

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Department of Human Services - HS Auditing Division Prepaid Cards Audit



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Mission Statement

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May 2, 2018

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SUBJECT: Human Services 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 Human Services' prepaid cards for the period of July 1, 2016 through June 30, 2017. The primary objective of the audit was to determine if internal controls over prepaid cards are 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 identified several procedures and practices that could be 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 February 1, 2018 and discussed our observations with management on February 14, 2018. The Department's responses to our recommendations are included in this report.

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

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:

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Department of Human Services – HS Auditing Division Prepaid Cards Audit

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Summary of Audit Results

Our findings and recommendations are provided to assist management in strengthening internal controls and procedures relating to the Department of Human Services' 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 | Department does not adhere to the ICCM regarding transferring of Prepaid Cards. | 4 |
| | We recommend management become familiar with the Internal Controls and Cash Manual regarding the guidelines for transferring of prepaid cards between departments. | |
| 2 | Prepaid card monthly inventories need to be improved. | 5 |
| | We recommend that physical inventories be conducted each month by an employee other than the card custodian. The physical inventory should be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian. The physical inventory should be reconciled to the log of purchases and issuances. | |
| 3 | Payment vouchers for prepaid cards purchased were not sent to IAS for review and approval. | 6 |
| | We recommend the Department submit the required documentation to IAS for each prepaid cards purchase by coding purchases to GL Account # 53003206. With the recent County-wide implementation of the new SAP Enterprise Financial Management System, the new object code used for prepaid cards has changed from 3206 to 53003206. | |
| 4 | Controls over safeguarding of prepaid cards need to be improved. | 7 |
| | We recommend Management refer to the County's Internal Controls and Cash Manual to establish necessary prepaid card controls to safeguard the prepaid cards. Safe combinations should be changed when an employee terminates County employment, transfers, is assigned other duties, or at least annually if there are no staffing changes. | |



Background

Human Services Administration's Auditing Division

The Human Services Administration's Auditing Division (Division) within the Human Services Group of San Bernardino County (County) provides the purchasing and transferring of prepaid cards for the County departments within the Human Services Group. The Division does not issue or distribute prepaid cards directly to County residents. However, the Division transfers prepaid cards to the Transitional Assistance Department (TAD) and the Children and Family Services Department (CFS) in order for these departments to issue and distribute to their clients who are receiving benefits.

Prepaid Cards

According to the Chapter 19 of the County of San Bernardino's Internal Controls and Cash Manual (ICCM), prepaid debit cards, gift cards, gift certificates, vouchers and coupons are examples of items that a County department can obtain in exchange for cash that can then be distributed to recipients to use to purchase goods or services. In this chapter, such items are collectively referred to as 'prepaid cards'.

Many departments distribute prepaid cards solely to provide assistance to clients that meet related program requirements. Prepaid cards are cash equivalent assets and each department head or authorized designee is responsible for developing and implementing the guidelines and procedures necessary to ensure proper controls over, and safeguarding and handling of, these cards.

Prepaid cards represent a significant risk exposure to the County due to their widespread distribution and convertibility. Therefore, it is essential that prepaid cards are appropriately reported and safeguarded. To ensure that card inventory and distribution can be accounted for at all times, all transactions must be properly recorded and the chain of custody must be maintained through the presence of adequate security and documentation of all transfers. In addition, departments may only purchase and distribute prepaid cards after they have demonstrated that a special need exists that can only be addressed through the distribution of prepaid cards.



Scope and Objective

Our audit examined the controls over prepaid cards for the period of July 1, 2016 through June 30, 2017.

The objective of our audit was to determine if internal controls over prepaid cards are effective and in compliance with the Internal Controls and Cash Manual.

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interviews of HS Auditing staff
- Walk-through of activity
- Review of policies and procedures
- Examination of original source documents



Finding 1: Department does not adhere to the ICCM regarding transferring of Prepaid Cards.

The Internal Controls and Cash Manual (ICCM) Chapter 19-6 "Transfers of Prepaid Cards" states that in certain cases, departments may enter into agreements to purchase prepaid cards with the intent to transfer the cards to another department for final distribution to recipients. In these cases, both the transferring department and the receiving department must obtain authorization from the Auditor-Controller/Treasurer/Tax Collector (ATC) to distribute prepaid cards prior to purchasing or distributing cards. The transferring and receiving departments must both follow the instructions in the "Request to Distribute Prepaid Cards" section 19-4. In addition, page 19-7 states that each month, the transferring department must send a memo notifying ATC's Internal Audits Section (IAS) of cards that have been transferred.

The transferring Department must attach the following:

- A detailed list of the transferred cards including merchant, card denominations, quantities and total card value transferred.
- A detailed receipt from the receiving department signed by the receiving department's card custodian which lists the transferred cards' merchants, denominations, quantities and total values.

HS Auditing did not send a memo each month notifying ATC's IAS of cards that were transferred to CFS and TAD during FY16-17.

The department is unaware of the ICCM procedures regarding Transfers of Prepaid Cards. Without review and oversight of transfers of prepaid cards to other departments, prepaid cards could be misappropriated and sent to unauthorized departments.

Recommendation:

We recommend management become familiar with the ICCM regarding the guidelines for transferring of prepaid cards between departments. The Department should send a memo each month notifying ATC's IAS of cards that are transferred.

Management's Response:

HS Auditing will ensure to adhere to the ICCM regarding transferring of Prepaid Cards. The process currently in place is to maintain detail records when distribution of prepaid cards occurs to various offices in TAD and CFS. After supplemental discussions with ATC's IAS, it has been agreed upon that instead



of a memo with attachments outlined in the ICCM 19-7, HS Auditing will provide ATC's IAS with copies of the 'Carton Content of Control Valuables Stock' forms from all TAD and CFS offices on a monthly basis.

Auditor's Response:

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

Finding 2: Prepaid card monthly inventories need to be improved.

The ICCM Chapter 19 states a critical step in properly accounting for prepaid cards is conducting a monthly inventory. Employees other than the card custodian must complete the inventory, and an employee of a higher-ranking job code must review and sign off on it. Inventories must be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian.

The card custodian was completing the monthly inventories at the HS Auditing Office.

Management has not enforced ICCM procedures regarding the monthly inventory of prepaid cards. The risk of potential theft increases when an independent physical count of the cards is not performed each month.

Recommendation:

We recommend that physical inventories be conducted each month by an employee other than the card custodian. The physical inventory should be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian. The physical inventory should be reconciled to the log of purchases and issuances.

Management's Response:

HS Auditing is in agreement with this finding. Two staff members are now conducting the inventory along with the fund custodian observing. The monthly inventory and reconciliation process for prepaid cards has been updated to reflect this change.

Auditor's Response:



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

Finding 3: Payment vouchers for prepaid cards purchased were not sent to IAS for review and approval.

According to the ICCM Chapter 19-5 "Purchasing Prepaid Cards", the department must submit each payment document for the purchase of prepaid cards to the Auditor-Controller/Treasurer/Tax Collectors' (ATC) Internal Audit Section (IAS) regardless of the number of purchases made. ATC's IAS must review and approve the payment voucher and then forward the payment document to ATC Accounts Payable Section.

We noted that the department did not submit payment documents to IAS for 5 out of 48 purchases of prepaid cards for a total of \$1,523,868.

The Department did not ensure all documentation was submitted to IAS prior to purchasing prepaid cards. There is an increased risk the Department could purchase prepaid cards in excess of the amount that 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 by coding these purchases to GL Account # 53003206. With the recent County-wide implementation of the new SAP Enterprise Financial Management System, the new object code used for prepaid cards has changed from 3206 to 53003206.

Management's Response:

HS Auditing is in agreement with this finding. With the new SAP system, payment vouchers for prepaid cards purchased will be coded to GL Account 53003206 which will then automatically be routed to ATC's IAS workflow for approval.



Auditor's Response:

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

Finding 4: Controls over safeguarding of prepaid cards need to be improved.

According to the ICCM Chapter 2, access to assets should be controlled in order to safeguard them. Chapter 3 indicates prepaid cards should be 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.

The combination to the safe that holds the prepaid cards was not changed since March 2016.

Management has not enforced ICCM procedures for controlling and safeguarding prepaid cards. The prepaid cards are susceptible to potential theft if controls are not in place to effectively safeguard the prepaid cards.

Recommendation:

We recommend Management refer to the County's Internal Controls and Cash Manual to establish necessary prepaid card controls to safeguard the prepaid cards. Safe combinations should be changed when an employee terminates County employment, transfers, is assigned other duties, or at least annually if there are no staffing changes.

Management's Response:

HS Auditing is in agreement with this finding. Combinations to the safe will be made when staffing changes occur or at least annually. In addition, the secretary will identify the future date that the combination needs changing. There will be a reminder set in outlook calendars dated two weeks prior to the combination change date. Administrative actions will promptly take place to change the



combination. Furthermore, a sign has been posted on the safe to alert appropriate staff of the combination change date.

Auditor's Response:

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