

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

---

## Probation Department: Prepaid Cards and Petty Cash Audit



**Oscar Valdez**

**Auditor-Controller/Treasurer/Tax Collector**

268 West Hospitality Lane  
San Bernardino, CA 92415-0018  
(909) 382-3183

**Website:** [www.sbcounty.gov/atc](http://www.sbcounty.gov/atc)

**Fraud, Waste & Abuse Hotline:** (800) 547-9540

# Auditor-Controller/Treasurer/Tax Collector

---

## *Mission Statement*

*The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.*

---

## Audit Team

**Denise Mejico**

Chief Deputy Auditor

**Menaka Burkitt**

Internal Audits Manager

**Carmel Manela**

Supervising Internal Auditor III

**Raul Marquez**

Internal Auditor III

# AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



- 268 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 890-4045
- 268 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 890-5797

**Matt Brown**  
Assistant Auditor-Controller/Treasurer/Tax Collector

**John Johnson**  
Assistant Auditor-Controller/Treasurer/Tax Collector

**May 11, 2018**

**Michelle Scray Brown, Chief Probation Officer**

Probation Department  
175 W. Fifth Street, 4<sup>th</sup> Floor  
San Bernardino, CA 92415-0460

**SUBJECT: PROBATION DEPARTMENT PREPAID CARDS AND PETTY CASH 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 Probation Department for the period of July 1, 2016 through June 30, 2017. The primary objectives of the audit were to determine if the internal controls over prepaid cards and petty cash funds are effective and in compliance with the Internal Control 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 March 21, 2018 and discussed our observations with management on April 10, 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 Probation Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

**Oscar Valdez**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By 

**Denise Mejico**

Chief Deputy Auditor

Distribution of Audit Report:

Robert Lovingood, Chair, 1<sup>st</sup> District Supervisor  
Janice Rutherford, 2<sup>nd</sup> District Supervisor  
James Ramos, 3<sup>rd</sup> District Supervisor  
Curt Hagman, Vice Chair, 4<sup>th</sup> District Supervisor  
Josie Gonzales, 5<sup>th</sup> District Supervisor  
Gary McBride, Chief Executive Officer  
Grand Jury  
Auditor-Controller Audit Committee

Date Report Distributed: May 11, 2018

OV:DLM:RM:oac



# Probation Department: Prepaid Cards and Petty Cash Audit

<b>Executive Summary</b>	<b>1 - 2</b>
<b>Audit Background</b>	<b>3 - 4</b>
<b>Scope, Objective and Methodology</b>	<b>5</b>
<b>Audit Findings and Recommendations</b>	<b>6 - 13</b>



## Summary of Audit Results

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	Management of the petty cash funds and prepaid cards can be improved.	6
	We recommend that department ensure that only employees designated as fund custodians have access to petty cash funds and prepaid cards. The department should also reconcile cash funds to the authorized amount.	
2	Internal Audits Section (IAS) was not properly notified of the change in cash fund locations or prepaid card shortage.	7
	We recommend management notify IAS of all physical location(s) where cash funds reside. The department should also report the cash shortage to IAS. Management should implement procedures that properly document the chain of custody of prepaid cards.	
3	Monthly inventory counts and reconciliations for prepaid cards could be improved.	8
	We recommend management document the reviews of their monthly inventory counts by signing off on the count sheets. The review should be done by an employee of a higher-ranking job classification than the card custodian. We also recommend that monthly prepaid card reconciliations be performed in accordance with the ICCM	
4	Controls over prepaid cards could be improved.	10
	We recommend the department change the combination to safes at least annually or when an employee who has knowledge of the combination terminates County employment, is transferred to another department, or is assigned other duties. We also recommend records of safe combination changes are documented.	
5	There was no prior written authorization approving the distribution of prepaid cards.	11
	We recommend that management implement procedures where a pre-designated department employee other than the card custodian approves and signs prepaid card requests. The authorizing employee should be of a higher-ranking job classification than the requesting employee.	

# Executive Summary



Finding No.	Findings and Recommendations	Page No.
6	<p>Payment vouchers for prepaid cards purchased were not sent to IAS for review and approval.</p> <p>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.</p>	12



## Prepaid Cards and Petty Cash Audit

### The Department

The Probation Department (Department) is dedicated to protecting the community through the assessment, treatment and controls of adult and juvenile offenders by providing a range of effective services based on legal requirements and recognized professional standards. The Department's executive management is responsible for developing and implementing policies which focuses on improving public safety while operating in a fiscally responsible manner.

The Department is comprised of five bureaus:

- Adult Community Corrections Bureau (ACCB) is responsible for adult supervision, training, treatment program options, Day Reporting Centers, and investigation reports for the courts, along with case management services.
- Juvenile Community Corrections Bureau (JCCB) is responsible for juvenile supervision, training, treatment program options, Day Reporting Centers, and investigation reports for the courts, along with case management services.
- Detention Correction Bureau (DCB) is responsible for the County's Juvenile Detention and Assessment Centers (JDAC's) and Department-operated residential treatment options in secured environments for legally detained and court ordered minors.
- Administrative Services Bureau (ASB) is responsible for the organizational and administrative support functions of the department, including budget preparation, grant compliance, payroll/personnel, purchasing, payables, courier/file delivery, reception, clerical, research and analytical units, building management and facilities, vehicles and other infrastructure needs.
- Specialized Services Bureau (SSB) is responsible for unique operations that covers needs and requirements beyond community corrections or detention services and which often impact areas across the entire Department.

### Petty Cash Funds:

On November 2, 1999 the Board of Supervisors increased the Department's imprest cash fund from \$2,500 to \$4,000. The Department uses petty cash funds to buy small items not processed through Auditor-Controller/Treasurer/Tax Collector (ATC) Accounts Payable. The Department designated fund custodians to oversee petty cash funds. At all times, the fund custodian must be able to





account for the fund in the form of cash, vouchers, and receipts. ATC Internal Audits Section (IAS) periodically performs surprise cash counts of these funds.

### **Prepaid Cards:**

The Department uses prepaid cards as a rehabilitation, reward, and incentive programs for adult and juvenile clients. Prepaid cards are used to assist recently released offenders in obtaining common necessities such as, meals, toiletries, clothes for job interviews, and transportation for reporting, job interviews, or program classes. In regards to the juvenile programs, prepaid cards are used as part of reward and incentive programs. Youth may earn prepaid cards for meals at local fast food establishments for attending classes on a consistent basis, or for doing well in school. Prepaid cards may also be distributed in cases where the youth needs common necessities or transportation to attend school or meetings.



## Scope and Objective

Our audit examined the Department's Prepaid Cards and Petty Cash procedures for the period of July 1, 2016 through June 30, 2017. We conducted our fieldwork at the Administration office, the Ramona Avenue office in Victorville, and the Gilbert Street and 4<sup>th</sup> Street offices in San Bernardino.

The objective of our audit was to determine if the internal controls over prepaid cards and petty cash funds 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:

- Interview of Probation Department's staff.
- Perform walk-through of activities.
- Review of the Department's policies and procedures.
- Examination of original source documents and system generated reports.
- Review of pertinent documents.



**Finding 1:** Management of the petty cash funds and prepaid cards can be improved.

According to the County's Internal Controls and Cash Manual (ICCM), Chapter 2-4, access to assets should be controlled in order to safeguard them. All transactions and pertinent events should be accurately and properly recorded on documents and records. Chapter 4-11 states that petty cash vouchers should be presented to the fund custodian, who is responsible for maintaining and disbursing from the fund. Chapter 19-4 also states that departments that distribute prepaid cards must designate an employee to be the custodian in charge of these cards.

The following conditions were identified:

- Employees other than the designated fund custodian were disbursing petty cash funds.
- Employees other than the designated fund custodians were disbursing prepaid cards.
- The petty cash checking fund was not reconciled to the authorized amount.

The department was not aware that only the fund custodian should have access to petty cash funds and prepaid cards. In addition, the department has determined there is a discrepancy in petty cash checking, but has been unable to identify the cause. Having unauthorized employees handling petty cash funds and prepaid cards increases the potential for misappropriation.

### **Recommendation:**

We recommend the department ensure that only employees designated as fund custodians have access to petty cash funds and prepaid cards. The department should also reconcile the petty cash checking fund to the authorized amount of \$3,100 on a monthly basis.

### **Management's Response:**

Probation believes that the fund/card custodians will be able to account for the location of the physical location(s) of all of the cards even when delegated to other staff to distribute directly to clients as per safety and continuity of care protocols established by the department. Chain of custody of the cards will be maintained through sequencing signatures on the Pre-Paid Negotiable



Instrument (PPNI) Form commencing with approval and proceeding through fund custodian, requesting party, and finally to the client. Location of prepaid cards will be tracked on PPNI logs at each fund location. These forms have recently been implemented for use at all sites. Where needed, Probation will establish additional fund custodians to ensure only fund custodians initiate the disbursement of cards.

Probation will reconcile cash funds to the authorized fund amounts. In those cases where the fund cannot be reconciled to the authorized amount, either the Relief from Liability for shortages or Cash Overages process will be used to rebalance the funds.

### **Auditor's Response:**

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

### **Finding 2: Internal Audits Section was not properly notified of the changes in cash fund locations or prepaid cards shortage.**

The ICCM Chapter 4-4 requires the department to notify ATC Internal Audits Section (IAS) of all changes in the physical location(s) where the fund assets reside. Chapter 5-4 states that in the event a shortage of \$200 or less occurs, the department must report the shortage to IAS by submitting a request for Relief of Liability memo.

The following conditions were identified:

- The department did not notify IAS when the \$300 and \$500 petty cash funds changed from the Central Juvenile Detention and Assessment Center to Probation's Administration office.
- The Gilbert Street Unit had a prepaid cards shortage of \$150 that was not reported to IAS.

The department was not aware of the requirement to notify IAS of changes in cash fund locations. In addition, prepaid cards were being disbursed to Probation Officers without being recorded on the control log. When ATC's IAS is not notified of all petty cash fund locations and prepaid card shortages, this can lead to inaccurate accounting of assets, and increase the potential for misappropriation.



### **Recommendation:**

We recommend management notify IAS of all physical location(s) where cash funds reside. We also recommend the department follow the proper steps to report shortages according to the ICCM guidelines. We further recommend management implement procedures that properly document the chain of custody of prepaid cards. This could be accomplished by requiring proper authorization, signatures, and documentation for all prepaid cards on hand.

### **Management's Response:**

An updated listing of current cash fund locations was provided to IAS on April 27, 2018. Probation will notify IAS if any locations are changed in the future as per ICCM.

Probation concurs that IAS was not sent proper notification for the noted shortage. Department procedures are in place showing the proper steps to follow to report shortages in a timely manner to IAS.

In collaboration with ATC, Probation is in the process of approving new forms to ensure proper authorization and documentation of chain of custody for prepaid cards.

Probation will revise department procedures, where needed, and provide reminders or training to affected staff, as appropriate. Checking for compliance with these steps will be added to the monthly fiscal audit checklist.

In addition, Probation will follow the ICCM procedure to report the \$150 cash shortage to IAS.

### **Auditor's Response:**

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

### **Finding 3: Monthly inventory counts and reconciliations for prepaid cards could be improved.**

The ICCM's Chapter 19-9 states that inventories must be conducted by at least two employees to record and verify individual counts and must be observed by



the card custodian. In addition, an employee of a higher-ranking job classification must review and sign off on the count. It also states that departments must ensure that reconciliations are also done at least once per month. The reconciliation serves a different purpose than conducting inventories. Reconciling ensures that the amount on hand, per inventory records, is the proper amount based on purchases and distributions. An employee other than the card custodian and of a higher-ranking job classification should complete the reconciliation. The card custodian may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job classification.

The following conditions were identified:

- The department conducts monthly inventory counts, but the count sheets do not have documented reviewer signatures.
- Monthly reconciliations are not prepared in accordance with the steps outlined in the ICCM.

The department had interpreted the ICCM only required that the June 30th inventory count needed a reviewer signature. The department also considered the monthly "Inventory Audit" to be both the inventory count and reconciliation. When inventory counts are not reviewed and monthly reconciliations are not performed, errors and omissions may not be discovered in a timely manner.

### **Recommendation:**

We recommend management document the reviews of their monthly inventory counts by signing off on the count sheets. The review should be done by an employee of a higher-ranking job classification than the card custodian. We also recommend that monthly prepaid card reconciliations be performed in accordance with the ICCM.

### **Management's Response:**

Current department procedures reflect the correct process of obtaining a signature from a higher ranking party to sign off on monthly and annual inventory counts. Now that the issue of obtaining higher ranking signatures for operations that have minimal staffing has been identified, Probation will ensure that locations with these challenges develop an action plan to meet the requirement – such as by securing the review/signature of Administrative Supervisor I/Division Director I or above.



Probation agrees that monthly prepaid card reconciliations need to be completed in addition to inventory counts each month. These steps are outlined in existing department procedures. A reminder will go out to affected staff to comply. Checking for completion of both count and reconciliation will be added to the monthly fiscal audit checklist.

### **Auditor's Response:**

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

### **Finding 4: Controls over prepaid cards could be improved.**

The ICCM Chapter 3-4 states that changes to safe combinations should be made when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually.

The 900 E. Gilbert Street Unit did not have a record of when the safe combination was last changed.

Fund Custodians were not aware of the requirement of changing the safe combinations annually. When there have been no changes to the safe combination, prepaid cards may not be adequately safeguarded.

### **Recommendation:**

We recommend the department change the combination to safes at least annually or when an employee who has knowledge of the combination terminates County employment, is transferred to another department, or is assigned other duties. We also recommend records of safe combination changes are documented.

### **Management's Response:**

Probation is in the process of getting new forms approved to track changes of safe combinations. Annual changing of combinations will be standardized for all safes to occur between 7/1 and 7/31 each year whether done by contractor or Probation staff (depending upon safe model). A reminder email will be sent 7/1



for those safes needing staff to change them. Checking safe combination logs will be added to the annual and monthly fiscal audit checklists.

### **Auditor's Response:**

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

### **Finding 5: There was no prior written authorization approving the distribution of prepaid cards.**

The ICCM's Chapter 19-11 "Distributions" requires that a department employee completes a prepaid card request form stating the date, prepaid card merchant, purpose of distribution, and intended recipient of card, and the amounts to be distributed (specifying the quantity of each denomination). The employee must sign and date the request. In addition, 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.

Prior verbal approvals to distribute cards are provided by a pre-designated employee and card distributions are recorded in logs. However, the 104<sup>th</sup> Street, 900 E. Gilbert Street and Ramona Avenue offices do not document their approvals on requests before cards are distributed to the requestor.

The department was not aware of the ICCM requirements of a written approval from a pre-designated employee other than the card custodian when distributing prepaid cards. Obtaining proper authorization and documented signatures as stated in the ICCM helps ensure that proper chain of custody is documented.

### **Recommendation:**

We recommend that management implement procedures where a pre-designated department employee other than the card custodian approves and signs prepaid card requests. The authorizing employee should be of a higher-ranking job classification than the requesting employee.

### **Management's Response:**

Probation agrees with this finding and is already taking steps to rectify the issue. New forms have recently been approved for use and will be rolling out to staff





soon. Department procedures will be revised to reflect these changes and will be trained out to affected staff. Remote locations, such as Joshua Tree and Needles, may utilize the ATC-authorized process of obtaining emailed approval from a higher-ranking job classification at another office.

### **Auditor's Response:**

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

### **Finding 6: 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 IAS regardless of the number of purchases made. IAS must review and approve the payment voucher and then forward the payment document to ATC Accounts Payable Section (AP).

IAS randomly selected a payment voucher for testing and it was not submitted to IAS for review and approval. The amount of the voucher was \$1,082.19.

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:**

Probation will use GL Account 53003206 for all future prepaid card purchases in order to trigger the IAS approval workflow in SAP.



**Auditor's Response:**

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