



County of Riverside

INTERNAL AUDIT REPORT 2009-027.002

County of Riverside Fire Department Cooperative Service Agreements with Local Agencies

December 24, 2009

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

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COUNTY OF RIVERSIDE
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December 24, 2009

John R. Hawkins, Fire Chief
Riverside County Fire Department
210 West San Jacinto Avenue
Perris, CA 92570

Subject: Internal Audit Report 2009-027.002: County of Riverside Fire Department Cooperative Service Agreements with Local Agencies

Dear Chief Hawkins:

We have completed an audit of the Riverside County Fire Department's cooperative service agreements with local agencies. Our primary audit objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy of internal controls to ensure that costs for services provided to contracting agencies are appropriately allocated and recovered. We performed the audit during the period April 7, 2009, through August 20, 2009, for rates in effect during fiscal years 2007/08, 2008/09, and 2009/10.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the Department's effectiveness and efficiency of operations, compliance with applicable laws, reliability of financial information, and performing such other procedures as we consider necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion.

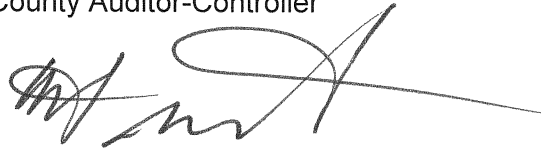
Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency of operations, compliance with laws and regulations, and reliability of financial information. Management is responsible for establishing and maintaining adequate internal controls, our responsibility is to express an opinion on the internal controls based upon our audit.

In our opinion, the internal controls are not adequate to ensure that the costs for providing services to contracting agencies are properly allocated and recovered. Since 2006, the department stopped allocating hazardous materials costs to the contracting agencies. Instead, the department started the practice of directly billing the parties responsible for creating the hazardous materials incidents. Since this practice was adopted, available data showed the total

amount of hazardous materials costs recovered by the department averaged \$49,500 per year. The change in the billing practice resulted in the county absorbing the majority of the hazardous materials operating costs. Of the \$8.5 million annual hazardous materials costs, approximately \$4.9 million should have been billed to contracting agencies.

We thank the Riverside County Fire Department management and staff for their cooperation and for the successful completion of this audit.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read 'Michael G. Alexander', with a long horizontal flourish extending to the right.

By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
Grand Jury

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Executive Summary

Audit Objective Our primary audit objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy of internal controls to ensure that costs for providing services to contracting agencies are appropriately allocated and recovered.

Overview The County of Riverside's fire protection and emergency services are provided by the State of California, Department of Forestry and Fire Protection pursuant to a three-year agreement with the state commencing July 1, 2008. The services consist of emergency fire protection; emergency response and basic life support; advanced life support services; dispatch services; fire code inspection, prevention and enforcement services; land use/pre-fire planning services; and disaster planning services. The agreement covers services to unincorporated county areas and 19 contracting agencies (18 cities and one community service district). The agreement specifies a maximum cost for these services of \$149.7 million for fiscal year 2008/09.

The services which the department provides to the contracting agencies include disaster preparedness and response, fire prevention, rescue, hazardous materials (Hazmat) mitigation, technical rescue response, medical emergency, and public service assistance. The department charges the contracting agencies for the cost of providing the services as embodied in cooperative service agreement between the county and contracting agency and as authorized by Government Code Section 51350.

Every year the department prepares a cost allocation plan containing the detailed breakdown of costs that will be charged to each contracting agency. The allocation methodology followed by the department is to charge a contracting agency for costs directly incurred for that agency and divide general administrative and program costs between the participating agencies.

Audit Methodology To accomplish our audit objectives, we:

- Gained an understanding of codes, regulations, policies and procedures related to contracted fire and emergency services;
- Researched fire department cost allocation practices employed by other counties;
- Reviewed the Cooperative Reimbursement Agreement for Fire Protections Services with the State of California as well as the

cooperative agreements between Riverside County and contracting cities and community district;

- Interviewed key officers and staff members to obtain an understanding of current practices concerning development of rates, billing and collection;
- Reviewed whether current practices adhere to governing codes, regulations and established policies and procedures;
- Tested the accuracy and completeness of data used in developing the rates by examining supporting documentation; and
- Evaluated the timeliness of billing of services rendered;

Conclusion

In our opinion, the internal controls are not adequate to ensure that the costs for providing services to contracting agencies are properly allocated and recovered. Since 2006, the department stopped allocating hazardous materials costs to the contracting agencies. Instead, the department started the practice of directly billing the parties responsible for creating hazardous materials incidents. Since this practice was adopted, available data showed the total amount of hazardous materials costs recovered by the department averaged \$49,500 per year. The change in the billing practice resulted in the county absorbing the majority of the hazardous materials operating costs. Of the \$8.5 million annual hazardous materials costs, approximately \$4.9 million should have been billed to contracting agencies.

Results

Cost Allocation Process

The department's cost allocation methodology is based upon Government Code Section 51350 which states:

"A county which provides services through its appropriate departments, boards, commissions, officers or employees, to any city pursuant to contract or as authorized by law, shall charge the city all those costs which are incurred in providing the service so contracted or authorized..."

Currently, the County of Riverside Fire Department is providing services to 19 contracting agencies (18 cities and one community service district). Riverside County Board Policy B-4 (Rates Charged for Current Services) states:

"All county departments will evaluate existing charges for services and in conjunction with the Auditor-Controller and the Executive Officer make recommendations to the Board of Supervisors on changes annually during the preparation of the county budget or more frequently if necessary."

In 2005, the County Fire Chief directed the formation of a team that included representation from six contracting agencies to evaluate the methodology for allocating overhead costs. The outcome was the adoption of a cost allocation methodology, first implemented in fiscal year 2006/07, which involves splitting of overhead costs that cannot be identified to a station level into various program components. Each program component cost is then divided between the contracting agencies based on predetermined allocation criteria. Currently, there are eight different program components:

1. Administration
2. Volunteer
3. Emergency Medical Services
4. Field Battalion Chief
5. Emergency Call Center/Dispatch
6. Fleet Support
7. Communication and Information Technology
8. Facility Maintenance Support

In addition to fire and emergency medical incidents, the department responds to Hazmat incident calls. The department directly bills the parties responsible for creating the hazardous materials incidents or applicable insurance company for personnel and equipment costs related to the Hazmat incident response.

The cost allocation process begins by collecting data pertaining to personnel (both state and county), equipment, and administrative and operating costs. State employee salaries and benefits are obtained from state contracts. Administrative and operating expenses, including statistical data such as number and type of incident calls that are used for allocating expenses, are obtained from department and county records. The data collected are manually entered on Excel spreadsheets which contain the formulas for calculating the billing rates. Once completed and approved by the Fire Chief, the cost allocation plan is forwarded to the Auditor-Controller's Office (ACO) and Executive Office for review and then submitted to the Board of Supervisors for final approval.

Finding 1

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

The Hazmat operating cost is about \$8.5 million per year. For a two-year period ending December 31, 2008, the department recovered an average of \$49,500 per year from responsible parties. During that same period, the department responded to 597 Hazmat incident calls of which, 347 or 58% were within jurisdictions of contracting cities (Table 1). Based on incident responses, the contracting agencies' proportionate share of the Hazmat operating costs was approximately \$4.9 million. The current practice has the practical effect of the county absorbing the majority of Hazmat operating costs.

Table 1: Hazardous Materials Incident Calls

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

Recommendation 1

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

Management Reply

Concur. "We are working on a plan of action to address this recommendation. We will be working together with our Contract Partners to establish an equitable methodology. This methodology may utilize a phased approach."

Estimated Date of Corrective Action: July 2010 to July 2013

Finding 2 The department uses the California State rates for billing the parties responsible for creating hazardous materials incidents because the department has not developed its own Hazmat rates based on actual costs. The use of the state rates is not in keeping with the Government Code Section 51350 and County Board Policy B-4 stipulating that actual costs are to be recovered.

Recommendation 2 Develop Hazmat billing rates based on actual operating costs. We envision a need for at least two rates: one rate for billing non-contracting agencies for the full Hazmat cost, and another rate for billing contracting agencies for costs that are not recovered through the cost allocation.

Management Reply **Concur.** "We agree with the need for rate development and we have just completed the rate for the Hazmat apparatus. It was approved by the Board of Supervisors on November 3, 2009. We will look at creating a rate for staffing as well. The recovery of the programs cost with our Contract Partners will be addressed with the resolution for recommendation number one."

Estimated Date of Corrective Action: June 2011

Finding 3 As of September 22, 2009, the department had not billed the parties responsible for creating 147 Hazmat incidents. Twenty-two of these incidents are more than three years old. We estimated the unbilled charges to be about \$576,000 (Table 2).

Table 2: Unprocessed Charges

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

Recommendation 3 Process all pending Hazmat bills and bring all Hazmat claims status to current. Review procedures to ensure the prompt processing of charges going forward.

Management Reply **Concur.** "We are in the process of recruiting two additional staff for our Cost Recovery unit. Once this staff is in place and trained we will bring all of our claims up to current and will review all procedures. The Cost Recovery unit will be updating the Department's Executive staff quarterly."

Estimated Date of Corrective Action: November 2011

Finding 4

We noted the following errors in the cost allocation plans:

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

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

Recommendation 4.1 Resolve billing errors, as noted above, with the contracting agencies.

Recommendation 4.2 Complete the employee cross-training so that the cost allocation can be delegated to this person as early as practicable.

Management Reply **Concur.** "We corrected the billing error for FY 08/09 in our FY 09/10 1st quarter invoices. We will correct the allocation error for FY 09/10 with our cost allocation plan reconciliation, which will be completed in the FY 09/10 4th quarter invoices. Cross training of staff will begin immediately."

Estimated Date of Corrective Action: July 2010

Finding 5

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

Recommendation 5 Document the cost allocation policies and procedures to guide staff and help ensure continuity of work during employee absence or turnover.

Management Reply **Concur.** "We concur and will begin working on our procedures and the training of staff immediately."

Estimated Date of Corrective Action: June 2010

Appendix

**Riverside County Fire Department
Management Reply**



RIVERSIDE COUNTY FIRE DEPARTMENT

In cooperation with the California Department of Forestry and Fire Protection

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

John R. Hawkins Fire Chief

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

- Banning, Beaumont, Calimesa, Canyon Lake, Coachella, Desert Hot Springs, Indian Wells, Indio, Lake Elsinore, La Quinta, Moreno Valley, Palm Desert, Perris, Rancho Mirage, Rubidoux CSD, San Jacinto, Temecula

- Board of Supervisors, Bob Buster District 1, John Tavaglione District 2, Jeff Stone District 3, John Benoit District 4, Marion Ashley District 5

DATE: December 21, 2009
TO: Auditor-Controller Audits and Specialized Accounting Division
FROM: John R. Hawkins, County Fire Chief Fire Department
SUBJECT: Reply to Draft Audit Report

Handwritten signature of John R. Hawkins

09 DEC 21 PM 4:46 RIVERSIDE COUNTY AUDITOR-CONTROLLER

Recommendation Number 1:

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

- a. Managements position concerning recommendations: [X] Concur [] Disagree
b. Comments: We are working on a plan of action to address this recommendation. We will be working together with our Contract Partners to establish an equitable methodology. This methodology may utilize a phased approach.
c. Actual/estimated Date of Corrective Action: July 2010 to July 2013
d. Estimated cost to implement recommendation: \$ 0

Recommendation Number 2:

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

- a. Managements position concerning recommendations: [X] Concur [] Disagree
b. Comments: We agree with the need for rate development and we have just completed the rate for the Hazmat apparatus. It was approved by the Board of

Supervisors on November 3, 2009. We will look at creating a rate for staffing as well. The recovery of the programs cost with our Contract Partners will be addressed with the resolution for recommendation number one.

c. Actual/estimated Date of Corrective Action: June 2011

d. Estimated cost to implement recommendation:
\$ 0

Recommendation Number 3:

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

a. Managements position concerning recommendations:
 X Concur _____ Disagree

b. Comments:
We are in the process of recruiting two additional staff for our Cost Recovery unit. Once this staff is in place and trained we will bring all of our claims up to current and will review all procedures. The Cost Recovery unit will be updating the Department's Executive staff quarterly.

c. Actual/estimated Date of Corrective Action: November 2011

d. Estimated cost to implement recommendation:
\$ 0

Recommendation Number 4:

Resolve billing errors as noted in the report with the contracting agencies. Complete the employee cross-training so that the cost allocation can be delegated to this person as early as practical.

a. Managements position concerning recommendations:
 X Concur _____ Disagree

b. Comments:
We corrected the billing error for FY 08/09 in our FY 09/10 1st quarter invoices. We will correct the allocation error for FY 09/10 with our cost allocation plan reconciliation, which will be completed in the FY 09/10 4th quarter invoices. Cross training of staff will begin immediately.

c. Actual/estimated Date of Corrective Action: July 2010

d. Estimated cost to implement recommendation:
\$ 0

Recommendation Number 5:

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

a. Managements position concerning recommendations:
 X Concur Disagree

b. Comments:

We concur and will begin working on our procedures and the training of staff immediately.

c. Actual/estimated Date of Corrective Action: June 2010

d. Estimated cost to implement recommendation:
\$ 0