



WENDY GREUEL
CONTROLLER

July 27, 2012

Honorable Antonio R. Villaraigosa, Mayor
Honorable Carmen Trutanich, City Attorney
Honorable Members of the Los Angeles City Council

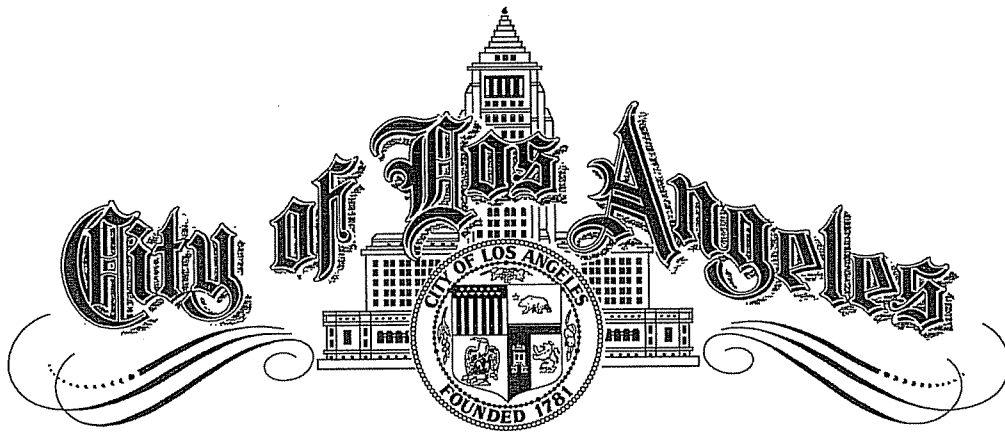
SUBJECT: Audit of the Training Agreement Between the LAFD and CFFJAC

I am releasing the enclosed report entitled "Audit of the Training Agreement Between the LAFD and CFFJAC." A copy of this report was provided to the Los Angeles Fire Department.

If you have any questions or comments, please contact Farid Saffar Director of Auditing, at (213) 978-7392.

Sincerely,

WENDY GREUEL
City Controller



WENDY GREUEL
CONTROLLER

July 26, 2012

Brian Cummings, Fire Chief
Los Angeles Fire Department
200 North Main Street, Room 1800
Los Angeles, CA 90012

Dear Chief Cummings:

Enclosed is a report entitled "Audit of the Training Agreement Between the LAFD and CFFJAC". A draft of this report was provided to your Department on June 5, 2012, and comments provided by your Department at the exit conference held on June 25, 2012 were evaluated and considered prior to finalizing the report.

Please review the final report and advise the Controller's Office by August 27, 2012 of the actions planned and/or taken to implement the recommendations addressed to your Department. An electronic template of the Audit's Findings and Recommendations can be provided to your staff to facilitate this process. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Gaye Williams, Chief of Staff, Office of the Mayor
Janelle Erickson, Deputy Chief of Staff, Office of the Mayor
Eileen M. Decker, Deputy Mayor
Miguel A. Santana, City Administrator Officer
June Lagmay, 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

AUDIT OF THE TRAINING AGREEMENT BETWEEN THE LAFD AND CFFJAC

July 26, 2012

Wendy Greuel
City Controller

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AUDIT OF THE TRAINING AGREEMENT BETWEEN THE LAFD AND CFFJAC

EXECUTIVE SUMMARY

The Controller's Office has completed an audit of the training agreement between the Los Angeles fire Department (LAFD) and the California Firefighter Joint Apprenticeship Committee (CFFJAC). The primary objective of this audit was to determine whether expenditures made from the LAFD Revolving Training Fund were in accordance with the CFFJAC Agreement and that they were properly authorized in accordance with established procedures.

Background

Since 1994, the LAFD has had agreements with CFFJAC, whereby LAFD is to train qualified individuals in accordance with apprenticeship standards established by CFFJAC. In return, LAFD receives reimbursement equal to \$2.95 per each hour of academy and/or related and supplemental instruction given to an apprentice. However, CFFJAC is allowed to reduce reimbursement amounts for administrative fees. The current Agreement (C-115495) between LAFD and CFFJAC has an effective term of November 1, 2008 through October 31, 2013.

Each month, LAFD sends an electronic file to CFFJAC that lists trainees along with their eligible training hours. After a review of the file, CFFJAC determines the reimbursement amount, and then requests such funds from State Agencies on behalf of LAFD. Upon receipt of the funds, CFFJAC credits LAFD's holding account where the funds remain until LAFD requests that a specific amount be disbursed to the City. Amounts received from CFFJAC are deposited into the LAFD Revolving Training Fund (Fund #40K) and can be used to make eligible expenditures. The Agreement states that monies received through CFFJAC shall be expended only for the training of the Department's paramedic and fire fighter personnel.

For the period November 1, 2008 through April 30, 2012, revenues credited to the Fund totaled \$587,675, while expenses totaled \$514,074. As of April 30, 2012, Fund #40K had an available balance of \$671,544.

Scope and Methodology

Our audit covered expenditures made from November 1, 2008 (the start of the most recent CFFJAC Agreement) through March 26, 2012. In conducting the audit, we

examined all 24 expenditures made during the audit period and reviewed processes used by LAFD to submit claims to CFFJAC, request funds from CFFJAC, and to make expenditures from Fund #40K. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

Although all expenses appeared to be for eligible CFFJAC expenses, we found that most expenditures had not been approved in accordance with LAFD's established procedures. We also noted several other areas where LAFD could improve its oversight, accounting, and reporting of program funds. Most importantly, LAFD needs to establish a plan to spend the available funds. Based on the expenditure rate over the current Agreement term, it could take the Department 16 years to spend available funds, even if no new funds are received.

The audit's most significant findings are highlighted below. The Audit Findings and Recommendations section of this report provides details of the audit's findings and recommendations.

- **Though most expenses were approved by at least one LAFD employee and one union representative, none of the disbursements incurred during the current Agreement period were approved in accordance with LAFD's policies.**

Although not a specific requirement of the CFFJAC Agreement, LAFD's policy is to require three LAFD employees and three Union representatives to sign the form used to approve expenditures (F225). All six signers should be registered with CFFJAC as the local Sub-JAC (Joint Apprenticeship Committee).

During the audit period, LAFD made 24 expenditures totaling \$498,000 from the LAFD Revolving Training Fund. There were 13 F225s that covered the 24 expenditures. Our review found that none of the 13 F225s were signed by six individuals. Also, 11 F225s were signed by a LAFD representative who was not registered with CFFJAC.

- **The Department has approximately \$1.6 million in available program funds, but it has not developed spending plans or budgets for these funds. In addition, LAFD has not fully explored alternatives to utilize the funds. Based on the spending rate over the last 3 ½ years, it could take 16 years just to utilize existing available/earned funds (assuming no new funds were received).**

In addition to the \$1.6 million currently available in Fund #40K and LAFD's holding account at CFFJAC, LAFD has \$300,000 in pending claims with CFFJAC. However, for the period November 1, 2008 through April 30, 2012, LAFD incurred an average of only \$150,000 per year in expenditures which were charged to this program. Based on this level of expenditures and a conservative 3% interest rate, even if no

new funds were received, LAFD would take approximately 16 years to utilize the \$1.9 million available for training purposes. Based on the last five and half years, it is conceivable that the amount of funds available would continue to increase indefinitely, since revenues have exceeded expenses.

LAFD needs to develop annual budgets/spending plans to better utilize available funds. This should include exploring the possibility of using the funds to help offset the internal LAFD costs of providing training under the program. Such program costs could include LAFD internal salaries, employee benefits, and other indirect costs that can be directly attributable to providing eligible training activities. The Department has never explored using the funds for these purposes. Historically, LAFD has used the vast majority of funds to purchase tangible type items, such as simulation manikins used to train fire fighters to become paramedics, and video, audiovisual and computer equipment for training rooms.

LAFD management agrees with the audit's finding and stated they will develop a spending plan to better utilize available program funds. However, they stated that all plans must also be approved by the local sub-committee of CFFJAC, which includes Union representatives. LAFD management stated that it is committed to working with the Union representatives to develop budgets/spending plans that would minimize the risk of accumulating large amounts.

Given the City's current financial position, we believe that the Union representatives may support using the funds to offset existing training program costs currently borne by the General Fund, in lieu of alternatives such as layoffs.

➤ **LAFD does not monitor the balance held by CFFJAC to verify that their account has been properly credited.**

Proper management over grant funds dictates that departments monitor their claims for reimbursement to ensure that amounts reimbursed to the City are accurate. Our audit disclosed that LAFD does not monitor to ensure that CFFJAC properly credits LAFD's holding account for amounts earned (less administrative fees). For example, when it submits the monthly electronic file of training hours to CFFJAC, LAFD does not attempt to determine the amount it should be reimbursed for these hours. Also, LAFD was unaware that it had approximately \$300,000 in earned funds that CFFJAC had not yet credited to LAFD's holding account.

LAFD also does not have policies in place to periodically obtain the balance in the holding account from CFFJAC. Generally, LAFD asks CFFJAC for its balance only when it believes that the amount of funds in Fund #40K may not be sufficient to pay for contemplated expenses. Since the amount in Fund #40K is large relative to the amount of historical yearly expenses, LAFD has rarely needed to contact CFFJAC to inquire about the holding account balance.

- **Since July 2006, the City has lost approximately \$50,000 in interest revenue as a result of LAFD's practice of not requesting CFFJAC to disburse amounts in LAFD's holding account unless the funds are needed to meet planned expenditures. Based on historical interest rates, the City could lose \$35,000 or more per year if LAFD continues this practice.**

To maximize interest earnings, departments should request reimbursements of grant funds as soon as possible. However, it has been LAFD's practice to request monies in the holding account only when the funds are needed to cover planned expenses. Since the amount in Fund #40K has been sufficient, LAFD has only requested funds from CFFJAC twice in the past five years.

As a result of LAFD's practice, the City lost approximately \$50,000 in interest revenue since July 2006. While the amount is relatively small due to the historically low interest rates over the last few years, if the interest rates over these years had been more in line with historical interest rates (one year Treasury Bill) over the last 50+ years, the lost interest would have approximated \$225,000. In addition, based on historical interest rates, the City could lose as much as \$35,000 per year if it continues to have CFFJAC hold onto LAFD's earned funds. It should be noted, however, that this amount would decrease if LAFD implements this report's recommendations related to developing spending plans and exploring the use of CFFJAC funding for items such as salaries, employee benefits, and overhead to offset the costs of providing training.

LAFD has proposed to have CFFJAC hold onto all of LAFD's funds. Under this arrangement, CFFJAC would pay vendors directly and no funds would be maintained in Fund #40K.

- **LAFD does not record revenues in accordance with generally accepted accounting principles. As a result, Fund #40K's fund balance is understated by \$1.1 million.**

Generally Accepted Accounting Principles (GAAP) for governmental units require that revenues be recognized when they are measurable and available, as opposed to when they are received. LAFD does not record revenue in Fund #40K in the City's Financial Management System until it actually receives funds from CFFJAC. As a result, the available balance for Fund #40K is understated by \$1.1 million.

Other findings of the audit included:

- LAFD does not always submit claims for reimbursement in a timely manner. Also, the claims are not approved by management prior to submission to CFFJAC.

- LAFD has proposed to the Board of Fire Commissioners to change the procurement/payment structure whereby CFFJAC would no longer disburse monies to the City. Instead, CFFJAC would pay LAFD's approved expenditures directly from the holding account. Prior to making the request, LAFD did not appear to consider the disadvantages of this change, such as the loss of control over City funds and related lost interest revenue. In addition, LAFD did not attempt to identify where delays in the current procurement/payment process are occurring.

Further, changing the procurement/payment structure would essentially bypass the City's existing procurement policies, which require the Department of General Services (GSD) to participate in the procurement process. Instead, LAFD would simply direct CFFJAC which vendor to pay.

According to LAFD management, the Board of Fire Commissioners has approved LAFD's request to change the procurement/payment structure. The Mayor/Council should ensure that the Board has considered all relevant factors before the Mayor/Council makes a decision on this issue.

- LAFD has not been submitting required annual reports to the Mayor and Council in a timely manner. Also, the reports do not fully disclose the amount of funds available for expenditures.

Review of Report

A draft of this report was provided to LAFD on June 5, 2012. On June 25, 2012, we met with LAFD management to discuss the audit's findings and recommendations, and their comments at this meeting were considered in finalizing this report.

LAFD agreed with the report's findings. However, it indicated a concern with the recommendations related to using CFFJAC funds for non-tangible items (e.g., salaries and employee benefits of trainers), pending support from Union representatives on the CFFJAC Sub-Committee. Also, if LAFD changes the current procurement/payment structure, the audit's recommendation related to ensuring that CFFJAC disburses funds to the City in a timely manner would be rendered moot.

We would like to thank LAFD management and staff for their cooperation and assistance during the audit.

CONTROLLER'S ACCOUNTABILITY PLAN

RECOMMENDATIONS	PAGE REFERENCE	MAYOR ACTION REQUIRED	COUNCIL ACTION REQUIRED	LAFD ACTION REQUIRED
SECTION I. TRAINING FUND MANAGEMENT AND MONITORING				
1. LAFD management should formalize its policies with respect to the signatures required on F225s.	11			X
2. LAFD management should ensure that the Accounting Services Section does not approve Purchase Orders without a properly approved F225 on file.	11			X
3. LAFD management should ensure that deposits into Fund #40K are approved by both the Department and a Union representative, as required by the Agreement.	11			X
4. LAFD management should develop annual budgets/spending plans for all available program funds.	14			X
5. LAFD management should explore using the program funds to offset LAFD internal costs that are currently incurred for eligible program related expenses, to reduce dependency on the General Fund.	14			X
6. LAFD management should establish procedures which ensure that monthly files of eligible training hours are submitted to CFFJAC in a timely manner.	15			X
7. LAFD management should formally approve the monthly files before they are submitted to CFFJAC to obtain reimbursement.	15			X

8. LAFD management should establish procedures to monitor the amount in its holding account with CFFJAC, which should include procedures to verify that the account has been properly credited.	15			X
9. LAFD management should request that CFFJAC disburse funds to the City as soon as practical in order to maximize interest earnings.	16			X
10. The Mayor/Council should ensure that it considers all relevant factors, including the issues identified in our report, before deciding whether to approve LAFD's proposed change in the procurement/payment structure.	18	X	X	
SECTION II. TRAINING FUND REPORTING AND ACCOUNTING				
11. LAFD management should ensure the required annual report of receipts and expenditures for Fund #40K is submitted to the Mayor/Council within 60 days of fiscal year end, as required by the Administrative Code.	19			X
12. LAFD management should include all available funds in its annual reports of receipts and expenditures for Fund #40K.	19			X
13. LAFD management should ensure that revenues are properly recorded in the City's Financial Management System by recording revenues when measurable and available.	20			X

BACKGROUND, SCOPE, AND METHODOLOGY

Background

In March, 1994, the Los Angeles Fire Department (LAFD) became an active participant of the California Firefighter Joint Apprenticeship Committee (CFFJAC) program. The CFFJAC is co-sponsored by the Office of the California State Fire Marshal, representing management, and the California Professional Firefighters (CPF), AFL-CIO, representing labor. CPF represents 30,000 professional firefighters and nearly 180 local unions, representing local, state and federal fire departments throughout California.

CFFJAC has established apprenticeship standards which specify the training, education, experience, performance objectives, and minimum requirements for professional competence of an apprentice and journeyman. The principal objective of the standards is to bring about methods of uniform instruction and standardized training techniques utilized by the fire service throughout California.

On September 10, 1997, City ordinance #171714 created the LAFD Revolving Training Fund (Fund #40K) to account for the receipt, retention, and disbursements of monies received from CFFJAC reimbursement grants. Grant funds and interest earnings are to be used only for the training of LAFD paramedic and firefighter personnel.

The current Agreement (C-115495) between LAFD and CFFJAC was signed on June 9, 2009, with an effective term of November 1, 2008 through October 31, 2013. Under the terms of the CFFJAC Agreement, LAFD is to train qualified individuals in accordance with the apprenticeship standards. In return, LAFD receives reimbursement equal to \$2.95 per each hour of academy and/or related and supplemental instruction given to an apprentice; however, CFFJAC is allowed to reduce reimbursement amounts for administrative fees.

To obtain program reimbursement each month, LAFD sends an electronic file to CFFJAC that lists trainees along with their eligible training hours. After a review of the file, CFFJAC determines the reimbursement amount, and then requests such funds from State Agencies on behalf of LAFD. Upon receipt of the funds, CFFJAC credits LAFD's holding account. Amounts are held in this account until LAFD requests that a specific amount be disbursed to the City. Receipts are deposited by the City Treasury and are credited to Fund #40K.

Requests to incur an expenditure are initiated by the In-Service Training Section initiating a Sub-JAC Committee Funds Disbursements Agreement Form (Form F225). Upon receiving the necessary approvals on the F225, the item is procured from a vendor. The vendor submits the invoice to the Department of General Services' (GSD) Supply Services Division to obtain payment. Examples of expenditures made with

CFFJAC funds include two simulation manikins used to train fire fighters to become paramedics and video, audiovisual and computer equipment for training rooms.

For the period November 1, 2008 through April 30, 2012, revenues credited to the Fund totaled \$587,675, while expenses totaled \$514,074. As of April 30, 2012, Fund #40K had an available balance of \$671,544.

Objective, Scope and Methodology

The primary objective of this audit was to determine whether expenditures made from the LAFD Revolving Training Fund were in accordance with the CFFJAC Agreement and that they were properly authorized in accordance with established procedures. We also reviewed LAFD's practices related to the CFFJAC program to identify opportunities for improvement.

Our audit covered expenditures made from November 1, 2008 (the start of the most recent CFFJAC Agreement) through March 26, 2012. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Fieldwork was conducted between March and May of 2012. In conducting our audit, we:

- ❖ Reviewed the CFFJAC Agreement covering the period from November 1, 2008 through October 31, 2013.
- ❖ Reviewed the ordinance which established the creation of the LAFD Revolving Training Fund. We also reviewed the Administrative Code section related to the Fund.
- ❖ Reviewed all expenditures made during the audit period to determine whether they were for eligible expenses and whether they were properly approved.

AUDIT FINDINGS AND RECOMMENDATIONS

SECTION I. TRAINING FUND MANAGEMENT AND MONITORING

Finding #1: Though most expenses were approved by at least one LAFD employee and one union representative, none of the disbursements incurred during the current Agreement period were approved in accordance with LAFD's policies.

Although not a specific requirement of the CFFJAC Agreement or part of LAFD's written policies, LAFD management stated that its practice is to require three LAFD employees and three Union representatives to sign each F225. All six signers should be registered with CFFJAC as the local Sub-Joint Apprenticeship Committee (Sub-JAC).

LAFD's practice is reasonable. Although the agreement with CFFJAC does not specify who is required to approve each expenditure, the Agreement requires the LAFD to establish a sub-committee (Sub-JAC) having equal representation of management and labor, which should typically consist of six members. The purpose of the Sub-JAC is to participate in the apprenticeship program, and a primary responsibility of the Sub-JAC is to address training issues.

During the audit period, LAFD made 24 expenditures totaling \$498,000 from the LAFD Revolving Training Fund. We reviewed the expenditures to determine if they appeared to be for eligible expenditures under the program requirements. We also reviewed the corresponding 13 F225s as the 24 expenditures were covered under 13 specific requisitions for approval, to determine if they were properly documented and approved.

Each expenditure appeared to be related to training of the Department's paramedic and fire fighter personnel. However, we noted the following:

- None of the 13 F225s were signed by six individuals. One did not contain any signatures.
- Of the 12 that contained signatures, all were signed by at least one Union member and one LAFD representative. However, five of the 12 had more Union signatures than LAFD signatures. LAFD management stated that even if it is unable to obtain all six signatures, there should be an equal number of LAFD employees and Union representatives approving the expenditures.
- 11 of the 12 F225s were signed by a LAFD representative who was not registered with CFFJAC.

Further review disclosed that LAFD does not have adequate controls in place to ensure that all required approvals have been obtained before the Accounting Services Section approves the Purchase Orders for the requested item(s)/service. The Purchase Orders should not be approved without a F225 on file. However, for the tested items, we found that the Accounting Services Section had only a few F225s on file. The Department had to contact several different individuals in order to provide us with copies of all 13 F225s. To rectify these problems, LAFD management should ensure that the Accounting Services Section has a properly approved F225 on file before approving the Purchase Order for the expenditure.

Recommendations

- 1. LAFD management should formalize its policies with respect to the signatures required on F225s.**
- 2. LAFD management should ensure that the Accounting Services Section does not approve Purchase Orders without a properly approved F225 on file.**

We also found that deposits into Fund #40K were not approved in accordance with the terms of the Agreement. Section 2.4 of the Agreement requires that deposits into Fund #40K be approved by both the Department and a Union representative. During the audit period, there was only one deposit of CFFJAC funds into Fund #40K. The deposit occurred in April 2009 and was for \$522,518. A Union representative did not approve the deposit.

Recommendation

- 3. LAFD management should ensure that deposits into Fund #40K are approved by both the Department and a Union representative, as required by the Agreement.**

Finding #2: The Department has approximately \$1.6 million in available program funds, but it has not developed spending plans or budgets for these funds. In addition, LAFD has not fully explored alternatives to utilize the funds. Based on the spending rate over the last 3 ½ years, it could take 16 years just to utilize existing available/earned funds (assuming no new funds were received).

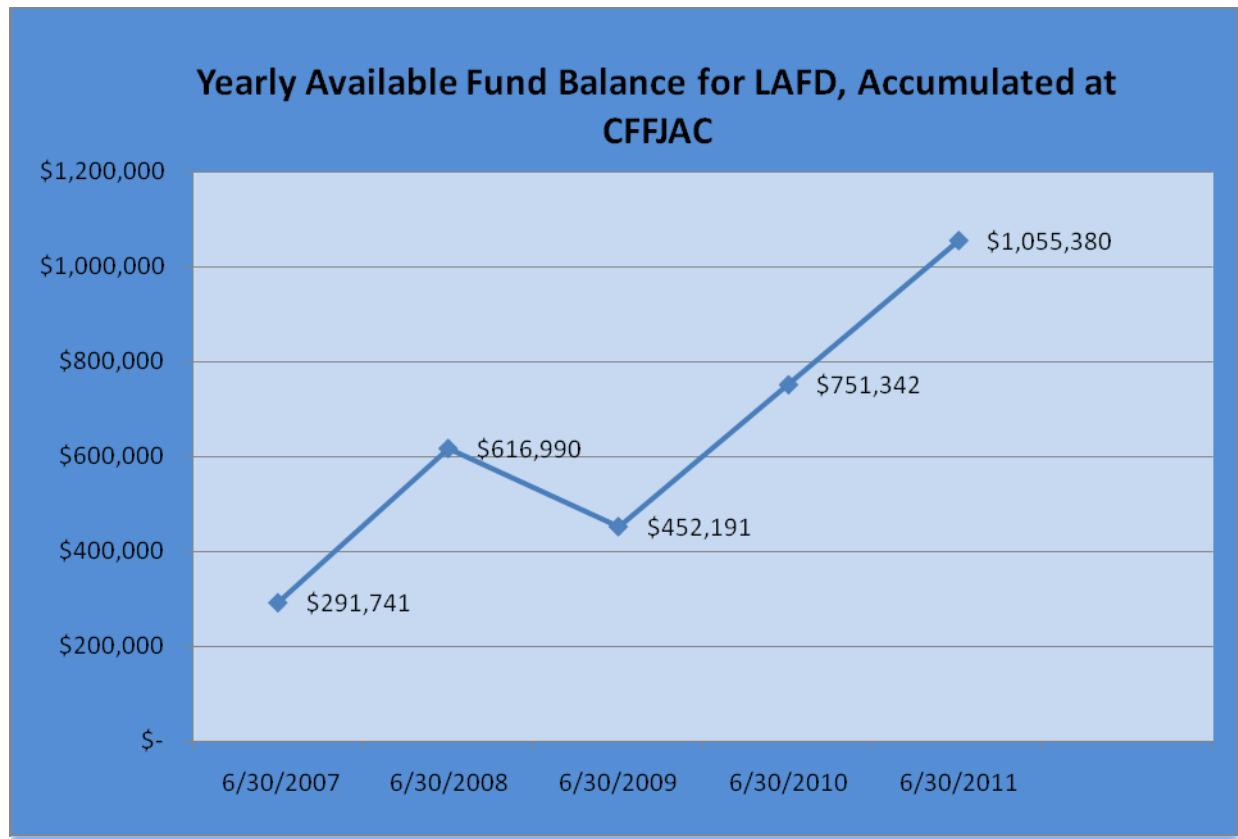
Although the Department has approximately \$1.6 million in available funds, it has never developed annual budgets/spending plans, which considers the available balance, anticipated revenues, and anticipated expenses. Table 1 shows the composition of the \$1.6 million.

Table 1

Available Program Funds as of April 30, 2012	
\$ 671,544	Fund 40K Balance
\$ 137,160	Posted to incorrect Fund; should have been posted to Fund 40K
\$ 824,601	Balance in CFFJAC holding account available for drawdown by LAFD (as discussed in finding #4)
\$ 1,633,305	Total Funds Available

In addition to the \$1.6 million currently available, LAFD has \$300,000 in pending claims with CFFJAC. For the period November 1, 2008 through April 30, 2012, LAFD incurred an average of only \$150,000 per year in expenditures. Based on this level of expenditures, even if no new funds were received, it would take approximately 16 years to utilize the available \$1.9 million. Based on last five and one half years, it is conceivable that the amount of funds available would continue to increase indefinitely, since revenues have exceeded expenses. The 16 year calculation assumes a conservative interest rate of 3% and that LAFD requests timely disbursements from its holding account at CFFJAC (discussed in Finding #5).

The following graph shows the amount of funds held at CFFJAC, on behalf of LAFD, as of the end of the last several years. The graph shows that the balance has increased from \$291,741 as of June 30, 2007 to \$1,055,380 as of June 30, 2011.



LAFD needs to develop annual budgets/spending plans to better utilize available funds. This should include exploring the possibility of using the funds to pay for at least the direct internal LAFD costs currently incurred to provide eligible training programs. If any funds remain, LAFD could then consider using the funds to help offset indirect costs. Direct and indirect costs that could be attributed to the LAFD's eligible training program include salaries, employee benefits, and overhead incurred to provide eligible training. The Department has never explored whether the funds could be used for these purposes. Historically, LAFD has apparently used the vast majority of funds to purchase tangible type items.

Both the Administrative Code and the CFFJAC Agreement state that monies in the Fund shall be expended only for the training of the Department's paramedic and fire fighter personnel. However, neither restricts the use of monies only for tangible type items.

We spoke to a CFFJAC representative, who stated that she is unaware of any other cities that use their funds to offset internal costs such as salaries and employee benefits. However, the individual stated that she was unaware of any regulations prohibiting the use of funds in this manner. If LAFD were able to utilize the program funds to help defray internal costs incurred for training, it would reduce the amount of other City funds that would be needed to pay for LAFD expenses.

In order to be able to use program funds to offset internal program costs, LAFD must have a system in place to capture and allocate these costs to the eligible program activities. Direct costs are those that can be specifically identified to the program, such as the salaries and employee benefits of trainers. Direct costs could also include the space and utility costs at the training facility(ies) and the costs associated with individuals providing oversight over the program, if these costs can be specifically identified. There may also be indirect costs incurred for a common or joint purpose benefiting more than one program.

LAFD management agrees with the audit's finding and stated they will develop a spending plan to better utilize available program funds. However, they stated that all plans must also be approved by the local sub-committee of CFFJAC, which includes Union representatives. LAFD management stated that it is committed to working with the Union representatives to develop budgets/spending plans that would minimize the risk of accumulating large amounts.

Given the City's current financial position, we believe that the Union representatives may support using the funds to offset existing training program costs currently borne by the General Fund, in lieu of alternatives such as layoffs.

Recommendations

- 4. LAFD management should develop annual budgets/spending plans for all available program funds.**
- 5. LAFD management should explore using the program funds to offset LAFD internal costs that are currently incurred for eligible program related expenses, to reduce dependency on the General Fund.**

Finding #3: LAFD does not always submit claims for reimbursement in a timely manner. Also, the claims are not approved by management prior to submission to CFFJAC.

The first step in the reimbursement process is for LAFD to send an electronic monthly file of eligible training hours to CFFJAC. Timely submissions of the files will help ensure that the Department's account at CFFJAC is credited as soon as possible. Although LAFD has not established a timeframe for submitting the files, we believe that 30 days after month-end is a reasonable target.

Using a 30 day standard, we noted that three of the six files were submitted late. On average, the three were submitted 17 days late.

We also noted that the monthly files are not approved by LAFD management prior to submittal to the State. We believe that since the submission of these files is, in

essence, a claim for reimbursement, LAFD management should approve these files prior to their submission to CFFJAC.

Recommendations

- 6. LAFD management should establish procedures which ensure that monthly files of eligible training hours are submitted to CFFJAC in a timely manner.**
- 7. LAFD management should formally approve the monthly files before they are submitted to CFFJAC to obtain reimbursement.**

Finding #4: LAFD does not monitor the balance held by CFFJAC to verify that their account has been properly credited.

Proper management over grant funds dictates that departments monitor their claims for reimbursement to ensure that amounts reimbursed to the City are accurate.

Our audit disclosed that LAFD does not monitor to ensure that CFFJAC properly credits LAFD's holding account for amounts earned (less administrative fees). For example, when it submits the monthly electronic file of training hours to CFFJAC, LAFD does not attempt to determine the amount it should be reimbursed for these hours.

LAFD also does not have policies in place to periodically obtain the balance in the holding account from CFFJAC. Generally, LAFD asks CFFJAC for its balance only when it believes that the amount of funds in Fund #40K may not be sufficient to pay for contemplated expenses. Since the amount in Fund #40K is large relative to the amount of historical yearly expenses, LAFD has rarely needed to contact CFFJAC to inquire about the holding account balance.

As part of this review, we contacted CFFJAC to obtain the holding account balance. CFFJAC provided us with a worksheet that showed a balance of \$824,600 as of February 29, 2012. Based on our review, we noted that this balance appeared to be understated. We contacted CFFJAC, who stated that the balance did not include about \$300,000 related to pending claims. In other words, these monies had been earned but not yet credited to the holding account. CFFJAC will credit the \$300,000 upon review of the claims. LAFD was unaware of this additional pending amount that will become available.

Recommendation

- 8. LAFD management should establish procedures to monitor the amount in its holding account with CFFJAC, which should include procedures to verify that the account has been properly credited.**

Finding #5: Since July 2006, the City has lost approximately \$50,000 in interest revenue as a result of LAFD's practice of not requesting CFFJAC to disburse amounts in LAFD's holding account unless the funds are needed to meet planned expenditures. Based on historical interest rates, the City could lose \$35,000 or more per year if LAFD continues this practice.

To maximize interest earnings, departments should request reimbursements of grant funds as soon as possible. However, it has been LAFD's practice to request monies in the holding account only when the funds are needed to cover planned expenses. Since the amount in Fund #40K has been sufficient, LAFD last requested funds from CFFJAC in February, 2009. Prior to this date, the most recent request for funds occurred in approximately May, 2007.

As a result of LAFD's practice, the City lost approximately \$50,000 in interest revenue since July 2006. While the amount is relatively small due to the historically low interest rates over the last few years, if the interest rates over these years had been more in line with historical interest rates (one year Treasury Bill) over the last 50+ years, the lost interest would have approximated \$225,000. In addition, the City could lose as much as \$35,000¹ per year if it continues to have CFFJAC hold onto LAFD's earned funds. It should be noted, however, that this amount would decrease if LAFD implements recommendations #4 and #5 related to developing spending plans and exploring the use of CFFJAC funding for items such as salaries, employee benefits, and overhead to offset the costs of providing training.

As discussed in Finding #6, LAFD plans to change the procurement/payment structure whereby CFFJAC would hold onto all of LAFD's CFFJAC funds. Under this structure, CFFJAC would keep all LAFD designated funds on deposit and make direct payments to vendors; the City would therefore forgo any related interest earnings on its funds.

Recommendation

- 9. LAFD management should request that CFFJAC disburse funds to the City as soon as practical in order to maximize interest earnings.**

¹ This amount is based on a conservative interest rate of 3% and LAFD's earned balance of \$1,125,000 (\$825,000 + \$300,000) held at CFFJAC.

Finding #6: LAFD has requested approval from the Board of Fire Commissioners to change the procurement/payment structure whereby CFFJAC would no longer disburse monies to the City. Instead, CFFJAC would pay LAFD's approved expenditures directly from the holding account. Prior to making the request, LAFD did not appear to consider the disadvantages of this change nor attempt to identify where delays in the current procurement/payment process are occurring.

On January 17, 2012 LAFD made a recommendation to the Board of Fire Commissioners for the Board to request that the City Council instruct the City Attorney to prepare and present an ordinance amending the Administrative Code to allow LAFD to have the State make direct expenditures from LAFD's holding account at CFFJAC. Under this revised structure, CFFJAC would no longer disburse funds to LAFD. According to LAFD management, the Board has approved LAFD's recommendation.

Based on the memorandum to the Board, the primary reason for requesting the change is because the current purchasing/payment process is inefficient and cumbersome. LAFD indicates that the current process requires 22 steps and that it takes three to four months to procure items. LAFD states that of the more than 135 departments that currently participate in the CFFJAC program, only one other department utilizes the same "drawdown" method that LAFD uses.

We inquired of LAFD whether it had performed any formal analyses to determine where delays in the current process were occurring or to identify any steps that could be eliminated. For example we noted that the majority of the 22 steps involve obtaining various LAFD management approvals. LAFD's proposed new process does not require these signatures. It is possible that the current procurement processing timeframe could be significantly reduced if these approvals were no longer required. LAFD stated that it did not perform any formal analyses of the current process.

LAFD's memorandum also indicated that the Department was overpaying for products through the current process. The Department cited an example in which the City's authorized vendor charges \$30 for a sheet of plywood, while the same plywood is available for \$10 a sheet from another vendor. However, LAFD indicated that it has not attempted to work with the Department of General Services (GSD) to solve the problem of paying high prices or to pursue an alternative procurement process.

Under the proposed revised process, LAFD would essentially be bypassing the City's policies of having the Department of General Services (GSD) participate in the procurement process. Instead, LAFD would obtain bids/quotes from vendors on their own and direct CFFJAC to pay the specified vendor directly.

Lastly, we noted that the request to the Board of Fire Commissioners does not address the issue of potential lost interest revenue as result of CFFJAC retaining LAFD's earned

revenues. It also does not address the risk associated with the loss of control over the funds by not having the funds deposited into City accounts

Recommendation

- 10. The Mayor/Council should ensure that it considers all relevant factors, including the issues identified in our report, before deciding whether to approve LAFD's proposed change in the procurement/payment structure.**

SECTION II. TRAINING FUND REPORTING AND ACCOUNTING

Finding #7: LAFD has not been submitting required annual reports to the Mayor and Council in a timely manner. Also, the reports do not fully disclose the amount of funds available for expenditures.

Chapter 8, Section 5.147 of the Los Angeles Administrative Code requires the Department to submit an annual report of Fund #40K receipts and expenditures to the City Council and Mayor. The report is due by August 30 of each year, which covers the most recent fiscal year.

We found that the Fiscal Year (FY) 2008-09 report was submitted 20 months late, while the FY 2009-10 report was submitted 10 months late. As of our fieldwork, the FY 2010-11 had not been completed and was eight months overdue.

LAFD stated that the reports have not been completed in a timely manner due to a shortage of staffing resources. While we acknowledge the Department's resource shortage, it should be noted that the report should not be time consuming to complete since it basically provides a short description of each expenditure. Over the audit period, the Department has averaged only seven expenditures per year.

Recommendation

- 11. LAFD management should ensure the required annual report of receipts and expenditures for Fund #40K is submitted to the Mayor/Council within 60 days of fiscal year end, as required by the Administrative Code.**

We also noted that the annual reports do not disclose all available program funds. The reports only disclose the balance in Fund #40K. For example, the FY 2008-09 and FY 2009-10 reports did not mention that the Department actually had several hundred thousand of additional funds available on deposit with CFFJAC. As discussed in Finding #4, the Department had \$824,600 in additional funds available to spend that were being held by CFFJAC.

Although the Administrative Code does not require the Department to report all available program funds, the reports would be more useful if they reflected this amount.

Recommendation

- 12. LAFD management should include all available funds in its annual reports of receipts and expenditures for Fund #40K.**

Finding #8: LAFD does not record revenues in accordance with generally accepted accounting principles. As a result, Fund #40K's fund balance is understated by \$1.1 million.

Generally Accepted Accounting Principles (GAAP) for governmental units require the use of the modified accrual basis of accounting for certain funds, rather than the cash basis. Under the modified accrual basis, revenues are recognized when they are measurable and available (available within 60 days of the end of the fiscal year), as opposed to when they are received. Failure to use the modified accrual basis of accounting results in inaccurate fund balances. Specifically, the failure to record revenues (and a corresponding receivable) when measurable/available, understates the fund balance.

As discussed in Finding #4, the State is maintaining \$824,600 on behalf of LAFD in a holding account. In addition, CFFJAC stated that LAFD has earned \$300,000 that has not yet been credited to LAFD's account.

LAFD does not record revenue in Fund #40K in the City's Financial Management System until it actually receives funds from CFFJAC. As a result, the available balance for Fund #40K is understated by \$1.1 million (\$824,600 plus \$300,000). It should be noted that in order to properly record revenue in Fund #40K, LAFD will need to monitor the balance held by CFFJAC (recommendation #8).

Recommendation

- 13. LAFD management should ensure that revenues are properly recorded in the City's Financial Management System by recording revenues when measurable and available.**

Respectfully submitted,

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June 5, 2012

APPENDIX A
OFFICE OF THE CONTROLLER
AUDIT OF TRAINING AGREEMENT BETWEEN THE LAFD AND CFFJAC

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
	SECTION I. TRAINING FUND MANAGEMENT AND MONITORING		
1.	Though most expenses were approved by at least one LAFD employee and one union representative, none of the disbursements incurred during the current Agreement period were approved in accordance with LAFD's policies.	U U U	<p>1. LAFD management should formalize its policies with respect to the signatures required on F225s.</p> <p>2. LAFD management should ensure that the Accounting Services Section does not approve Purchase Orders without a properly approved F225 on file.</p> <p>3. LAFD management should ensure that deposits into Fund #40K are approved by both the Department and a Union representative, as required by the Agreement.</p>
2.	The Department has approximately \$1.6 million in available program funds, but it has not developed spending plans or budgets for these funds. In addition, LAFD has not fully explored alternatives to utilize the funds. Based on the spending rate over the last 3 ½ years, it could take 16 years just to utilize existing available/earned funds (assuming no new funds were received).	U U	<p>4. LAFD management should develop annual budgets/spending plans for all available program funds.</p> <p>5. LAFD management should explore using the program funds to offset LAFD internal costs that are currently incurred for eligible program related expenses, to reduce dependency on the General Fund.</p>
3.	LAFD does not always submit claims for reimbursement in a timely manner. Also, the claims are not approved by management prior to submission to CFFJAC.	N N	<p>6. LAFD management should establish procedures which ensure that monthly files of eligible training hours are submitted to CFFJAC in a timely manner.</p> <p>7. LAFD management should formally approve</p>

Finding Number	Description of Finding	Ranking Code	Recommendations
			the monthly files before they are submitted to CFFJAC to obtain reimbursement.
4.	LAFD does not monitor the balance held by CFFJAC to verify that their account has been properly credited.	N	8. LAFD management should establish procedures to monitor the amount in its holding account with CFFJAC, which should include procedures to verify that the account has been properly credited.
5.	Since July 2006, the City has lost approximately \$50,000 in interest revenue as a result of LAFD's practice of not requesting CFFJAC to disburse amounts in LAFD's holding account unless the funds are needed to meet planned expenditures. Based on historical interest rates, the City could lose \$35,000 or more per year if LAFD continues this practice.	N	9. LAFD management should request that CFFJAC disburse funds to the City as soon as practical in order to maximize interest earnings.
6.	LAFD has requested approval from the Board of Fire Commissioners to change the procurement/payment structure whereby CFFJAC would no longer disburse monies to the City. Instead, CFFJAC would pay LAFD's approved expenditures directly from the holding account. Prior to making the request, LAFD did not appear to consider the disadvantages of this change nor attempt to identify where delays in the current procurement/payment process are occurring.	N	10. The Mayor/Council should ensure that it considers all relevant factors, including the issues identified in our report, before deciding whether to approve LAFD's proposed change in the procurement/payment structure.
SECTION II. TRAINING FUND REPORTING AND ACCOUNTING			

