime can be more cost-effective than hiring additional staff and allows county departments to meet fluctuation workloads without requiring employee layoffs as workload declines.

Objective

The objective of this audit was to assess whether internal controls for overtime usage were adequate and appropriate, and whether overtime practices complied with Riverside County policies and procedures.

Audit Methodology

To accomplish these objectives, we:

- Interviewed key personnel regarding the use of overtime and processes for requesting overtime.
- Evaluated internal controls relating to overtime request to identify if overtime was pre-approved by management prior to being worked.
- Selected a sample of employee's overtime to test whether overtime was pre-authorized, recorded accurately, properly approved.

Finding 12: Overtime Supporting Documentation

Fire Department does not require overtime pre-approval to be submitted in writing and does not maintain pre-approval request documentation. We selected a random sample of 21 instances of overtime reported by Fire Department staff. We were unable to determine if overtime was pre-approved in 20 (95%) of the 21 instances of overtime sampled as Fire Department was unable to provide pre-approval documentation. Per discussions with Fire Department management, overtime is requested either verbally or via e-mail with verbal requests being the most common method. Additionally, Fire

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department does not have formal policies and procedures in place over the pre-approval of overtime.

Per Auditor-Controller: *Fiscal Year 2019-20 Full Transparency Countywide Overtime Monitoring Report*, Fire Department reported \$2,386,223 paid overtime. As such, overtime is an area that needs continuous monitoring and strong internal controls. Overtime pre-approval is an internal control designed to ensure management monitors overtime and approves overtime use when necessary and appropriate.

Recommendation 12

Develop policies and procedures to ensure overtime is pre-approved, documented in writing, and documentation for overtime requests is maintained.

Management's Response:

"Concur. For the Department Bureaus without written procedures, procedures will be developed to provide guidance and documentation requirements to supervisors as it relates to overtime. These procedures will not replace overtime outlined in the established MOU's for each employee."

Actual/estimated Date of Corrective Action: December 31, 2021