

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Human Services Administration: Audit of Human Services Administration's *Manual Warrant System*



Larry Walker
Auditor-Controller/Treasurer/Tax Collector
222 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 386-8821
Website: 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

Mary Barber, CPA, CGMA

Internal Audits Manager

Rachel Ayala

Supervising Internal Auditor III

Lead Auditor

Juan Jimenez

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

June 10, 2014

Art Gomez, Deputy Executive Officer
Human Services Administration
150 S. Lena Road
San Bernardino, CA 92415-0515

SUBJECT: AUDIT OF HUMAN SERVICES ADMINISTRATION'S *MANUAL WARRANT SYSTEM*

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 Human Services Administration's *Manual Warrant System* (MWS) for the period of July 1, 2012 through June 30, 2013. The Auditor-Controller/Treasurer/Tax Collector (ATC) was notified by the Division that an error had occurred in the processing of warrants through MWS. The primary objectives of the audit were to determine where the breakdown of internal controls occurred in the MWS process and whether these payments should have been handled by the Accounts Payable Section of ATC. 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 5, 2014 and discussed our observations with management on February 10, 2014. A revised draft was sent to the department on June 10, 2014. The Department's responses to our recommendations are included in this report.

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

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



Denise Mejico

Chief Deputy Auditor

Enclosure

Distribution of Audit Report:

- Robert Lovingwood, 1st District Supervisor
- Janice Rutherford, Chair, 2nd District Supervisor
- James Ramos, 3rd District Supervisor
- Gary Ovitt, Vice Chair, 4th District Supervisor
- Josie Gonzales, 5th District Supervisor
- Gregory C. Devereaux, County Executive Officer
- Grand Jury, Foreperson (2)
- Auditor-Controller Audit Committee

Date Report Distributed: 6/30/14

LDW:DLM:RLA:JMJ:oac



Human Services Administration: Audit of Human Services Administration's *Manual Warrant System*

Executive Summary	1
Audit Background, Scope, and Objectives	2
Audit Findings and Recommendations	3 - 4



Summary of Audit Results

Based on the audit work performed, we concluded that the Division should verify that warrants are recorded in FAS prior to issuance and perform a timely reconciliation of warrants issued among FAS, TZ, and the Division's reports. In addition, system changes, including the addition of new codes to the system, should be coordinated with ISD before implementation. We further found that it is in the best interest of ATC and the Division to have the Division continue to issue aid payments using the MWS, but recommend that a Memorandum of Understanding (MOU) be implemented between ATC and the Division to outline roles and responsibilities.

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

Finding No.	Findings and Recommendations	Page No.
1	Warrants were released prior to verification of proper recording in FAS.	3
	We recommend the Division ensure that warrants are properly recorded in TZ, and that a timely reconciliation among FAS, TZ and C-IV/Manual Warrant System is performed in order to verify warrants have been recorded in FAS prior to releasing the warrants.	
2	Interface change was not submitted to ISD.	4
	We recommend that the Division develop and communicate to employees procedures on coordinating all system changes with ISD.	



Background

The Human Services Administration's Auditing Division (Division) within the Human Services Group of San Bernardino County (County) provides accounting, auditing, collections, and benefit payment services for County departments within the Human Services Group. The Division's delivery of benefit payments to residents for transitional assistance, child care, general relief, and food stamps is done through County warrants, electronic benefits transfer cards, and direct deposits to bank accounts. Multiple departments within the Human Services Group also issue vouchers to provide specific services or goods for persons or families in need. Transitional Assistance Department (TAD) vouchers are processed and issued through the Consortium IV (C-IV) system, which is audited annually. Non-TAD departments' vouchers are processed outside of C-IV through MWS. MWS is also used to process over the counter warrants (rush payments), which include warrants to a) public aid recipients who need a replacement warrant and b) vendors who do not accept vouchers (in instances where there is no substitute vendor who can provide the immediate need service). Both C-IV and MWS interface with the Information Systems Department's (ISD) mainframe. Once ISD's mainframe has validated the information from C-IV and MWS it subsequently interfaces first with the Treasurer's accounting system (TZ) and secondly to the County's financial accounting system (FAS).

Scope and Objectives

The Auditor-Controller/Treasurer/Tax Collector (ATC) was notified by the Division that an error had occurred in the processing of warrants through MWS. We reviewed the incident with overall objectives of determining where the breakdown of internal controls occurred in the MWS process and whether these payments should have been handled by the Accounts Payable Section of ATC.



Finding 1: Warrants were released prior to verification of proper recording in FAS.

California Government Code Section 29800 states that the county auditor shall enter the warrants in his register (FAS) at the time they are issued. We noted during our audit that the Division did not verify nine warrants to Target totaling \$14,241 had been properly recorded in FAS by reviewing FAS reports and by performing a timely reconciliation among FAS, TZ and C-IV/Manual Warrant System prior to releasing the warrants. The verification was not performed due to staff shortages. Since TZ's interface from ISD's mainframe occurs before the FAS interface, the Division has implemented a procedure to verify that warrants have been recorded in TZ prior to releasing the warrants. Not properly accounting for warrants can potentially have a material effect on financial records.

On January 2, 2014, subsequent to our audit period, the Division mailed out additional warrants that were not properly recorded in FAS or TZ.

Recommendation:

We recommend the Division ensure that warrants are properly recorded in TZ, and that a timely reconciliation among FAS, TZ and C-IV/Manual Warrant System is performed in order to verify warrants have been recorded in FAS prior to releasing the warrants.

Management's Response:

HS Auditing understands the importance of reconciliations. Staff has been instructed to ensure in all cases that warrants clear the reconciliation process prior to releasing the warrants. A second staff member also confirms the approved warrant sequence prior to warrant release. However, HS Auditing may occasionally be required to issue same-day aid payments to County residents in need for the purpose of meeting statutory deadlines, etc. and have been working with ATC to develop a solution.

Auditor's Response:

The department's actions and planned actions will correct the deficiency noted in the finding.



Finding 2: Interface change was not submitted to ISD.

An interoffice memo dated September 25, 2012 from Oscar Valdez, Assistant Auditor-Controller/Treasurer/Tax Collector, to the Chief Executive Officer, Assistant Executive Officers, Deputy Executive Officers, Special Districts, Budget Contacts, All FAS Users, and Superintendent of Schools on System Changes indicates that all system changes, including additions, deletions, modifications and upgrades, must be coordinated in advance with ATC's Management Services Section and ISD. On June 12, 2013, ATC was notified that some warrants generated through HS Auditing's MWS were not recorded in FAS. The warrants were payable to Target for TAD vouchers that were processed using MWS. The Target TAD vouchers are normally processed through the C-IV system and generate a warrant per voucher. The Division switched the processing of the Target TAD vouchers to MWS in order to cut down on the number of warrants to Target. This was the first time the Target TAD vouchers were processed using MWS. ISD was not notified of the change. The validation process in the interface between ISD and MWS rejected the accounting codes and FAS was not updated for the issuance of the warrants. Proper communication on any system change, including the addition of new codes to the system, will result in cost savings to the County through increased efficiencies. In this particular instance, coordination with ISD would have been sufficient because the accounting codes were already in FAS.

Recommendation:

We recommend that the Division develop and communicate to employees procedures on coordinating all system changes with ISD.

Management's Response:

HS Auditing understands the requirement to coordinate computer interface changes in advance with ATC and ISD. ISD maintains the Manual Warrant System which includes adding and testing new codes. According to ISD, all codes have been successfully tested in TZ and FAS. HS Auditing will continue to work with ISD to build better communication and documentation of system changes and testing in the future. Changes made within our reconciliation processes should also assist to identify any problems with the interface in the future.

Auditor's Response:

The department's actions and planned actions will correct the deficiency noted in the finding.



Further Observations:

Welfare and Institution Code 10052 allows for aid payments to include payments made to vendors on behalf of needy persons. In order to increase efficiency for the Division and ATC, we recommend that these aid payments continue to be processed by the Division. We also recommend that Division management assess the controls in place over the MWS process to ensure that funds are properly spent, tracked and reported. An MOU should be created between ATC and the Division to define the roles and responsibilities of both parties. We further recommend that the Division work more closely with ATC, including holding regular meetings.