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CITY OF LOS ANGELES

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ANTOINETTE CHRISTOVALE
DIRECTOR OF FINANCE

OFFICE OF FINANCE
200 N. SPRING STREET, RM 220
LOS ANGELES, CA 90012



(213) 978-1774

Antonio R. Villaraigosa
MAYOR

February 20, 2008

The Honorable Antonio R. Villaraigosa
The Honorable Laura Chick
The Honorable Members of the City Council

**SUBJECT: REPORT OF THE BILLING AND COLLECTIONS OPERATION OF
THE LOS ANGELES FIRE DEPARTMENT**

I am releasing the enclosed report entitled "The Billing and Collections Operation of the Los Angeles Fire Department." A copy of this Report was provided to Chief Barry as head of the Fire Department.

If you have any questions or comments, please contact Jeffrey Whitmore, Revenue Manager, at (213) 978-1781.

Sincerely,

for Pamela Momey
Antoinette Christovale
Director of Finance

Enclosure

**FEB 22 2008
AUDITS & GOVERNMENTAL
EFFICIENCY**

AUDIT OF BILLING AND COLLECTION OPERATIONS OF THE LOS ANGELES FIRE DEPARTMENT

INTRODUCTION

The Office of Finance (Finance) Citywide Billing and Collection Unit performed a review of the billing and collections processes of the Los Angeles Fire Department (LAFD). The primary objective of our review was to: 1) assess the current efficiency and effectiveness of the billing and collection processes, 2) determine whether current practices comply with the Citywide Guidelines for Billing and Collections and, 3) identify opportunities for improvement.

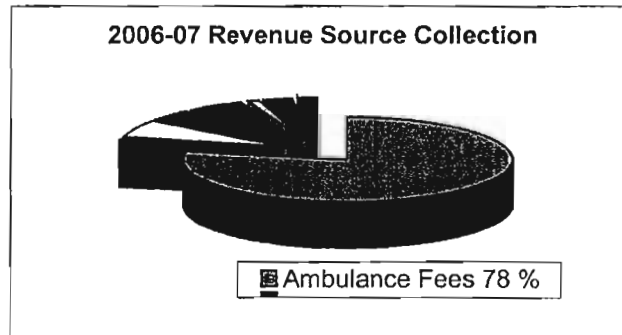
Our review concluded June 30, 2007. Finance based our review on information obtained from meetings with the LAFD staff throughout the course of our examination. In addition, we based our review on the LAFD's written policies and procedures for compliance with the Citywide Billing and Collection Guidelines (Guidelines) regarding: pre-service payments, invoicing and use of City Attorney Letterhead, cash receipts, accounts receivable management, collection, tracking, and reporting. Moreover, Finance has reviewed 1) a 2004 report by BearingPoint that included a review of the efficiency of the ambulance billing process, assessment of fee schedule analysis and assess, and 2) a draft of the LAFD's Proposal for a Field Data Capture System (FDCS) and Emergency Services Billing and Collection System (EMSS) in order to assess LAFD's compliance with the Guidelines regarding system specifications. This review finds minimal compliance with the Guidelines, ineffective billing and collection for emergency medical services (Ambulance Fees), and requesting write-off for ambulance fees that are deemed un-collectible.

BACKGROUND

The LAFD 2007-08 Budget is \$533.2 million. Approximately 98.3% of this amount, or \$542.5 million is funded through the General Fund. The mission of the LAFD is "to preserve life and property, promote public safety and foster economic growth through leadership, management and actions, as an all risk life safety response provider."

The LAFD revenue, excluding service to proprietary departments, is primarily from Emergency Ambulance Services, Special Fire Department Services, Filming Permits, Brush Removal Assessments, Underground Storage Tank Plan Check Fees, Spot Check Program Recovery, and Brush Clearance Restitution. The combined collection of the LAFD revenue budgeted for the sources listed above in FY 2006-07 was \$80.5 million and \$80.4 million in FY 2007-08. The slight decrease from FY 2006-07 is primarily related to an anticipated reduction in revenue from Emergency Ambulance Services. Further details, including statistics, regarding changes in Emergency Ambulance Services and other key LAFD revenue are described below. Finance obtained its statistics regarding revenue collected in FY 2006-07 and anticipated revenue in FY 2007-08 from the Revenue Outlook Report published by the City Administrative Office.

- Ambulance Fees: The largest single source of revenue is Ambulance Fees for which \$58.9 million in revenue was budgeted in FY 2006-07, and \$57 million is budgeted in FY 2007-08. This reduction is partially due to past billing position vacancies and a 5% decrease in the ambulance reimbursement rate from Medicare. This situation is expected to improve in the future, based on an increased ambulance fee and elimination of a backlog of ambulance billings. Because Ambulance Fees is the LAFD's largest single revenue source as shown in the table below, Finance focused much of its review in this specific area throughout the review.



- The LAFD Service for San Fernando: The LAFD Services for the City of San Fernando collected \$2.1 million in FY 2006-07 and is expected to collect \$2.6 million in FY 2007-08.
- Certified Unified Program-Annual Fees (CUPA Fees): The LAFD issues permits to companies that have underground storages and hazardous materials. Fees related to these permits are referred to as Certified Unified Program Agency (CUPA) fees. Receipts for CUPA Fees were \$4.18 million in FY 2006-07 and budgeted receipts are \$4.5 million for FY 2007-08. Since 1998, the County of Los Angeles has been contracted to enforce the Hazardous Waste Generator Program (HWP) because LAFD does not have Hazardous Waste Inspectors. The HWP collected \$450,000 in FY 2006-07 and is expected to collect \$500,000 in FY 2007-08 for the LAFD.
- Brush Removal (Clearance and Non-Compliance Fees): The LAFD Brush Removal Assessments receipts were \$581,318 in FY 2006-07 and expected receipts are \$1.6 million in FY 2007-08. This Brush Removal revenue source has a history of varying widely in previous fiscal years. Brush Clearance Restitution is another revenue source that has a history of wide variances, for which receipts were \$242,000 in FY 2006-07 and expected receipts are \$217,000 in FY 2007-08. However, LAFD's revenue source of Brush Non-Compliance Fee remains constant, with receipts of \$130,275 in FY 2006-07, and the same amount expected for receipt in FY 2007-08.
- High-Rise Inspection Fees: High-Rise Inspection Fees receipts were \$1.4 million in FY 2006-07 for new or existing high-rise buildings, and are expected to remain constant with the same amount in receipt for FY 2007-08.

- The LAFD Safety Officer Cost Recovery: Safety Watch also known as the "Fire Safety Officer Cost Recovery" collected \$900,000 for services provided to public events in FY 2006-07, and is expected to collect over \$1 million in FY 2007-08.
- Inspection Restitution: Emergency Inspection (Inspection Restitution) is a safety inspection that takes place after 5:00 p.m. This revenue source's receipts were \$4.9 million in FY 2006-07, and expected receipts are \$4.6 million in FY 2007-08.
- Filming Permits: Filming Permits receipts were \$1.8 million in FY 2006-07, and this revenue source is expected to remain constant with the same amount in receipts for FY 2007-08.
- Spot Check Program Cost Recovery: Spot Check Program Cost Recovery collected \$415,000 from over 5,700 filming locations in FY 2006-07, and is expected to collect \$429,335 in FY 2007-08.

SUMMARY OF AUDIT RESULTS

Section 1, Emergency Ambulance Services and Contract With the City of San Fernando

Based on the findings from the BearingPoint Report and the magnitude of delinquent Ambulance Fees, LAFD should assess the feasibility of outsourcing all or part of the Ambulance billing and collection function to improve collections. Our research has indicated that many major Cities are currently doing this. Also, LAFD needs to improve the timeliness of submitting uncollectible accounts for write-off.

Although the LAFD has made some progress toward automating its billing and collection of Ambulance Fees, it is necessary to integrate its current systems to improve efficiency and ensure that timely billing and collection takes place for every billable service. The LAFD must also ensure that the development and implementation of new systems or modifications to existing systems, which impact the billing and collection function, meet the Citywide Guidelines system specifications.

Section 2, Permits: Certified Unified Program Agency (CUPA), Brush Removal, High Rise Inspection, The LAFD Safety Officer Cost Recovery, and Film Safety Watch and Spot Check

Timely notices with clearly stated consequences for non-payment are recognized good business practice, yet Finance's review finds that this is not followed in all LAFD billing processes. Moreover, failure to respond to a delinquency notice generally requires the escalation of consequences, such as the application of interest and penalties, referral to a collection agency or other measures to effectuate payment on the account. Our review has found that some LAFD ordinances and guiding principles for billing and collection do not support these best practices. LAFD should take steps to amend those ordinances, contracts and guiding principles to ensure that they are in line with the

Guidelines and best practices for billing and collection which includes: bill within five days of service, deem accounts delinquent at 30 days of non-payment, and refer accounts to collection at 45 days of delinquency.

Section 3: Bureau of Administrative Services, and Bureau of The Fire Prevention & Public Safety, Billing Centralization, City Attorney Letterhead, and Payment Options/Cash Receipts

Considering that the success rate for collection decreases as the account ages The LAFD should focus on its billing and collection efforts prior to 45 days of delinquency. Therefore, LAFD should use the City Attorney Letterhead as their final notice on all billing processes and implement as many payment options as possible for collection.

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Section I, Emergency Ambulance Services and Contract With the City of San Fernando

Finding No. 1.1

The Emergency Medical Service Unit (EBU) is responsible for the billing and collection of emergency ambulance service fees. Per Section 22.210.2 of the City Administrative Code, the LAFD Chief Engineer is authorized and directed to charge and receive reimbursement for City expenses incurred in rendering ambulance and helicopter service to any person or persons at the following rates:

<u>Service</u>	<u>Rate (as of 6/30/07)</u>
Basic Life Support Fee, Each Patient	\$622.00
Advanced Life Support, Each Patient	\$889.00
Mileage One Way - Per Mile	\$14.50

A Chief Clerk heads the EBU and the EMS Follow-Up Unit. As head of these two units, the Chief Clerk oversees all billing, collection and follow-up activities associated with emergency ambulance services to the general public. EBU's processing and billing functions include auditing Emergency Medical Service System (EMS) reports for missing or incomplete patient/insurer data, sorting EMS reports by insurance carrier; keying patient/insurance data into the Ambulance Billing System (ABS) and batching finished reports for scanning and filing. EBU staff produces on average 15,000 invoices each month. The Follow-Up Unit increases the LAFD's collection rate through its research on transports where patient(s)' identification or insurance data are incomplete or unknown.

The ambulance billing process begins with a rescue ambulance response to a 911 medical emergency call. On scene, the paramedics and/or EMT firefighters assess the patient(s)' medical condition and render, if necessary, the prescribed emergency medicine protocols to stabilize the person(s) in medical distress and immediately transport them to the nearest emergency center. According to the LAFD, only about 50% of these 911 calls result in emergency transportation and billing. Once it is determined that emergency transportation is necessary, the patient contact information is documented on the LAFD's F-902M form. The F-902M serves three purposes: 1) Statistical record of medical services rendered, 2) Patient care record (important for legal liability protection for the firefighters/paramedics and City), and 3) Billing document.

The F-902M is a self-carbonizing form that is filled out in the field by one of the attending paramedics or EMT firefighters. These forms are sometimes completed en route to the hospital, later at the hospital, or upon returning to the fire station, depending on the extent of emergency care that is necessary for the patient. The LAFD has a comprehensive training manual (The LAFD Book 05) that standardizes the proper procedures for sorting and routing a F-902M. A common drawback of the F-902M is

legibility problems due to varying degrees of care and individual writing styles exhibited by more than 1,000 of the LAFD's personnel responsible for generating this document.

F-902M PROCESSING WORK FLOW

Our review of the EMS Billing process indicate that it is not in line with the Citywide Guidelines. Moreover, when a debtor's medical bill is submitted to a HMO for payment, reports show that payment of the invoice can take up to 90 days. The Guidelines recommend that departments invoice within 5 days of service and collect fees within 30 days of invoice.

When HMO's deny, adjust, or contest a claim, the HMO must provide the physician with a detailed written explanation as to why that action was taken. The HMO has 45 days to provide this documentation to the physician or else the Department of Managed Health Care can penalize HMO's under the California's unfair payment practices regulations. The LAFD does not apply interest or penalties to the HMO. Moreover, this three-month delay due to the administrative variance is often compounded in some instances, because insurers are not billed until 120 days post incident date. This delay in invoicing can potentially hold up receipt of payment up to seven months. Although billing of insurers can take up to 120 days in some instances, LAFD reports an average of 21 days to bill insurance companies.

In the event the debtor does not have HMO coverage, it is reasonable to expect that the Guidelines be followed. However, applying interest and penalty to the debtor who does not have coverage could appear as disparate treatment, as debtors with coverage are allowed additional time for HMO reimbursement without incurring interest and penalty.

The LAFD must address these issues in their billing/collection process. In fact, as a result of the prolonged billing cycle, the City's General Fund is essentially covering the reimbursement costs for up to seven months. This delay also reduces revenue flow and greatly diminishes the likelihood of effective collection should an HMO become delinquent.

The LAFD has a history of not referring delinquent ambulance billings to collection. The basis for not referring is supported by LAAC Section 5.181 that exempts ambulance billings from collections. For several years, Finance has worked closely with the LAFD to amend the code section to allow the referral of delinquent ambulance billings. We believed that we were making progress in this regard when the LAFD agreed to refer these accounts after 18 months past due. However, the LAFD later retracted its proposed 18 months timeline and changed it to 27 months. The LAFD's position is that it requires 27 months for billing and reimbursement from health insurance companies. However, our records do not support this position. Also, they have expressed concern regarding the Health Insurance Portability and Accountability Act (HIPAA) that safeguards the use of patients' information.

Finance's believes that the 27 months timeline proposed by the LAFD is unreasonable and will significantly impact the City's ability to collect on these accounts. Our primary concerns with the extended timeline to refer is that as the age of accounts increase, the likelihood of collection decreases; in addition, generally the statute of limitations on collecting delinquent accounts is 36 months, however, a 24-month limitation may apply to ambulance billing. In either case, the account may be out of statue prior to or soon after the account become eligible for referral. Although Medicare may take a maximum of up to 27 months to bill, this does not mean that the LAFD should not transfer these accounts to collection earlier than 27 months.

In addition, according to the second quarterly accounts receivable report for FY 2007-08, the LAFD had over \$140.1 million in accounts receivable beyond the 90 day due date, for which 97.3% or \$136.4 million is for Ambulance Fees. The LAFD's billing and collection delay and large accounts receivable past the 90 day due date is illustrative of the need to consider outsourcing all or a part of the billing and collection function for Ambulance Fees as an option to enhance collections. Also, as noted in the 2004 BearingPoint report, the LAFD should seek to procure contractors that can provide a set of financial guarantees to warrant full outsourcing.

Finance's telephone survey shows that many municipalities have benefited from the option of fully outsourcing their billing and collection of Ambulance Fees. Of the 13 cities that were contacted, all outsourced their billing and collection function for Ambulance Fees with the exception of Phoenix. The below list identifies those cities that we contacted and that outsourced.

- Chandler, AZ
- Chicago, IL
- Dallas, TX
- Detroit, MI
- Long Beach, CA
- Mesa, AZ
- New York, NY
- Pasadena, CA
- San Diego, CA
- San Francisco, CA
- Scottsdale, AZ
- Tempe, AZ

Moreover, the Federal Health Insurance Portability and Accountability Act (HIPAA) legally allow cities to outsource the EMS billing and collection function. According to the Federal Department of Health & Human Services, Office for Civil Rights, HIPAA has a Business Associate Contract Provision that requires contractors such as interdepartmental and outside billing and collection agencies to sign an agreement that complies with the HIPAA's Privacy Rule. In effect, a Business Associate Contract acts as a confidentiality agreement between the City and its contractor(s), such as interdepartmental and outside collection agencies, which limits the use of information

and ensures patient(s)' privacy is enforced. Referring delinquent accounts to the City's collection agencies has proven to be a very valuable means to enhance collections.

Finance notes that there has been improvement since concluding our review on June 30, 2007. For example, LAFD reports that they are prepared to select a vendor for their FDCS and EMSS components as early as next week. They agreed in our exit conference to work with the City Attorney to expedite an amendment to refer Ambulance Billings to collection. Moreover, the LAFD proposed the development of a working group that will include Finance staff in order to develop procedures to identify instances when accounts may be exempted to reduce the incidence of Ambulance Billings accounts receivable being overstated.

Recommendation No. 1.1

The LAFD should:

- Consider outsourcing all or a part of the billing and collection function for Ambulance Fees to companies and require them to provide a set of financial guarantees for full cost recovery, and sign a Business Associate Contract.
- Ambulance services should be billed within 5 days of service.
- Prominently display the due date and delinquency consequences, such as assessed fees, interest, and penalties.
- Amend Sec 5.181 to allow the referral of delinquent Ambulance billing to collection.
- Consult the City Attorney regarding potential disparate treatment between debtors who have coverage and those who do not.

Finding No. 1.2

Before the LAFD can accurately report the aging of its account receivable, it must adhere to Administrative Code Section 22.210.2, which specifies that, "The Chief Engineer of the Department shall review the status of unpaid accounts to determine whether they are collectable. At intervals of not more than one year, he shall refer those accounts determined to be un-collectible to the Board of Review in accordance with Section 11.04 of the Los Angeles Municipal Code. " According to Council Files 05-1568 and 07-0465, the LAFD has submitted a total of \$144 million in un-collectible ambulance services for write off during the past five years. As mentioned earlier, the LAFD currently has over \$140 million in accounts receivable beyond the 90 day due date. (It should be noted, however, that the Board of Review meetings have not been consistently held.)

Recommendation No. 1.2

The LAFD should annually write off delinquent accounts deemed un-collectible. Annual write-off recommendations to the Chief should become standard practice in the Ambulance Billing operation. The timely write-off of these debts, some almost three years past due, will increase the meaningfulness of aging reports to the LAFD's management and Finance.

Finding No. 1.4

As discussed earlier, according to the 2004 BearingPoint Report, one option to maximize revenue is to fully outsource the billing and collection function of Ambulance Fees. Another option is to implement an in-house Field Data Capture System (FDCS) and only outsource the accounts that are difficult to collect. On August 22, 2007, the LAFD released an RFP with a component to develop a FDCS to replace the paper form (F-902M) that documents ambulatory patient(s)' billing information. The same RFP also included a component to upgrade the current EMS to the new Emergency Medical Service System (EMSS). This review acknowledges that the LAFD notified Finance with a draft of the RFP regarding the development of the FDCS and EMSS components before the formal release of the RFP, as prescribed by the revised 2007 Citywide Guidelines. Finance's limited role and general purpose in reviewing the RFP is to ensure that it has the required functionality for efficient automation of billing and collections and integration with existing systems for enhanced revenue collection. To this extent, Finance found that the RFP minimally complied with the Guidelines.

The LAFD asserts that the FDCS will result in efficiencies, such as electronic transmittal of patient information from the fire station to the EBU, and eliminate clerical auditing and keying into a database. As envisioned, FDCS will eliminate processing time now dedicated to deciphering handwriting, automatically assign and track incident reports by a unique sequential numeric identifier, automate data error prevention by incorporating drop down-menus and required fields in order to ensure that incident reports are complete at the station level, and give managers a real-time tool to track and assess billing and collection of EMS. Although LAFD has many hurdles to overcome in regards to this project, i.e.; software, hardware, personnel training, and systems support; it appears to be an efficient method of saving processing time and eliminating redundant steps through automation. The LAFD indicated that it does not have an estimate for the initial cost to purchase hardware and software nor train staff to implement the FDCS. In addition, the cost to upgrade EMS to the new EMSS is unknown at this time. Moreover, our research shows there are companies that may lease equipment comparable to the FDCS, of which, may result in overall lower long run maintenance cost.

Recommendation No. 1.3

The LAFD should explore the feasibility of contracting with an outside firm to supply the FDCS, or comparable equipment. If the LAFD proceeds with a direct purchase, they should continue to notify Finance throughout the development and implementation stages of the FDCS and EMSS to ensure that it maintains the following standardized specifications outlined in the Guidelines:

- It is a general (off-the-shelf system).
- It replaces and eliminates the need for the current system.
- It should perform both billing and collections processes.
- It is centrally located.
- It does not rely on specialized knowledge from a single or relatively few employees.
- It is more compatible with other systems.
- It relies significantly more on automated download or electronic transfer of data files between other interactive systems, such as LATAX, the collection vendor's server, and other related systems.
- It dramatically decreases or eliminates the need for manual data entry input or manual transfer of data files.
- It results in lower long-run maintenance costs due to: increased integrated functionality; less specialized knowledge; less customized technical support; increased reliance on electronic transfer of files; and a decrease in manual data entries.

Finding No. 1.5

The City of Los Angeles has had a contract with the City of San Fernando to provide the LAFD protection services and ambulance services since 1978. According to the second amendment of the contract, this agreement is automatically renewed every five years. In addition, each party has the right to terminate or amend the contract by giving each other at least six months notice prior to the next five-year renewal period.

Although staff from the LAFD stated that the monthly installments are paid in advance, this review showed that the invoice for the current month is issued at the beginning of the month, and due 30 days after transmittal. For example, an invoice dated 06/05/2006 "providing the LAFD protection to the City of San Fernando from June 1, through June 30, 2006" is due 07/05/06. Therefore, payments are not received prior to service.

The LAFD Revenue Manager calculates and provides the monthly billing rate to Accounts Receivable at the beginning of the fiscal year. The rate is determined based on the estimated actual cost of providing the LAFD services to a comparable area of Los Angeles, excluding revenue and cost items unrelated to the services provided to the City of San Fernando.

Invoices are due 30 days after transmittal and are usually paid within 30-45 days of the invoice date. However, the City of San Fernando takes longer to pay the first invoice of each fiscal year because its Council must approve the first payment.

Calculating the billing rate for services provided to the City of San Fernando is time

sensitive. Delays in calculating the billing rate at the beginning of each year have consequently resulted in delays in receiving payment. In addition, this review found that invoices for fire services to San Fernando do not inform the debtor that interest and penalty may accrue if payment is delinquent.

Recommendation No. 1.4

The LAFD should:

- Bill for monthly services in advance (during the prior month) to ensure that payments are due and received prior to service.
- Calculate the billing rate based on the proposed budget by the end of April and transmitting the rate to the City of San Fernando no later than May. This would provide San Fernando with at least 60 days to follow their regular Council approval procedure prior to the beginning of the fiscal year. The initial invoice and rate can subsequently be adjusted according to the adopted budget.
- Amend the existing contract to ensure that all costs are recovered. In calculating the rate, the LAFD should ensure that it is recovering all of the direct and indirect costs of providing service to San Fernando and consider the fact that the size of the City of San Fernando has increased since the contract was originally implemented.
- Inform the debtor on all invoices that interest and penalty may accrue if payment is delinquent, including invoices for fire services to San Fernando.

Section 2, Permits: Certified Unified Program Agency (CUPA), Brush Removal, High Rise Inspection, The LAFD Safety Officer Cost Recovery, and Film Safety Watch and Spot Check

Certified Unified Program Agency (CUPA) Annual Fees & Hazardous Waste Program (HWP)

Finding No. 2.1

As mentioned earlier, the LAFD issues permits to companies that have underground storages and hazardous material, and the County of Los Angeles has been contracted to inspect companies and enforce the (HWP). Therefore, the LAFD's CUPA responsibilities are administrative. For example, the LAFD bills for services that the County provides on behalf of the LAFD. Under CUPA, the LAFD also collects fees due to the County in connection with the County's enforcement of the HWP and the Hazardous Waste Generator Onsite Treatment Activities, which is authorized by the Health and Safety Code Division 20, Chapter 6.5.

Since State law requires that participating agencies bill for all services on one invoice, the LAFD bills on behalf of the County. Once payment is received, the LAFD

reimburses the County under the single fee provided for CUPA. However, the LAFD does not recover its administrative costs, which include a full time Senior Clerk Typist, and an Accounting Clerk and Principal Clerk who are dedicated part-time to handle County related issues.

Recommendation No. 2.1

The LAFD should:

- Amend the contract with the County of Los Angeles for the HWP to ensure that the City recovers the administrative costs incurred by the program.
- At a minimum, charge the County an administrative fee to cover the salaries of the full-time and part-time staff assigned to the program.

Finding No. 2.2

The LAFD's CUPA does not offer on-line payments. However, in the recently held exit interview on February 13, 2008, the LAFD informed Finance that they are in the process of developing a RFP for a Unified Fire Inspection System (UFIS) that will eventually offer this feature. Currently, cash, credit cards, and one-time fee payments, such as "Underground Tank Fees," are only accepted over-the-counter on the 10th floor of City Hall East. The bulk of payments are received by check, and most checks are collected through a lockbox.

Recommendation No. 2.2

The LAFD should implement additional payment options such as online payments for all one-time fees, such as Underground Tank Fees.

Finding No. 2.3

Approximately 99% of the checks received for CUPA go through the Bank of America lockbox. Bank of America transfers an electronic file to CUPA with the daily report. The file is downloaded by the Accounting Clerk and uploaded into the CUPA Information System. The Accounting Clerk credits the appropriate accounts, prepares the Cash Receipt and delivers it to the Treasurer to obtain the control number. A report including all the backup information from the Cash Receipt is sent to the Accounts Receivable Division.

CUPA uses the Client Server Based Envision software. Invoices are generated once a year through Standard Register. CUPA's bills every year in July. Once paid, a new permit is generated and the business must pay in advance for the year. The CUPA Manager utilizes a "fake business" as a check-back (test) system. Once invoices are sent out, phone calls regarding invoices are immediately received.

If a business fails to pay an invoice, then the LAFD does not issue a permit to operate the business. Instead, an enforcement inspector is sent to conduct a facility inspection and issues a Notice of Violation. This notice informs the business their failure to obtain the permit is a misdemeanor. Failure to obtain the permit could lead to administrative hearings and subsequent referral to the City Attorney's Environmental Unit for further legal action. Inspections are repeated every 3 years.

Interest is not charged to delinquent accounts. However, a 50% penalty fee is applied to all delinquent accounts and the LAFD has the authority to close a business if required. Businesses receive Notices of Violation from CUPA and penalties can only be waived once. In the recent exit interview on February 13, 2008, LAFD indicated a willingness to work with Finance in developing a standardized interest rate that is reflective of the Citywide Guidelines.

ITA generates a list of businesses that have not paid for their permit and prepares aging reports, which are submitted to the Chief of each unit. The CUPA tracks delinquent accounts until they are paid in full. Customers may request payment plans subject to approval by the Principal Clerk. However, aging reports do not identify payment plans. It is important to identify accounts that have payment plans because they have a higher probability of collection than other accounts in realizing accounts receivable. Notably, the LAFD has demonstrated excellent referral of all delinquent CUPA accounts to collection, according to the second quarterly accounts receivable report for FY 2007-08.

Recommendation No. 2.3

The LAFD should:

- Apply interest to CUPA in addition to other delinquent accounts to cover the City's cost of borrowing funds.
- Implement measures that accurately track and report the aging of accounts, specifically identifying accounts that have payment plans, because these accounts have a higher probability of collection than others.

Brush Removal, Clearance and Non-Compliance

Finding No. 2.4

According to the LAFD's policies and procedures, each person who has ownership, interest in, or control of a parcel of land must remove all dead trees from the property and maintain all weeds and other vegetation that increase the danger of fire. This removal of brush is referred to as "Nuisance and Fire Hazard Clearance." The LAFD's 13 Brush Unit Inspectors inspect 126,000 parcels during a three-week period beginning May 1st of each year. This first inspection typically results in issuing 15,000 to 20,000 notices of noncompliance that notifies the property owner of the requirement to remove

the brush within 15 days. This notice is posted on the parcel, mailed to the owner, or both.

At a minimum of 15 days after issuing the notice of noncompliance, the parcels found noncompliant during the first inspection are inspected a second time. This second inspection results in approximately 10,000 parcels that remain noncompliant. When parcels are found noncompliant during this second inspection, a second notice is mailed that gives the owner the opportunity to meet with the Brush Unit and the City Attorney to dispute the findings.

This administrative process usually results in 1,200-1,500 parcels that the LAFD's contractors enter and remove brush during the second half of each calendar year. However, bills are not sent within five days of service. The LAFD bills the property owner for the cost of brush removal, including an Administrative Fee and the non-compliance fee in March of the following year, up to six months after services have been rendered.

In the interim between the time brush clearance is performed and bills are sent, itemized bills and proposed assessments are submitted by the LAFD to the Board of Fire Commissioners for its consideration. This approval process is an administrative variance that further delays billing and collection. In addition, this review found that invoices for Brush Clearance do not include customer service contact information.

Recommendation No. 2.4

The LAFD should:

- Send Brush Clearance invoices within five days of service, instead of waiting to bill for services in the month of March, which in some cases is nearly six months after the service has been rendered.
- Refer all delinquent accounts for non-compliance of brush clearance to collection at 45 days of delinquency.
- Reorganize the approval process, eliminate the administrative variance, and amend any applicable ordinances, in compliance with the Guidelines to bill within five days of service and refer to collection at 45 days of delinquency.
- Include customer service contact information on all invoices, including Brush Clearance.

Finding No. 2.5

According to the LAFD's policies and procedures, second notices are issued at 30 days on delinquent accounts. If payment is not made after 10 days of the second invoice, a collection fee equal to 50% of the original fee is charged and results in the filing of a

Special Assessment against the property with the Los Angeles County Assessor's Office. If property owners wish to appeal the assessment of the Non-compliance Fee, they must submit a Brush Non-compliance Fee Appeal Form and a \$50.00 appeal-processing fee. Appellants are not sent second notices and their 50% collection fee is put on hold pending the outcome of their appeal.

Recommendation No. 2.5

The LAFD should bill penalties such as Non-compliance Fees upon delinquency, i.e., at 30 days of non-payment from the invoice, instead of waiting an additional ten days, and any applicable ordinances should be adjusted accordingly.

Finding No. 2.6

The Accounts Receivable Unit maintains the database, posts payments and refunds, imposes the 50% penalty, processes credits (such as removal or cancellation of charges), and handles undeliverable mail and appeals requested or granted by the Board of the Fire Commissioners. The Accounts Receivable Unit and the Brush Unit do not have the authority to waive charges. Under the Municipal Code, the Brush Unit may recommend a waiver of charges subject to approval by the Board of Fire Commissioners.

Every July, the Accounts Receivable Unit prepares an aging report of all delinquent accounts and electronically transmits it to the Unit's Systems Analyst. This file contains the assessor's parcel number and the delinquent amount forwarded to the Los Angeles County Assessor's Office for a lien against the property. The lien is attached to the parcel in August of the same year. After the delinquent accounts are transmitted to Los Angeles County, the Accounts Receivable Unit posts the information in the "County Lien Information" section of the Brush Clearance database.

It is further noted that the LAFD's billing and collection policies and procedures do not charge interest on Non-compliance Fees for Brush Clearance. Per the Guidelines, the purpose of charging interest on delinquent accounts is to reflect the cost of borrowing money during the period of delinquency.

Recommendation No. 2.6

The LAFD should:

- Refer all delinquent accounts for Non-compliance of Brush Clearance to collection at forty-five days of delinquency, in addition to the routine schedule of placing liens on property for outstanding balances due the City.
- Apply interest to all delinquent accounts for Non-compliance of Brush Clearance.

- Only remove the lien after the total amount due, including interest, is paid in full to the City.

High-Rise Inspection Fee

Finding No. 2.7

The initial High-Rise inspection and the first High-Rise re-inspection are paid at the time of the annual renewal, and are not prepaid in advance. According to the LAFD's policies and procedures, the cost of the Fire Marshall's investigation on the application or renewal permit is not recovered until January of the following year. As defined in Section 57.119.03 of the LAFD Code, the initial permit fee and the permit application are due on January 1st following the date of construction. In addition, any person that operates or maintains a new or existing high-rise building shall obtain an annually renewable permit and pay the Annual Renewal permit fees due on January 1st of each calendar year. The Fire Marshall investigates the initial and renewal applications through authorized members of the High-Rise Unit. Approximately 750 buildings per year are investigated, out of which only 548 per year are billable.

Recommendation No. 2.7

The LAFD should:

- Require prepayment for the annual inspection and the first re-inspection at the time of the initial application, instead of billing at the time of the annual renewal, after these services have been rendered.
- At a minimum, bill for High-Rise inspections within five days of service.

Finding No. 2.8

The LAFD's billing and collection policies and procedures do not indicate that businesses are closed upon delinquency for High-Rise Inspection Fees. If it is determined during the first re-inspection that the permit holder is non-compliant, and the permit holder is subsequently found non-compliant upon the second re-inspection, then a non-compliance fee is generated. Information for the non-compliance fee is given to the Accounting Clerk in the High-Rise Unit who enters the information into Access and forwards it to the Accounts Receivable Division for billing the same week. Before mailing, the Accounts Receivable Division verifies these invoices for accuracy with the Accounting Clerk in the High-Rise Unit, a control measure that is a 4 to 5 day process.

Recommendation No. 2.8

The LAFD should:

- Require a deposit at the end of the first re-inspection, i.e., when the permit holder is found non-compliant. This prepayment should cover the necessary costs for the second re-inspection, instead of billing a non-compliance fee after a second re-inspection and risk delinquent payment.
- Enforce its authority to close businesses that do not comply with the LAFD Code requirements, as High-Rise Inspection is a public safety service that must be performed and cannot be withheld. This serious consequence of enforcing closures should be an effective tool to ensure public safety, increase compliance, and deter delinquent payments for re-inspection.

Finding No. 2.9

The "Address Correction Request" feature is not being used for most of the billing and collection processes, including High-Rise Inspection. Pre-printed envelopes that include the "Address Correction Requested" notation instructs the post office to return the envelope with a forwarding address, if available, or state why the mail cannot be delivered to the addressee. This process, known as "skip tracing", has proven to be an integral part of the collection effort. In addition, invoices for High-Rise Inspection do not include customer service contact information nor inform the debtor that interest and penalty may accrue if payment is delinquent.

Recommendation No. 2.9

The LAFD should:

- Utilize a pre-printed envelope with the "Address Correction Requested" notation for all invoices to immediately reduce the volume of returned mail and improve collections.
- For all invoices, include customer service contact information along with a description of interest and penalty that may accrue if payment is delinquent.

Finding No. 2.10

Our review found that in regards to the date of delinquency, the LAFD considers invoices past due when payments are not received after 30 days, however, they do not consider these invoices "delinquent". At 90 days, the invoice is considered delinquent by the LAFD. For some processes such as High-Rise fees, the accounts are considered delinquent if not paid within 60 days after the due date and subject to a 50% penalty (Sec. 57.119.05 LAMC).

Recommendation No. 2.10

The LAFD should:

- Amend Section 57.119.05 LAMC so that it is in accordance with the Guidelines that an account is considered delinquent when payment is not received at 30 days from the date of the invoice instead of current the practice of 60 or 90 days from the date of the invoice.
- Apply interest and penalty to all accounts, including those for High-Rise Inspection, when they become delinquent, i.e., when payment is not received at 30 days from the date of the invoice.

Safety Watch (The LAFD Safety Officer Cost Recovery)

Finding No. 2.11

The LAFD's Fire Prevention Bureau (BFP) is responsible to performs inspections where required to ensure that fire safety standards and regulations are met. According to LAFD's policies and procedures, invoices are sent to companies for Fire Safety Watches of public events that include filming permits, movie premiers, television programs, parties, etc. The charge for this service is \$55 per hour with a minimum charge of four hours. However, any inspection performed after 5:30 pm is considered an Emergency Inspection and the rate is becomes \$109 per hour with a minimum charge of 4 hours.

During an inspection, the Safety Officer obtains the billing information from the promoter. Upon completion of the inspection, the Officer forwards copies of the Cinema Location Information Form (F288) and the Emergency Overtime Report (F23) to Accounts Receivable. After Accounts Receivable receives the billing information from the BFP, original invoices are mailed within five business days. The Accounting Clerk I generates invoices and the Accounting Clerk II reconciles them. Invoices are printed daily and mailed immediately. Advanced Receivable System (ARS) generates invoices and sends second and third notices to non-paying taxpayers.

Payments are usually received within 30 to 45 days of the invoice date and the LAFD Safety Watch receives a small amount of returned mail. Although the LAFD utilizes lockbox services for Brush, Ambulance Billing, CUPA, and Division 4 (Continuing Permits), lockbox services are not utilized and payments by credit card are not accepted for Safety Watch Services. In addition, the LAFD billing and collection polices and procedures do not indicate that interest and penalty are charged at 30 days of delinquency. This review also found that Safety Watch invoices to the Entertainment Industry Development Corporation (EIDC) do not include customer service contact information.

Recommendation No. 2.11

In accordance with the Citywide Guidelines, the LAFD should:

- Deem accounts delinquent when payment is not received within 30 days from the invoice, and apply interest and penalty at that time.
- Utilize lockbox services for all processes, including Safety Watch Services, per City Council's adopted cash management policy (C.F. 00-0249).
- Make online payments available, including the option to pay by credit card, as many payment options should be offered as can reasonably be administered.
- Include customer service contact information on all invoices, including Safety Watch invoices to EIDC.

Film Safety Watch and Spot Check

Finding No. 2.12

The Entertainment Industry Development Corporation (EIDC) acts as a liaison between the film companies and the LAFD to ensure that the film companies obtain the required filming permits. The film company is required to pre-pay EIDC a flat fee of \$85 for a spot check permit to film on each location regardless of the number of days spent at a specific location. EIDC forwards the copy of the permit to the LAFD's Film Unit to schedule an inspector to perform a safety watch on the date requested. On days of filming, the LAFD's Spot Check Inspector is required to visit the location of filming at least once a day to ensure that minimum EIDC safety standards are met.

If the filming company does not comply with the minimum safety standards, the Spot Check Inspector must notify EIDC, and the LAFD must then assign an additional Film Safety Inspector to the scene. The Film Safety Inspector is a full-time inspector who remains at the location during filming. The initial pre-paid \$85 spot check permit does not include the services of the Film Safety Inspector. Additional billing is required when a Film Safety Inspector monitors the location. The LAFD charges \$55 per hour for Inspectors' Film Safety Watch Services and there is a minimum charge of \$220 for four hours.

The billing function for Film Safety Watch Services is centralized in the LAFD's Accounts Receivable Division. The Film Safety Inspector submits the billing source paperwork, Forms F288 (Cinema Location Information) and F23 (Emergency Overtime Report), to Accounts Receivable for the generation of an invoice. The Accounting Clerk in Accounts Receivable then prepares the invoices, through Access, to bill EIDC for Film Safety Watch Services.

The Guidelines specify that billing should take place within 5 days of services being rendered; however, the LAFD's average invoice processing time is between one and two weeks. Typically, billing occurs twice a month, and it may occur up to four times a month depending on volume. The Accounting Clerk also reconciles the billing to assure that all services have been billed to EIDC.

Unlike LAFD's internal billing and collection process for Film Safety Watch, the collection function for this service takes place in the Controller's General Accounting Office. EIDC makes payments directly to the Controller's Office. Payments from EIDC are typically more than 60 days from the date of final invoice from the LAFD. EIDC contended that they were often late in making payments to City departments as well as returning deposits to film companies as a result of the City's failure to bill properly.

According to Section 7 of the Contract between the LAFD and the EIDC, the City Administrative Office (CAO) has served as a mediator in disputes regarding the reconciliation of payments and outstanding invoices. The CAO reported to Council that the LAFD had become more timelier in invoicing EIDC, however, there were still instances where invoices were delayed more than 30 days. The Council instructed the LAFD on December 17, 2003 to continue taking steps with the assistance of the CAO, as needed, to reconcile all billing/payments associated with filming permits as soon as possible.

Finance finds that the provisions contained in Section 7 of the Contract between LAFD and the EIDC are not compliant with the Citywide Guidelines. The terms of the Agreement specify accounts delinquent and subject to penalty at 60 days past due and subject to interest at 90 days past due. Whereas, the Guidelines consider accounts delinquent and subject to interest and penalty at 30 days of non-payment from the invoice date. Further, the contract does not specify that accounts at 45 days of delinquency be referred to collection, as per the Guidelines.

Recommendation No. 2.12

The LAFD should:

- Monitor the time between the date of service and the date of invoice to ensure that invoices are sent to EIDC timely, within five days of service. Invoices sent timely to EIDC should expedite payment due the City, as film companies pre-pay EIDC for the Spot Check permits.
- Amend the Contract with the EIDC and specify that accounts are deemed delinquent and subject to interest and penalty at 30 days, instead of being considered late at 30 days and delinquent at 60 days.
- Amend the Contract with the EIDC and specify that all accounts be referred to collection at 45 days of delinquency, per the Guidelines.
- Follow-up on the CAO audit of the EIDC to identify outstanding accounts receivable and determine if interest and penalty should be assessed.

Finding No. 2.13

The LAFD does not have one integrated billing and collection system. However, most of the LAFD's billing and collection activities are concentrated in the Accounts Receivable Division except:

- Unified Program—(CUPA bills and collects)
- Ambulance Billing—(EBU bills and the Accounts Receivable Division collects)
- Division 5—(BFP bills and the Accounts Receivable Division collects)
- Spot Check—(CAO administers the contract and the fee is collected by the Controller's Office)

The LAFD duplicates data entry and reconciliation efforts due to its use of four billing systems: 1) ARS, 2) Access, 3) FMIS, and 4) Excel. For example, the LAFD Safety Watch Fees are billed through ARS, but all the information is initially entered into Access and then exported to ARS where the invoices are generated. Payments are recorded and applied in ARS and the aging reports are generated through ARS. However, Access is used to reconcile the accounts because ARS does not provide the summary of detail required to reconcile with FMIS. Access provides superior reporting and identifies the value and dates of payments and partial payments.

As mentioned earlier, in addition to these four systems, the Controller's Office has been working with various departments the last few years regarding the development of a new centralized Financial Management System (FMS) that has a billing and collection component. It is foreseeable that the LAFD could benefit from consolidating existing systems such as the EMSS with the new FMS, as the FMS has been identified as the City's primary source of financial data collection. However, the LAFD reported in our exit interview on February 13, 2008 that the scope of FMS currently precludes the addition of the ambulance billing and collection system as a component or module. Moreover, LAFD reported they are preparing a RFP for a Unified Fire Inspection System (UFIS) that addresses the issue of an integrated billing and collection system. It was also anticipated that the new FMS would interface with the UFIS, FDCS, and EMSS.

Within the last two years, Accounts Receivable began preparing a monthly aging report to track most of the billing processes. Unfortunately, these reports do not appear to be properly analyzed by the managers. Due to the different systems used for the various processes, the aging report is currently run in segments using Excel. Significant data entry and staff time is required to reconcile information from the different systems to generate accurate aging reports.

The usefulness of the aging report is directly linked to the ease and accuracy with which it can be constructed. The LAFD needs to implement a better system that reconciles information from all the billing processes without duplicating data entry.

Recommendation No. 2.13

The LAFD should:

- Ensure tight integration of the abovementioned four billing systems with the UFIS to ensure that timely billing and collection takes place for every billable service and refer to the Citywide Guideline revised in June 2007 for suggested computer specifications when considering integrating systems.
- Continue to notify Finance throughout the developmental stages of the UFIS to ensure Guideline compliance.
- Have their Accounts Receivable Unit provide the aging report electronically to all relevant units. Each level of staff could improve their efficiency if the aging report were readily available on a timely basis.
- Forward a copy of the new aging report to Finance on a quarterly basis, per the Citywide Guidelines.

Section 3: Bureau of Administrative Services, and Bureau of The Fire Prevention & Public Safety, Billing Centralization, and Payment Options/Cash Receipts

Bureau of Administrative Services, and Bureau of Fire Prevention & Public Safety

Finding 3.1

For this review, Finance primarily focused on the billing and collection activities of two bureaus within the LAFD, the Bureau of Administrative Services (BAS), and the Bureau of The Fire Prevention (BFP). There are thirteen units that comprise the BAS. Of these, only six units perform activities relating to billing and collection, that include: 1) Emergency Medical System Billing—total of 19 positions for billing, 2) Emergency Medical System (EMS) Follow Up—total of 19 positions for collection, 3) Accounts Receivable—total of nine positions for billing and collection; 4) Management Services Section, 5) Accounting Services Section, and 6) EMS Billing Unit, the last three Units staff one position for billing and collection.

Staff from the BFP is also involved in the billing and collection process. There are nine positions within the Hazardous Material Unit and one position within the High Rise Unit that perform both billing and collection activities.

Several units provide services that generate revenue for the LAFD. However, the accounts receivable aging report is not regularly reviewed by Unit Captains to ensure that accounts are current prior to service or to implement timely follow-up of delinquent accounts. In some instances, the LAFD does not follow up on accounts in the early stage of the delinquency and staff members generally wait until accounts age over 90 days to follow up with delinquent accounts. Sometimes the LAFD continues to provide service for more than six months at a time without billing. For example, Brush Clearance Fees and Non-Compliance Fees for the Brush Unit are billed more than six months after service is initiated.

Recommendation No. 3.1

The LAFD staff should perform timely follow up on delinquent accounts when payment is not received after 30 days, rather than waiting for accounts to age over 90 days, because the success rate of collection decreases with the age of an account.

Payment Options/Cash Receipts

Finding No. 3.3

The LAFD accepts payments by cash, check and by credit/debit card for some of their services. They do not accept payments online nor do they accept Automated Clearing House Systems (ACH) payments. Electronic wire transfers are only accepted for Ambulance billing from Medicare and the Veteran's Administration. Payment plans are provided for some processes such as CUPA Fees.

Recommendation No. 3.2

The LAFD should implement additional payment options such as credit cards, electronic payments and online payments for all transactions.

Finding No. 3.4

Payments by check that are returned by the bank due to non-sufficient funds (NSF) involve resolution from LAFD, City Treasurer, City's vendor for dishonored check collection, and Accounts Receivable. The Treasurer forwards all returned NSF checks on behalf of the LAFD to the City's vendor for dishonored check collection and a \$35 handling/collection fee is added to the bill. The Treasurer subsequently deducts the \$35 from the amount of the payment to cover the NSF handling fee. Accounts Receivable only keeps a schedule of returned checks received from the Treasurer after the City's vendor for dishonored check collection has exhausted its efforts.

The LAFD had the misconception that, instead of being paid by the debtor, the entire NSF handling fee had been paid from the LAFD funds. The Revenue Management Division followed up with the Treasurer to clarify the NSF check fee process and the mechanism for applying the collection fees to department accounts. The standing agreement is that the \$35 handling/collection fee is added to the original amount due and is split 50/50 between the Treasurer and the City's vendor for dishonored check collection.

However, in the event that the debtor pays the LAFD directly as a result of being contacted by the City's vendor for dishonored check collection, and if the LAFD does not add and collect the \$35 fee, then this fee is deducted from the LAFD funds. Therefore, it is the responsibility of the LAFD to collect the \$35 handling fee for instances of a NSF check, plus the original amount owed, when the debtors opts to pay

over-the-counter for a payment that had been referred to the City's vendor for dishonored check collection.

If the City's vendor for dishonored check collection fails to collect, the Treasurer notifies Accounts Receivable and then sends the account to the City designated collection unit. The Department reportedly has experienced a poor rate of recovery from the City's vendor for dishonored check collection.

Recommendation No. 3.3

The LAFD should work closely with the Treasurer to properly track NSF checks referred to the City's vendor for dishonored check collection.

Finding No. 3.5

The LAFD collects payments over-the-counter for a few processes; for example, downtown the LAFD accepts cash, checks and credit card payments and collects approximately \$1,000 to \$15,000 per day. All advance payments (i.e., Plan Checks, Subpoena, Copy Services for Medical Records, some CUPA fees, Division 5 permits, authorization permits, Brush and Subpoenas copies of M92) are received over-the-counter. However, over-the-counter receipts constitute less than 1% of their total receipts.

The LAFD has two additional public counters where payments are received, one in the San Fernando Valley and one at their Arson Investigation Section. The Arson counter has a register and receives both checks and cash. Upon the request of the Accounts Receivable Supervisor, receipts from the Arson Investigation Section are forwarded to Accounts Receivable weekly as opposed to monthly. In contrast, the public counter located in the Valley does not have a register and only accepts checks. They forward their receipts to Accounts Receivable at least once every two weeks.

Recommendation No. 3.4

The LAFD should accelerate the availability of funds. The two public counters located at the Arson Investigation Section and the Valley Branch Office should increase the frequency of receipt referrals to the Accounts Receivable Division to at least daily in order to increase the accuracy in managing and tracking of accounts.