

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Aging and Adult Services: Prepaid Cards Audit



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September 22, 2015

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SUBJECT: Prepaid Cards Audit

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Department of Aging and Adult Services for the period of July 1, 2013 through March 31, 2014. The primary objective of the audit was to determine whether internal controls over prepaid cards were effective and in compliance with the Internal Controls and Cash Manual. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We found that County procedures for prepaid cards are not being followed. Several important procedures and practices should be established or improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on June 8, 2015 and discussed our observations with management on June 17, 2015. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at Aging and Adult Services who assisted and cooperated with us during this engagement.

Respectfully submitted,

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By:



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Aging and Adult Services: Prepaid Cards Audit

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's prepaid cards.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	<p>Finding: Employees other than the Fund Custodian are maintaining custody of prepaid cards.</p> <p>Recommendation: Both Management and staff should familiarize themselves with the County's ICCM and the Department's Fiscal Operations Manual. The Department should establish prepaid card fund custodians at the locations where cards are stored. Each fund custodian should complete a Signature Fund Custodian Authorization Form and a Questionnaire for Prepaid Debit and Gift Cards should be completed for each location where prepaid cards are stored.</p> <p>Additionally, we recommend that each fund custodian account for all prepaid card activity, including the transfer of cards between fund custodians, on a continuous written log. The established fund custodians in Barstow should not have access to each other's desks where prepaid cards are stored.</p>	5
2	<p>Finding: The Prepaid Card Request Form is not being used properly.</p> <p>Recommendation: The Department must use a Prepaid Card Request form or Title IIIB form for all prepaid card distributions to recipients. The requestor must obtain appropriate approval prior to presenting the request to the card custodian. The recipient and the requestor should sign the Request to Distribute Prepaid Cards or Title IIIB form.</p>	6



Finding No.	Findings and Recommendations	Page No.
3	Finding: Prepaid cards are not properly safeguarded.	8
	Recommendation: The cabinets and desk drawers that the prepaid cards are stored in should be re-keyed at least annually. They should also be rekeyed when an employee who has access to the key terminates County employment, is transferred to another department, or is assigned other duties.	
4	Finding: The department did not submit prepaid card payment documents to the Internal Audits Section	9
	Recommendation: We recommend the Department submit the required documentation to the Auditor-Controller/Treasurer/Tax Collector's Internal Audits Section prior to each prepaid cards purchase.	



Prepaid Cards

As the designated Area Agency on Aging, the Department of Aging and Adult Services (Department) receives funding through the Older Americans Act for a wide range of programs and supportive services. Since 2005, the Department has utilized this funding to meet senior (aged 60 and older) needs, such as transportation and food, through the use of bus passes and prepaid debit cards to aid seniors in their efforts to remain healthy and involved in their communities.

The Department assists seniors, at-risk individuals, and adults with disabilities with improving or maintaining choice, independence, and quality of life. Their mission is to ensure that County residents may age in place within the least restrictive environment. The issuance of bus passes and prepaid debit cards has been a long-standing practice for the Department in order to further its mission to assist County seniors in improving or maintaining choice, independence, and quality of life.

The Department purchases bus passes and prepaid debit cards from the following vendors: OmniTrans, Mountain Area Regional Transit Authority, Morongo Transit, Needles Area Transit, Victor Valley Transit Authority, Stater Brothers Markets, and Basha's Supermarket.



Scope and Objectives

Our audit examined the Department's prepaid card records for the period of July 1, 2013 through March 31, 2014.

Our overall objective was to determine whether the internal controls over prepaid cards were effective and in compliance with the Internal Controls and Cash Manual (ICCM).

Methodology

To achieve the audit objectives, the following audit procedures were performed, including but not limited to:

- Performing surprise prepaid card counts at three separate locations.
- Reviewing monthly reconciliations, monthly inventories and continuous written logs.
- Reviewing a sample of prepaid card distributions at site locations.
- Reviewing a sample of prepaid card purchases.
- Interviewing Department staff regarding prepaid card management.
- Inquiring of management regarding the communication of policies and procedures to the staff members.



Finding 1: Employees other than the Fund Custodian are maintaining custody of prepaid cards.

Chapter 20 of the Internal Controls and Cash Manual (ICCM) states that every department that distributes prepaid cards must designate an employee to be the custodian in charge of these cards. At all times, the card custodian must be able to account for all prepaid cards in the form of cards on-hand, distributed cards, and cards on order from the vendor. The card custodian must also be able to account for the specific physical location(s) of all cards.

The ICCM also states the fund custodian must maintain a continuous written log documenting card receipts, distributions, intradepartmental movement (prepaid cards for a single program distributed to multiple locations) and related documentation. When possession of a card transfers from the card custodian to the requestor, the written log must be signed by the requesting employee to document receipt of the cards.

The ICCM further states that the Department must submit a "Signature/Fund Custodian Authorization" for each fund custodian and complete a "Questionnaire for Prepaid Debit and Gift Cards" form for each location the prepaid cards are stored. These forms are to be submitted to the Auditor-Controller/Treasurer/Tax Collector's Internal Audits Section for each fiscal year that the Department maintains and distributes prepaid cards.

The following conditions were noted during our review of prepaid card distributions:

- The fund custodian distributes prepaid cards monthly to two Department supervisors who deliver blocks of bus passes to several distributing employees at the field offices. The employees at field offices who keep the cards at their desk were acting as fund custodians, but had not completed the Signature Fund Custodian Authorization Form or the Questionnaire for Prepaid Debit and Gift Cards.
- Two distributing employees in Barstow access and distribute prepaid cards from each other's desks without showing the transfer from one employee to the other on a continuous written log.

The Department was not familiar with the fund custodian requirements in the ICCM. The potential of misappropriation of the prepaid cards increases when they are not maintained by an authorized fund custodian. When transfers between employees are not tracked on a continuous written log, the opportunity for theft increases.



Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM and the Department's Fiscal Operations Manual. The Department should establish prepaid card fund custodians at each location where cards are stored. Each fund custodian should complete a Signature Fund Custodian Authorization Form, and a Questionnaire for Prepaid Debit and Gift Cards should be completed for each location where prepaid cards are stored.

Additionally, we recommend that each fund custodian account for all prepaid card activity, including the transfer of cards between fund custodians, on a continuous written log. The established fund custodians in Barstow should not have access to each other's desks where prepaid cards are stored.

Management's Response:

DAAS completed a process by which Fund Custodians were established for each office and were appropriately trained. An Authorization Form and Questionnaire has been completed and submitted for each employee who maintains custody of prepaid cards.

Each fund custodian maintains control logs and inventory logs for all cards in their possession. Prepaid cards are now stored in a locked box which is stored in a locked overhead cabinet.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 2: The Prepaid Card Request Form is not being used properly.

According to the ICCM, Chapter 20, County departments must distribute prepaid cards according to the following procedures:

1. A Department employee completes a prepaid card request form to initiate the distribution stating the date, prepaid card merchant, purpose of the distribution, intended recipient of the card(s), and the amounts to be distributed (specifying the quantity of each denomination). The employee must sign and date the request.
2. A pre-designated department employee other than the card custodian approves and signs the request. The authorizing employee must be of a higher-ranking job code than the requestor.



3. The requesting employee presents the request to the card custodian. When possession of a card transfers from the card custodian to the requestor, the written log must be signed by the requesting employee to document receipt of the cards.
4. After the cards are received from the card custodian, the employee distributes them to the appropriate recipients. At a minimum, recipients must print and sign their name and date the prepaid card request to document their receipt of the prepaid cards. The employee will return the request form signed by the card recipient to the card custodian.

Furthermore, the Department Fiscal Operations Manual: Prepaid Debit Cards, Gift Cards, Gift Certificates, Vouchers, and Coupons – Distribution and Inventory Procedures state that all staff requests for distribution of cards, vouchers, or coupons require a completed Prepaid Card Request form that is signed by a supervisor.

The following conditions were documented during our audit:

- When a grocery card, gas card or monthly bus pass was needed for a client, the distributing employee filled out a Request For Services - Title IIIB (Title IIIB) form. This form is used in place of the prepaid card request form. However, the Title IIIB form was not signed by the requestor or the recipient.
- When a recipient was given a single use bus pass, a prepaid card request form was not completed and the distribution was not initiated by an employee other than the fund custodian. Because a form was not used, there is no evidence of the request being approved by the supervisor.

Department Staff do not complete a Prepaid Card Request form, as indicated in their Department's Fiscal Operations Manual, or a Title IIIB form every time a prepaid card is distributed to a client.

The risk of prepaid card distributions to ineligible recipients increases when distributions are not properly documented and approved.

Recommendation:

We recommend the Department use a prepaid card request form or Title IIIB form for all prepaid card distributions to recipients, including single use bus passes. The requestor must be an employee other than the fund custodian and must obtain appropriate approval prior to presenting the request to the card custodian. The recipient and the requestor should sign and date the Request to Distribute Prepaid Cards or Title IIIB form.



Management's Response:

DAAS Fund Custodians have been trained so that Prepaid Cards will only be released to employees who have submitted a completed Prepaid Card Request Form with appropriate approval. The requestor will also have the recipient sign an issuance log documenting receipt of the Prepaid Card.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 3: Prepaid cards are not properly safeguarded.

According to Chapter 20 of the ICCM, Departments distributing prepaid cards must follow all applicable procedures in the Safeguarding Cash section of Chapter 3 because prepaid cards are a cash equivalent. Chapter 3 states to place all cash held overnight in a safe or a locked file cabinet located in a secure area away from the public. Safe combinations should be changed when an employee who has knowledge of the combination is terminated, transferred to another department, or is assigned other duties. Even if there are no staffing changes, the combination must be changed annually. Since the ICCM allows cash to be stored in a safe or locked file cabinet, the cabinet lock should be changed in the same manner as a safe combination.

The following conditions were noted during our audit:

Fiscal Office

- Department staff had no knowledge of the lock to the cabinet where the cards are stored having been changed or re-keyed.
- The key to the cabinet that contains prepaid cards was stored in an unlocked desk drawer.

Victorville and Barstow

- Department staff had no knowledge of the lock to the cabinet and desk drawers where the cards are stored having been changed or re-keyed.

The Department was not aware of the ICCM policies and procedures as they relate to safeguarding cash equivalents. The prepaid cards are susceptible to theft if controls are not set in place to effectively safeguard cash equivalents.



Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM and the Department's Fiscal Operations Manual.

Also, we recommend the cabinets and desk drawers that the prepaid cards are stored in should be re-keyed at least annually. They should also be rekeyed when an employee who has access to the key terminates County employment, is transferred to another department, or is assigned other duties.

Management's Response:

DAAS has instituted a process by which all offices will keep a log of when locks and/or combinations have been changed to ensure we are in compliance. The Fund Custodian have also been instructed to keep the key to the prepaid cards on their person at all times.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 4: The Department did not submit prepaid card payment documents to the Internal Audits Section.

The County's ICCM, Chapter 20 states that if the department is using a FAS Payment document to purchase prepaid cards, it must forward the completed payment document to IAS. If the department is using Cal Cards to purchase the prepaid cards, it must notify IAS by sending an interoffice memo stating the amount of cards to be purchased prior to making the purchase.

We reviewed all seven prepaid card purchases during the audit period. We noted that the Department did not submit payment documents to IAS for any of the seven purchases for new prepaid cards.

The Department was not aware of the need to submit documentation to IAS prior to purchasing prepaid cards. There is an increased risk the Department could purchase cards in excess of what has been approved by the County's Board of Supervisors.



Recommendation:

We recommend the Department submit the required documentation to IAS for each prepaid cards purchase.

Management's Response:

Fiscal Staff have been instructed to send prepaid card documents to Internal Audits Section prior to purchase.

Auditor's Response:

The Department's action will correct the deficiency noted in the finding.