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November 18, 2009

Jim Lindley, Director
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SUBJECT: PUBLIC HEALTH PREPAID CARD AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a prepaid card audit of the Department of Public Health. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Background

The Board of Supervisors, by resolution, establishes cash and cash equivalent funds for county departments to facilitate their operations. Although these prepaid cards may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution, inventory and reconciliation are the same. Departments designate a fund custodian to be in charge of the fund. Periodically, Auditor/Controller-Recorder's (ACR) Internal Audits Section performs surprise counts of these prepaid cards. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general prepaid card controls in the ICCM for departments with prepaid cards. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle prepaid cards.

In May of 2009 the ACR issued an updated version of the ICCM including a new chapter on prepaid debit cards, gift cards, gift certificates, vouchers and coupons; as well as updates to existing chapters to include information regarding prepaid debit cards, gift cards, gift certificates, vouchers and coupons. ACR is continuing its policy of frequently updating the manual so it continues to reflect current County business practices.

Objectives, Scope and Methodology

Our overall objective was to determine whether prepaid cards handling controls practiced by the department effectively safeguard prepaid cards.

We reviewed internal controls over prepaid cards for the period of July 1, 2008 through June 16, 2009. Our audit included surprise prepaid card counts, inquiries of staff, observation of prepaid card handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that prepaid card handling controls practiced by the department did not always effectively safeguard these assets like cash.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on and discussed our observations with management on September 1, 2009. Management's responses have not been altered in any way and are included below as they were provided to us.

Findings and Recommendations

Finding: Lack of Monthly Reconciliation

According to the Internal Controls and Cash Manual (ICCM) Chapter 20, departments must ensure that reconciliations are done at least once per month. An additional reconciliation must be conducted on June 30 of each fiscal year, or the last business day prior to June 30 if that date falls on a weekend. Out of 11 offices visited during testing, all of the offices did not perform proper monthly reconciliation procedures for prepaid cards on hand. Two offices completed reconciliations but do not have adequate documentation of the reconciliation or review of the reconciliation. The department was not aware of the need to reconcile prepaid cards as cash. Since the department does not complete monthly reconciliations, there is a risk of monies being lost or an employee misappropriating cash equivalents and concealing it.

Recommendation:

We recommend that the department update policies and procedures to ensure that reconciliations are done at least once per month as noted in the newly issued chapter of the ICCM. The policies and procedures should also include that an additional reconciliation must be conducted on June 30 of each fiscal year, or the last business day prior to June 30 if that date falls on a weekend.

Management's Response:

The Department's current policies and procedures include reconciliation in our Year End Procedures and conformed with the ICCM at the time of the April 2009 Audit. The procedure is revised to ensure that reconciliations are done at least once per month to conform with ICCM changes issued in June 8, 2009. Fiscal and Administrative Services (FAS) started the monthly inventory and reconciliation on September 2009.

Auditor's Response:

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

Finding: Lack of Segregation of Duties

According to the ICCM Chapter 20, the department should assign duties so that no one individual has access to the entire prepaid card process. Each of the following functions must be segregated: purchasing, receipting, distributing, inventorying, reconciling, and reporting. All of the offices visited during testing did not properly segregate duties. The department was not aware of the need to segregate duties associated with the prepaid cards process. Since the department does not entirely separate the duties of maintaining, recording and reconciling prepaid cards, an employee can misappropriate prepaid cards and conceal it.

Recommendation:

We recommend that department update policies and procedures to ensure that each of the following functions be segregated: purchasing, receipting, distributing, inventorying, reconciling, and reporting as noted in the newly issued chapter of the ICCM.

Management's Response:

Currently, purchasing function is initiated by the program. Fiscal and Administrative Services (FAS) process and approved the payment documents. The fund custodian from the program handles the card distribution and log maintenance. Inventory and reconciliation is conducted monthly by FAS staff. The Department will review and revise current procedures to ensure proper segregation of duties or functions.

Auditor's Response:

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

Finding: Inadequate receipting and documentation of transfer of custody

According to the ICCM Chapter 20, the department should distribute prepaid cards according to the following procedures:

1. A department employee completes a prepaid card request form in permanent ink, stating the date, prepaid card merchant, purpose of the distribution, and 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. Departments must also follow any documentation requirements that are specific to the program or function for which they are distributing prepaid cards.
5. The employee will return the request form signed by the card recipient as well as any undistributed cards to the card custodian.
6. After verifying that all requested cards have been accounted for by reconciling the cards transferred to the requestor and any undistributed cards to the total amount requested, the card custodian places all undistributed cards back into inventory and adjusts the written log accordingly.

Out of 11 offices visited during testing, 10 offices did not have proper receipting and distribution procedures. The following conditions were noted during the testing phase of our audit:

- The Clinic Operations has one main custodian of the gas cards, when the cards are given to outlying offices the outlying office is the only signature obtained for the transfer.
- The Clinic Operations (two locations tested) does not document the signature of the end recipient.
- The Clinic Operations issued several cards that had no value (when originally purchased from the vendor) and had to reissue replacement cards to the same recipients but did so without documentation of the reissue.

The department was not aware of the need for documentation of receipting and distribution of prepaid cards. Since the department does not document transfers and distribution, there is a risk of prepaid cards being lost or an employee misappropriating and concealing it.

Recommendation:

We recommend that department update policies and procedures to ensure that the distribution procedures are at a minimum equivalent to those listed above as noted in the newly issued chapter of the ICCM.

Management's Response:

The Department will review and revise current distribution procedures to ensure proper documentation of prepaid cards. The Department is working to standardize the distribution procedure using the receipt and issuance log to properly document the distribution of all prepaid cards.

Auditor's Response:

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

Finding: Lack of Distribution of Policies and Procedures

According to the ICCM Chapter 20, the department must develop written procedures for distributing and handling prepaid cards prior to acquiring them. Procedures must include instructions on: maintaining a chain of custody with adequate security and documentation, maintaining a continuous written log documenting card receipts, distributions, intradepartmental

movement (prepaid cards for a single program distributed to multiple locations) and related documentation, conducting monthly inventories of cards on hand, conducting monthly reconciliations of cards on hand, and reporting annual inventory to ACR. The Public Health administration does not have documentation of the programs receipt and use of the internal policies and procedures for the prepaid cards processes. 10 of the 11 offices visited were unaware of the written policies and procedures produced by management. One office used the interoffice memo from the Auditor Controller-Recorder's office dated June 25, 2008 as the operating procedures. Because of this one office was able to process a prepaid card purchase on an employee reimbursement form and another office purchased gift certificates with Petty Cash. The department was not aware of the need to have policies and procedures for prepaid cards. If the department does not have current policies and procedures, prepaid cards could be lost or misappropriated.

Recommendation:

We recommend that department update and distribute policies and procedures for all prepaid cards processes.

Management's Response:

The Department developed policies and procedures to ensure ACR's 06/25/08 New Fiscal Year End requirements for prepaid cards are met. The Department's current policies and procedures will be reviewed and revised to ensure it is consistent with the Revised County's Internal Controls and Cash Manual issued last June 8, 2009. It will be distributed and implemented to all programs.

Auditor's Response:

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

Finding: Inadequate continuous documentation

According to the ICCM Chapter 20, the department must develop written procedures for distributing and handling prepaid cards prior to acquiring them. Procedures must include instructions on maintaining a continuous written log documenting card receipts, distributions, intradepartmental movement (prepaid cards for a single program distributed to multiple locations) and related documentation. Further, ICCM Chapter 2 states, all county managers are responsible for safeguarding assets, providing reliable financial records and complying with applicable laws and regulations. By establishing appropriate internal controls, management is provided reasonable assurance that their objectives are being met in a supportive control environment. Out of the 11 offices visited 4 did not keep adequate documentation of the cards on hand and issued. The following conditions were noted during the testing phase of our audit:

- The Maternal Child and Adolescent Health program did not maintain a continuous log of cards on hand in the fiscal office.
- One of the Clinical Operations program did not have documentation of distribution of one gift card.
- Another two of the Clinical Operations programs did not have a continuous log for distribution of prepaid cards on hand.
- During our count in Hesperia there was a \$10.00 gas card on the continuous log as on hand that could not be located.

This office did not keep a log because they used the purchase documentation and distribution information instead. Without proper documentation of cards on hand and issued, prepaid cards could be lost or misappropriated.

Recommendation:

We recommend that the department maintain continuous written logs for documenting card receipts, distributions, and intradepartmental movement (including merchant, Card account number or ID, and Card denomination). Further, we recommend that the department complete a "Request for Relief from Liability" memo and submit it to the Internal Audits Section of the ACR per the instructions in Chapter 5 of the ICCM for the \$10.00 gas card that could not be located.

Management's Response:

The Department is working to standardize the distribution procedure and programs were instructed to maintain a continuous receipt and issuance log.

FAS submitted a "Request for Relief from Liability" for the \$10.00 gas card that could not be located. It was determined that it was a clerical error. The card was issued to the client but not logged.

Auditor's Response:

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

Finding: Prepaid cards purchased that were not reported by Management

According to the ICCM Chapters 20, the department should maintain departmental financial records of your operations and prepare reports as required by law and/or County policy. We found three purchases of prepaid cards that were not recorded on the 6/30/2008 inventory or the purchases log for fiscal year 2009. Cards from two of these purchases were on hand at the date of the counts. The department was not aware of the need to closely track the prepaid card inventory. Since the department does not properly track prepaid cards, there is a risk of monies being lost or an employee misappropriating cash equivalents and concealing it.

Recommendation:

We recommend that department update policies and procedures to ensure that the departmental maintains financial records of your operations and prepare reports as required by law and/or County policy as noted in the newly issued chapter of the ICCM.

Management's Response:

On June 25, 2008 the Department received a memo from ACR requesting all departments to conduct a physical inventory of prepaid cards as a new fiscal year-end procedure. Due to a short notice there were cards that were not reported in the 06/30/2008 inventory. As the program became aware of the need to track all prepaid cards, the cards purchased prior to 06/30/2008 were logged and tracked accordingly. The Department will update policies and procedures in order to monitor and track future purchases of prepaid cards and in general is discouraging the use of prepaid cards.

Auditor's Response:

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

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____

~~Howard Ochi, CPA~~
Chief Deputy Auditor
Internal Audits Section

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