

OFFICE OF
CONTROLLER

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May 6, 2008

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

There is no need for discussion regarding the invaluable and heroic service provided by our paramedics and firefighters in the Los Angeles Fire Department. But the Department's infrastructure, the business operations behind the heroes, leaves significant room for improvement.

Very clearly the cost of delivering these essential services continues to rise every single year. We must constantly be seeking and finding ways to be as cost effective and efficient as possible, and public safety departments are no exception.

Two years ago in an audit that looked at opportunities and efficiencies in the Fire Department, we recommended civilianizing sworn positions in the supply and maintenance division. My audit stated: According to the Bureau Commander, sworn members are necessary in this section because they must understand the Fire Department's needs and understand how to use the Department's requisition system.

Yet in my report today, it shows that the Fire Department has problems in exactly this area. They do not keep a physical inventory of equipment and do not maintain up-to-date inventory records for about \$5 million worth of items in the warehouse.

These are common sense things to fix and I expect that the Fire Department will do so quickly.

Sincerely,

LAURA N. CHICK
City Controller



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May 6, 2008

Mr. Douglas L. Barry, Fire Chief
Los Angeles Fire Department
Room 1800, City Hall East
200 North Main Street
Los Angeles, CA 90012

Dear Chief Barry:

Enclosed is a report entitled "Review of Internal Controls at the Los Angeles Fire Department." A draft of this report was provided to you on April 8, 2008. Comments provided by your Department at a March 13, 2008 meeting were evaluated and considered prior to finalizing the report.

Please review the final report and advise the Controller's Office by June 2, 2008 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Karen L. Sisson, City Administrative Officer
Karen E. Kalfayan, Interim City Clerk
Gerry F. Miller, Chief Legislative Analyst
Genethia Hudley-Hayes, President, Board of Fire Commissioners
Independent City Auditors



City of Los Angeles Office of the Controller

Review of Internal Controls at the Los Angeles Fire Department

May 6, 2008

Laura N. Chick
City Controller

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REVIEW OF INTERNAL CONTROLS AT THE LOS ANGELES FIRE DEPARTMENT

EXECUTIVE SUMMARY

The Audit Division has completed a review of internal controls at the Los Angeles Fire Department (LAFD). The objective of the review was to determine whether the Department maintains effective internal controls over its operations.

Background

It is the responsibility of departmental management to ensure that its internal control structure is sound and functioning as planned. Strong internal controls provide management with assurances that operations are functioning as they should and that threats to successful performance will be timely identified and addressed, thereby reducing the risk of error, fraud and other improper activities.

Scope

Our audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 2006 to February 2008. Fieldwork was conducted between November 2007 and February 2008. Based on our risk assessment, our audit focused primarily on the operations of the Supply and Maintenance Division, the Financial Services Division, and the Management Information System Division.

Summary of Audit Results

Our audit found that LAFD does not have an interim process in place to ensure that all ambulance services are captured and billed and does not recover the cost of special services rendered to the public, such as Spot Checks and Fire Safety Watches. Our audit also indicates that LAFD management needs to provide closer oversight over the operations of the warehouse inventory, equipment, receivables and collections, encumbrances, payroll, and computer components. Key findings include:

- ☐ **LAFD does not have an interim process in place to ensure that all ambulance services are captured and billed.**

In a June 2007 audit report, the Controller's Office noted that the Department does not have a mechanism to ensure that a billing results for each billable emergency medical service provided. The Department is in the process of selecting a field data capture system that will help resolve this problem. However, the system is not expected to be fully implemented until June 2009. Until the System is fully implemented, LAFD needs to work on an interim solution.

- ☐ **LAFD has not updated special services fees such as Spot Check and Fire Safety Watch fees for several years.**

The LAFD collected about \$513,000 in Spot Check fees during fiscal year 2006-2007. The \$85 fee was established in 1994 and has not been adjusted since then. The LAFD also collected about \$2.9 million in Fire Safety Watch fees for fiscal year 2006-2007. The fee of \$64 per hour was last adjusted in 2002.

- ☐ **LAFD can increase its collection rate on Fire Safety Watch billings and reduce the number of delinquent accounts by requiring deposits.**

For its direct billings, LAFD does not require deposits from organizers and movie studios. As of October 31, 2007, 88 percent of the \$1.1 million in outstanding receivables are over 90 days old. We noted that for many companies with delinquent accounts, LAFD continued to provide services without requiring payment of the delinquent receivables. As of October 31, 2007, these companies owed the LAFD approximately \$398,000.

- ☐ **There is a lack of inventory control at the main warehouse.**

The Supply and Maintenance Division (SMD) does not maintain perpetual inventory records for the approximately \$5 million in items in the warehouse. It has not conducted a physical inventory for over five years. In addition, the warehouse security system has not worked for several years.

- ☐ **LAFD does not conduct physical inventories of equipment.**

As of June 30, 2007, the Centralized Asset Management System records show a total acquisition cost of \$9.6 million in equipment. This includes firefighting equipment such as rescue tools and imaging cameras, medical equipment such as defibrillators, and other equipment such as freezers and custodial equipment. The Department cannot recall when it last completed a full physical inventory.

☐ **LAFD does not disencumber funds in a timely manner.**

LAFD periodically cancels unneeded encumbrances; however, it does not always conduct a thorough review to ensure it cancels all the encumbrances that could have been canceled. If LAFD's procedures were effective, most of the \$728,059 in prior years' encumbrances that the Department canceled in fiscal year 2007-2008 could have been canceled in earlier years.

These key findings, along with other findings, are detailed in the Findings and Recommendations Section of our report.

Review of Report

We met with LAFD representatives on March 13, 2008 to discuss our findings. A draft report was provided to LAFD management on April 8, 2008. Since the Department agreed with the findings and recommendations, LAFD did not request a formal exit conference. We considered the Department's comments before finalizing the report. We would like to thank LAFD management and staff for their cooperation and assistance during the audit.

TABLE of RECOMMENDATIONS

RECOMMENDATIONS	PAGE REFERENCE
LAFD management should:	
1. Develop controls that provide assurance that a billing results for each billable emergency medical service provided, until a field data capture system is implemented.	6
2. Work with the Mayor's Office to arrive at comprehensive fees, as related to filming activities, consistent with the Mayor's strategy.	7
3. Require deposits from clients who request Fire Safety Watch services. The deposit amount should equal the estimated cost of providing the service.	8
4. Stop issuing permits to companies with past due Fire Safety Watch uncollected accounts.	8
5. Maintain perpetual inventory records of items in the warehouse, conduct physical inventories at least once a year, and repair the warehouse security system. The physical inventories should be	9

RECOMMENDATIONS	PAGE REFERENCE
conducted by an individual independent of ordering, receiving, and warehouse functions.	
6. Update the Centralized Asset Management System on a regular basis to reflect acquisitions and dispositions.	10
7. Conduct a complete physical inventory of its equipment every two years.	10
8. Submit to the Controller's Office the certification signed by the Fire Chief for all funds to acknowledge all the equipment under charge of the Department.	10
9. Stop maintaining computer components as stock items and determine its needs before purchasing computer components.	10
10. Facilitate the deployment of new computer components to put them in service as soon as practicable.	11
11. Send to Salvage, in a timely manner, any computer components that are no longer needed.	11
12. Establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances to identify funds that should be reverted to the Reserve Fund.	12
13. Establish controls which ensure it maintains accurate payroll records to support salary payments.	13
14. Periodically review the list of employees who have access to the Emergency Medical System to ensure that the employees' access is still appropriate and that terminated employees are deleted from the System.	14

BACKGROUND AND METHODOLOGY

Background

The Auditing Division of the Controller's Office is responsible for the coordination and administration of the Internal Control Certification Program (ICCP). Introduced in 1993, the ICCP is designed to help departmental management ensure that their department's internal control structure is adequate and functioning as planned. Strong internal controls help ensure that assets are safeguarded from waste and fraud and that transactions are authorized, valid, complete, and accurate. Strong internal controls also help ensure compliance with laws, regulations, and policies, and they can help management evaluate the performance of its organizational units.

Under the ICCP, every three years, departments are required to self-evaluate their internal controls by completing a questionnaire for each of nine financial control areas: cash, revenues, expenditures, payroll, grants, warehouse inventory, capital assets, computer controls and investments. Starting fiscal year 2007-2008, another control called "Operational" was added. These controls address laws and regulations, purpose and goals, resources, operations and processes, outputs and outcomes related to significant activities and programs operated by the departments.

Objectives, Scope and Methodology

The objective of our review was to determine whether the department maintains effective internal controls over its operations. We used the ICCP instruments to help frame the scope of our audit.

In performing our audit, we interviewed LAFD management and staff to gain an understanding of LAFD's existing controls, observed procedures, and tested selected records. Based on our risk assessment, we focused primarily on the operations of the Supply and Maintenance Division, Financial Services Division, and Management Information System Division.

The remainder of this report details our findings, comments and recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

Finding #1: LAFD does not have an interim process in place to ensure that all ambulance services are captured and billed.

Paramedics/Emergency Technicians (EMT) transport patients to hospitals and are required to complete a form (902M) to document the patient name, billing information (e.g., Medi-Cal, Medicare, or private insurance), and other pertinent information. The 902Ms are forwarded to the Emergency Medical Services (EMS) Billing Unit for input into the EMS System (EMSS) to generate invoices.

In a June 2007 audit report, the Controller's Office noted that the Department does not have a mechanism to ensure that a billing results for each billable emergency medical service provided. This problem still exists. The Billing Unit sends exception reports to the Battalion Chief-in-charge of emergency ambulance services which show potential cases where the station did not complete a 902M for a billable service. However, the Billing Unit does not follow-up to verify that the stations review and work the reports.

We also noted that even when the 902Ms are submitted to the EMS billing section, the section still does not have controls to ensure all 902Ms are input into EMSS to generate invoices. When the section receives batches of 902Ms, the section supervisor distributes the forms to staff for input into the EMS. However, the section does not perform a reconciliation of the batches to ensure that all 902Ms it receives are input into the system.

The Department is in the process of selecting a field data capture system that will help ensure that a billing results for each billable service provided. However, the system is not expected to be fully implemented until June 2009. Until the system is fully implemented, LAFD needs to work on an interim solution.

Recommendation

- 1. LAFD management should develop controls that provide assurance that a billing results for each billable emergency medical service provided, until a field data capture system is implemented.**

Finding #2: LAFD has not updated special service fees such as the Spot Check and Fire Safety Watch fees for several years.

Spot Check Fee

FilmLA collects an \$85 Spot Check fee for each permit issued regardless of the number of filming locations on the permit.¹ Film students and non-profit organizations are exempted from paying the Spot Check fee. Permits issued by FilmLA can have one or more locations that may require a Spot Check. During fiscal year 2006-2007, FilmLA remitted approximately \$513,000 in Spot Check fees to the City. The \$85 Spot Check fee was established in 1994 and has not been adjusted since then.

Fire Safety Watch Fee

LAFD also collected about \$2.9 million (\$2.1 million in filming fees and \$825,000 in bill directs) in Fire Safety Watch fees for fiscal year 2006-2007. However, the Fire Safety Watch fee of \$64 per hour was last adjusted in 2002 when it was increased by \$9. According to LAFD's accounting records, the average overtime rate for a Fire Inspector is \$74 per hour.

The Mayor's Executive Directive #12 (old series) states "In order for departments to recover costs expended in providing special services to the public, it is necessary that such costs be reviewed periodically." LAFD is currently conducting a comprehensive review of its various fees.

Recommendation

- 2. LAFD management should work with the Mayor's Office to arrive at comprehensive fees, as related to filming activities, consistent with the Mayor's strategy.**

Finding #3: LAFD can increase its collection rate on Fire Safety Watch billings and reduce the number of delinquent accounts by requiring deposits.

LAFD Fire Inspectors perform a fire safety watch if warranted, for filming and public events/assemblies, such as award ceremonies, festivals, street gatherings, conventions, or concentrations of a large number of people in one location. LAFD directly bills the organizer of public events/assemblies and movie companies for fire safety watches for filming at locations not under the jurisdictions of the City and County of Los Angeles. LAFD does not require a deposit from the organizers and movie

¹ FilmLA is a California Nonprofit Public Benefit Corporation which contracts with the City and County of Los Angeles to coordinate film permit functions. FilmLA receives permit applications from movie companies, both for City of Los Angeles and County of Los Angeles. If the filming will be done within the City of Los Angeles boundaries, the oversight will be provided by the LAFD Film Unit.

studios. In contrast, FilmLA collects Fire Safety Watch fee deposits from filming companies for estimated costs.

The LAFD's accounting records showed that the total revenue generated from Fire Safety Watch fees for fiscal year 2006-2007 was \$825,000. As of October 31, 2007, the Department had approximately \$1.1 million in outstanding "bill directs". Of this amount, \$535,000 (49%) is over two years old, \$112,000 (10%) is over one year old, and \$315,000 (29%) is over 90 days old.

Many of the event organizers are difficult to locate once the event is over. Movie companies are also difficult to track because many are limited partnerships that are often dissolved after each production. As a result, the likelihood of collecting past due accounts from these agencies is probably low.

We also noted that for many companies with delinquent accounts, LAFD continues to provide services without requiring payment of the delinquent receivables. For example, a major movie studio was invoiced for \$10,322 (17 invoices) for fire safety watches that occurred between FY 2000 and FY 2007. The company has not paid these invoices, and in FY 2008, LAFD provided subsequent fire safety watches for a total of \$10,860 (5 invoices). As of October 31, 2007, companies who received services after their accounts were already delinquent owed the LAFD approximately \$398,000.

The Citywide Guidelines to Maximize Revenue Collections (item #1) developed by the Office of Finance in May 2002, states that departments should require advance payments or substantial deposits as a condition of providing service, where appropriate.

Recommendations

LAFD management should:

- 3. Require deposits from clients who request Fire Safety Watch services. The deposit amount should equal the estimated cost of providing the service.**
- 4. Stop issuing permits to companies with past due Fire Safety Watch uncollected accounts.**

Finding #4: There is a lack of inventory control at the main warehouse.

The LAFD annually purchases an estimated \$15 million worth of fire related supplies. The Supply and Maintenance Division (SMD) has the responsibility for maintaining items in the warehouse. According to the Assistant Chief-in-charge, the Department maintains approximately \$5 million worth of protective gear (\$3 million), medical supplies (\$1.5 million) and other supplies (\$0.5 million) in the warehouse. However, the SMD does not maintain perpetual inventory records of items in the warehouse. In addition, the SMD has not conducted a physical inventory of the warehouse in over five

years. Maintaining perpetual inventory records and periodically conducting physical inventories are internal controls that would identify any inventory discrepancies.

We also noted that security of the warehouse can be improved. Although the LAFD installed several cameras in the warehouse for security purposes, the System has not worked in several years. We noted that the warehouse front door is open, and unauthorized individuals could enter the warehouse without restrictions.

Recommendation

- 5. LAFD management should maintain perpetual inventory records of items in the warehouse, conduct physical inventories at least once a year, and repair the warehouse security system. The physical inventories should be conducted by an individual independent of ordering, receiving, and warehouse functions.**

Finding #5: LAFD does not conduct physical inventories of equipment.

The LAFD records furniture and equipment in the Centralized Asset Management System (CAMS). Examples of items recorded in CAMS are firefighting equipment such as rescue tools and imaging cameras, medical equipment such as defibrillators, and other equipment such as freezers and custodial equipment. However, according to the Assistant Chief-in-charge of the Supply and Maintenance Division, LAFD does not regularly update CAMS, to reflect acquisitions and dispositions. As of fiscal year ended June 30, 2007, CAMS' records show a total acquisition cost of \$5.9 million for capitalized assets (with a value of \$5,000 and above) and \$3.7 million for non-capitalized assets (with a value of less than \$5,000).

Section 2.4.1 of the Controller's User Department Manual requires departments to update pertinent fixed asset record systems (e.g., CAMS) at least once a month to reflect acquisitions and disposals. In addition, departments are required to conduct biennial physical inventories of all equipment items at all department locations to verify the correctness of the inventory records. Section 2.4.3 of the Manual requires Department Heads to certify to the best of their knowledge that their records are complete, correct and the equipment is in their official possession or under charge of their department.

The LAFD has not conducted a complete biennial physical inventory of all equipment items recorded in CAMS in over five years. For fiscal year 2006-2007, LAFD verified the existence of only 16 of the 4,737 assets reflected on its inventory listings. It did not attempt to locate the remaining 4,721 assets. Additionally, for fiscal year 2006-2007, the LAFD submitted a signed certification for the General Fund showing an acquisition cost of \$3.1 million for capitalized assets, but did not submit signed certifications for the other nine funds with an acquisition cost of \$2.8 million for capitalized assets. The Department did not submit any signed certifications for the non-capitalized assets.

Recommendations

LAFD management should:

- 6. Update the Centralized Asset Management System on a regular basis to reflect acquisitions and dispositions.**
- 7. Conduct a complete physical inventory of its equipment every two years.**
- 8. Submit to the Controller's Office the certification signed by the Fire Chief for all funds to acknowledge all the equipment under the charge of the Department.**

Finding #6: Computer component purchases and deployments are not being managed efficiently.

As of February 7, 2008, the Department had 86 new computer components (CPUs, monitors, laptops and a printer) that were still in boxes and had not been deployed. The items cost approximately \$57,000. Of this amount, \$38,000 (64 items) were purchased before August 2007 (six months previously). Specifically, a printer was purchased in February 2005 and a monitor was purchased in June 2006. We were informed that these 64 computer components were not deployed because they were purchased for "stock" to replace old computer components at a future date. The remaining 22 items amounting to \$19,000 were purchased between August and November, 2007. These items had been assigned to various divisions, but had not yet been deployed.

We believe that purchasing computer components for "stock" and not using them for an extended period is not an effective use of City funds. Typically, most computer components can be delivered within a couple of weeks once an order is placed. Therefore, with proper planning, there is usually no need to stock computer components. Furthermore, delaying the use of the computer components will, in effect, reduce the warranty period for the items.

In addition, we noted that some of the new computer components were kept outside of a locked storage room that contained many used computer components that need to be salvaged. After this finding was brought to Department management's attention, the Department requested GSD to pick up many salvaged items and is now storing all the new computer components in the storage room.

Recommendations

LAFD management should:

- 9. Stop maintaining computer components as stock items and determine its needs before purchasing computer components.**

10. Facilitate the deployment of new computer components to put them in service as soon as practicable.
11. Send to Salvage, in a timely manner, any computer components that are no longer needed.

Finding #7: LAFD does not disencumber funds in a timely manner.

Section 1.3.15 of the Controller's User Department Manual states that if funds are not disencumbered, they will continue to be regarded as obligated balances, thereby incorrectly reducing the available unobligated account balances. Consequently, the timely disencumbrance of funds is important to reflect an accurate and updated status on the availability of funds within FMIS.

In August 2007, the City Administrative Officer (CAO) instructed departments to review prior year encumbrances to identify funds that could be reverted to the Reserve Fund. As a result of its own internal procedures to review encumbrances and as a result of the CAO's memo, LAFD disencumbered \$344,784 between August and December 12, 2007. In addition, in December, 2007, the Department identified \$486,093 more that could be disencumbered.

<u>Fiscal Year</u>	<u>Funds Unencumbered Between Aug-Dec 2007</u>	<u>Funds to be Unencumbered</u>	<u>Total Funds</u>
03/04	\$45,521	\$3,665	\$49,186
04/05	93,374	261,949	355,323
05/06	122,379	201,171	323,550
06/07	<u>83,510</u>	<u>19,308</u>	<u>102,818</u>
Total	<u>\$344,784</u>	<u>\$486,093</u>	<u>\$830,877</u>

As of December 12, 2007, excluding the \$486,093, LAFD had prior year outstanding encumbrances of \$201,171 for fiscal year 2005-2006 and \$1,300,170 for fiscal year 2006-2007. We selected a sample of 21 encumbrances totaling \$806,413 to determine whether there was a valid reason why the encumbrance was still open. Based on our discussion with LAFD staff, eight encumbrances totaling \$179,077 (22%) were no longer needed and could be canceled. This included \$46,060 for fiscal year 2005-2006 and \$133,017 for fiscal year 2006-2007.

Although, LAFD periodically cancels unneeded encumbrances, we found that the LAFD does not always conduct a thorough review to ensure it cancels all encumbrances that are no longer needed. If LAFD's procedures were effective, most of the prior years' encumbrances could have been canceled in earlier years.

Recommendation

- 12. LAFD management should establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances to identify funds that should be reverted to the Reserve Fund.**

Finding #8: LAFD's manual time records are not accurately maintained to support payroll.

Section 4.5 of the Controller's User Department Manual requires departments to process time records accurately in order to avoid inaccurate payroll payments. To support payroll payments, LAFD maintains manual time records such as Daily Journals, Annual Time Records (Form 351), and Daily Time Record Worksheets (Form 351A). Fire Captains maintain the manual records and enter the time of the sworn personnel into an in-house system, the Network Staffing System (NSS). The data in NSS, which is uploaded into PaySR, should match the data on the manual records.

Employee benefit balances (e.g., vacation and holiday balances) for sworn personnel are not maintained in PaySR but are maintained manually. The Department stated that it has requested the Controller's Office several times over the last two years to include benefit balances in PaySR. However, benefit balances have not yet been included in PaySR, due to other priorities in the Controller's Payroll Replacement System Section.

We sampled the time records of sworn personnel at two locations to determine the accuracy of the payroll records. We noted exceptions for two (12%) of the 17 employees tested.

Fire Station #37

We reviewed the time records of 12 firefighters at Fire Station #37 for three pay periods by comparing the data in NSS, PaySR, and the manual time records. One firefighter was overpaid for two Holidays. The firefighter was entitled to 13 Holidays but was paid 15 holidays for the year. The Department stated that it will request the repayment of the amount.

Our test also showed that the cumulative vacation hours for the same firefighter were overstated in the manual records by four days (48 hrs), meaning that even though he was paid for these 48 vacation hours, his cumulative vacation hours were not reduced by 48 hours. After we inquired about the discrepancy, the Fire Station corrected the

manual records and mailed the "Deferred Vacation Letter" to the Payroll Section on January 23, 2008, indicating the correct cumulative vacation hours.

LAFD Film Unit

We also reviewed the time records of five Fire Inspectors at the LAFD Film Unit for three pay periods. We noted that ten vacation hours for one Fire Inspector were recorded in the NSS and PaySR for a particular day. However, the daily and annual manual time records showed the Fire Inspector worked for ten hours on this day and therefore, no vacation hours were deducted in his manual records. If the employee did not work, his cumulative vacation hours are overstated by ten hours.

The Film Unit Captain stated that the Fire Inspector worked on the date in question, but he could not provide concrete evidence (e-mails, signed inspections sheets). However, if the employee worked, his NSS and PaySR records should not have shown that he took vacation time.

The Department indicated that both the errors at Fire Station #37 and the Film Unit would most likely be detected by LAFD's Payroll staff when it conducts its annual review of manual records in February. However, since the reviews are conducted once a year for the previous calendar year, errors could go undetected for up to a year. In the meantime, employees could take time off that is actually not available. If the employees terminated service, it would probably be difficult to recover any overpayments.

Recommendation

- 13. LAFD management should establish controls which ensure that it maintains accurate payroll records to support salary payments.**

Finding #9: LAFD does not delete terminated employees from the Emergency Medical System (EMS).

LAFD maintains a list of employees who have authorized access to the Emergency Medical System. As of February 22, 2008 the list contained 118 employees, of which six employees had access level 10 (view only), 74 employees had access level 20 (data entry), 16 employees had access level 30 (data entry with key change) and 22 employees had access level 40 (payments and adjustments). Our test of 38 employees with access levels 30 and 40, the most powerful access, showed that 13 employees were terminated between 2005 and 2007, but their access was not canceled.

The Emergency Medical System contains confidential personal medical information that needs to be secured from unauthorized access. The City may be liable for any data breach of this confidential information.

LAFD's procedure is to remove an employee's access by completing the Network User ID/Application Access Request Form immediately after the employee's last day.

However, LAFD does not have a process to periodically review employees' access to the Emergency Medical System to verify that the procedure is working effectively.

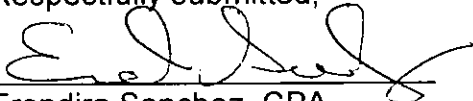
Good internal controls dictate that computer systems be protected against unauthorized access and/or misuse of data. One way to accomplish this is to cancel employees' access when they no longer require access because they have terminated service or had a change in job responsibilities.

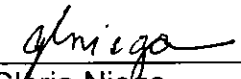
The Department has now deleted the access of the 13 terminated employees.

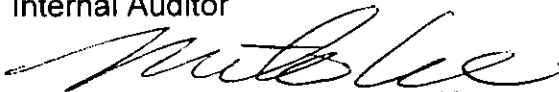
Recommendation

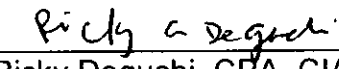
- 14. LAFD management should periodically review the list of employees who have access to the Emergency Medical System to ensure that the employees' access is still appropriate and that terminated employees are deleted from the System.**

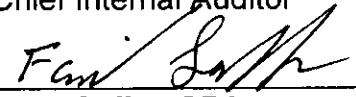
Respectfully submitted,


Erendira Sanchez, CPA
Internal Auditor


Gloria Niega
Internal Auditor


Mike Lee, CPA, CIA
Chief Auditor


Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor


Farid Saffar, CPA
Director of Auditing

February 29, 2008

**APPENDIX I
OFFICE OF THE CONTROLLER**

**REVIEW OF INTERNAL CONTROLS AT THE
LOS ANGELES FIRE DEPARTMENT**

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
1.	LAFD does not have an interim process in place to ensure that all ambulance services are captured and billed.	U	LAFD management should: 1. Develop controls that provide assurance that a billing results for each billable emergency medical service provided, until a field data capture system is implemented.
2.	LAFD has not updated the special service fees such as Spot Check and Fire Safety Watch fees for several years.	N	2. Work with the Mayor's Office to arrive at comprehensive fees, as related to filming activities, consistent with the Mayor's strategy.
3.	LAFD can increase its collection rate on Fire Safety Watch billings and reduce the number of delinquent accounts by requiring deposits.	N N	3. Require deposits from clients who request Fire Safety Watch services. The deposit amount should equal the estimated cost of providing the service. 4. Stop issuing permits to companies with past due Fire Safety Watch uncollected accounts.
4.	There is a lack of inventory control at the main warehouse.	U	5. Maintain perpetual inventory records of items in the warehouse, conduct physical inventories at least once a year, and repair the warehouse security system. The physical inventories should be conducted by an individual independent of ordering, receiving, and warehouse functions.

5.	LAFD does not conduct physical inventories of equipment.	U	6. Update the Centralized Asset Management System on a regular basis to reflect acquisitions and dispositions.
		N	7. Conduct a complete physical inventory of its equipment every two years.
		N	8. Submit to the Controller's Office the certification signed by the Fire Chief for all funds to acknowledge all the equipment under charge of the Department.
6.	Computer component purchases and deployments are not being managed efficiently.	U	9. Stop maintaining computer components as stock items and determine its needs before purchasing computer components.
		N	10. Facilitate the deployment of new computer components to put them in service as soon as practicable.
		N	11. Send to Salvage, in a timely manner, any computer components that are no longer needed.
7.	LAFD does not disencumber funds in a timely manner.	U	12. Establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances to identify funds that should be reverted to the Reserve Fund.
8.	LAFD's manual time records are not accurately maintained to support payroll.	N	13. Establish controls which ensure that it maintains accurate payroll records to support salary payments.
9.	LAFD does not delete terminated employees from the Emergency Medical System (EMS).	N	14. Periodically review the list of employees who have access to the Emergency Medical System to ensure that the employees' access is still appropriate and that terminated employees are deleted from the System.

Description of Recommendation Ranking Codes

U – Urgent – The recommendation pertains to a serious or materially significant audit finding or control weaknesses. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N – Necessary – The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D – Desirable – The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A – Not Applicable