

County of San Bernardino

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

District Attorney: Prepaid Cards Follow-Up Audit



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Auditor-Controller/Treasurer/Tax Collector

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District Attorney Prepaid Cards Follow-Up Audit

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December 15, 2020

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SUBJECT: PREPAID CARDS FOLLOW-UP AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter we have completed a follow-up audit of the District Attorney’s (Department) prepaid cards for the period of July 1, 2019 through March 10, 2020. The objective of the audit was to determine if the recommendations in the District Attorney Prepaid Cards Audit report dated June 6, 2019, have been implemented. 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 have provided a status of the audit findings identified in the original audit report issued on June 6, 2019. Of the five recommendations from the original audit report, three have been implemented and two have been partially implemented,

We sent a draft report to the Department on October 29, 2020. The Department’s responses to the current status of our recommendations are included in this report.

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

Respectfully submitted,

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By

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Scope and Objective

Our audit examined the controls over prepaid cards as of March 10, 2020.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *District Attorney Prepaid Cards Audit*, issued on June 6, 2019.

Methodology

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

- Review of Department's policies and procedures.
- Walk-through of activities.
- Interview of Department staff.
- Examination of original source documentation.



Prior Finding 1: The Department did not follow Internal Control and Cash Manual (ICCM) guidelines when distributing prepaid cards.

The Internal Controls and Cash Manual (ICCM) Chapter 19-4 "Request to Distribute Prepaid Cards", states that departments must obtain authorization from the Auditor-Controller/Treasurer/Tax Collector (ATC) to distribute prepaid cards prior to purchasing or distributing cards. The ICCM requires departments to submit a memo notifying ATC of the department's request to distribute a pre-determined amount of prepaid cards. The notification must be submitted to ATC's Internal Audits Section (IAS). If the amount to be distributed is over \$2,500 for a given fiscal year, the department must submit the notification to IAS and prepare a board agenda item requesting approval from the Board of Supervisors to distribute prepaid cards.

The Department did not submit a memo to notify ATC's IAS of the Department's request to distribute a pre-determined amount of prepaid cards for the period audited.

The Department believed that a memo to ATC was not required because the Department was part of the contract to purchase prepaid cards between the Purchasing Department and National Gift Card Corporation. Not obtaining proper authorization and approval increases the risk of the Department exceeding the authorized amount of prepaid cards purchased.

Recommendation:

We recommended the Department review the ICCM's Chapter 19 section and submit a memo notifying ATC's IAS of the Department's request to distribute a pre-determined amount of prepaid cards.

Current Status: Implemented

The Department adheres to the policies and procedures outlined in the ICCM Chapter 19-4 "Request to Distribute Prepaid Cards". The Department has submitted a memo notifying ATC's IAS of the Department's request to distribute a pre-determined amount of prepaid cards for Fiscal Years 2018-19 and 2019-20.



Prior Finding 2: Monthly inventory counts and reconciliations could be improved.

The ICCM Chapter 19-9 "Inventory" 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. Chapter 19-9 "Reconciliation" also states that departments must ensure that reconciliations are also done at least once per month. The reconciliations serve 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:

- At the Administration office, monthly inventory counts and reconciliations are not being performed in accordance with the ICCM.
- At the Central and Rancho Cucamonga offices, monthly inventory counts are only conducted by a supervisor and observed by the card custodian.
- At the Joshua Tree office, monthly inventory counts are only conducted by the card custodian.
- The Central, Rancho Cucamonga, and Joshua Tree offices do not perform documented monthly reconciliations in accordance to the ICCM.

The Department interpreted the ICCM's inventory count requirements of having two employees count and a reviewer's signature, to only apply to the June 30th year-end inventory count. The Department was not aware of the requirement to document reconciliations. 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 recommended management have two individuals conduct monthly inventory counts, while observed by the card custodian. The count sheets should be reviewed by an employee of a higher-ranking job classification than the card custodian. We also recommended that monthly prepaid card reconciliations are documented in writing and performed in accordance with the ICCM.

Current Status: Partially Implemented

The Department adheres to the policies and procedures outlined in the ICCM Chapter 19-9 "Inventory" and "Reconciliation". Monthly inventory counts and reconciliations are performed at location that issues prepaid cards. Monthly inventory is performed by two individuals, while observed by the custodian. Monthly prepaid card inventory and reconciliations were documented in writing for each card custodian and reviewed by a separate and higher-ranking job classification than the card custodian. However, when we reviewed reconciliations for six card custodians at four locations for the months of July 2019 to February 2020, there were 7 instances where reconciliations were not performed at the following locations:

- Administration (3)
 - September, October and December
- Central (3)
 - July (2), and August
- Joshua Tree (1)
 - October

In addition, one monthly inventory report at the Central location was not reviewed and approved by a higher-ranking personnel other than the custodian.



Management's Response:

The Department added a new position of Accounting Technician in Fiscal Year 2020-21 and recently filled the position. This position has been assigned to assist in managing the fiscal duties of the Department's prepaid card program and will ensure that monthly and annual inventories and reconciliations are submitted to the Bureau of Administration in a timely manner. This position will also ensure the proper signatures are obtained to demonstrate segregation of duties. Having the Accounting Technician perform the job duties to manage this aspect of the prepaid card program will ensure the Department is in compliance with the ICCM. In addition, the Department will work with ATC to schedule training for staff who perform job duties of managing the prepaid card program as outlined in the ICCM.

Auditor's Response:

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

Prior Finding 3: Prepaid card purchases were not sent to ATC's IAS for review and approval.

The ICCM Chapter 19-5 "Purchasing Prepaid Cards" requires Departments to submit a payment document for each purchase of prepaid cards to ATC's IAS, regardless of the number of purchases made. It further states that departments may purchase prepaid cards not to exceed the predetermined amount stated in the Department's notification memo and requires departments to use GL Account #53002306 in SAP (Enterprise Financial Management System) when purchasing prepaid cards.

The Department did not submit payment documents for any purchase of prepaid cards to ATC's IAS for approval. In addition, the Department is not coding prepaid card purchases to GL Account #53003206.



The Department was not aware that prepaid card purchases should be coded to GL Account #53003206 which routes the transaction to IAS for proper approval. Without proper authorization and approval there is an increased risk that the Department may exceed the authorized amount of prepaid cards purchases.

Recommendation:

We recommended the Department submit the required documentation to IAS for each prepaid cards purchase by coding purchases to GL Account #53003206.

Current Status: Implemented

The Department adheres to the policies and procedures outlined in the ICCM Chapter 19-5 "Purchasing Prepaid Cards". The Department submitted the required documentation to IAS for each prepaid cards purchase by coding purchases to GL Account #53003206.

Prior Finding 4: Controls over safeguarding of prepaid cards could be improved.

The ICCM Chapter 2-4 "Safeguarding of Assets" states that assets should be recorded and access to and use of valuable assets should be controlled. Assets include cash and cash equivalents, prepaid debit and gift cards, gift certificates, vouchers and coupons, notes and accounts receivable, and negotiable instruments. Furthermore, Page 3-3 "Safeguarding Cash" states to limit access to areas where cash is handled and restrict the safe combination to as few employees as possible.

At the Joshua Tree location, prepaid cards are located in a cabinet in an unlocked office. There are multiple key copies and the card custodian is unaware as to who has keys and access to the locked cabinet.

The Department was not aware of the ICCM's requirement of having limited access to the safe combination and prepaid cards. When unauthorized employees have access to prepaid cards, this increases the potential for theft and misappropriation.



Recommendation:

We recommended the Department ensure that only employees designated as card custodians have access to prepaid cards and limit access to as few employees as possible.

Current Status: Partially Implemented

The Department adheres to the policies and procedures outlined in the ICCM Chapter 2-4 "Safeguarding of Assets". The Department has procured safes for each office where the prepaid cards are stored. Further, only the prepaid card custodian knows the safe combination and has access to the safe.

However, the following additional condition was identified during our review: The Signature/Fund Custodian Authorization form, for the assigned prepaid card custodian, was not submitted to ATC Accounts Payable Section for the Administration, Central, and Rancho Cucamonga locations.

Management's Response:

The Department has completed and submitted the Signature/Fund Custodian Authorization form for Administration, Central, and Rancho Cucamonga offices. On an ongoing basis, the new Accounting Technician will be responsible for submitting updated forms according to changes in staff and program responsibilities.

Auditor's Response:

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



Prior Finding 5: Segregation of duties could be improved.

The ICCM Chapter 2-3 "Principles of Internal Control" states that no one person should be assigned concurrent duties that would allow them complete control over a transaction or an asset. Effective segregation of duties reduces the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties. Chapter 19-3 "Guidelines" states that departments must assign duties so that no one individual has access to the entire prepaid card process. Also, the ICCM Chapter 19-11 "Distributions" requires that a department employee complete a prepaid card request form stating the date, prepaid card merchant, purpose of distribution, and intended recipient of card, and the amount to be distributed. The employee must sign and date the request. In addition, the ICCM states 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.

The card custodians at the Joshua Tree, Central, and Rancho Cucamonga locations were approving the distribution of prepaid cards to clients. In addition, the card custodian at the Joshua Tree location issues prepaid cards directly to victims.

The card custodians were not aware of the requirement that an employee other than the card custodian must approve the distribution of prepaid cards. In addition, with the limited staffing at the Joshua Tree location the card custodian is assigned multiple duties in the prepaid card process. When proper segregation of duties do not exist, it increases the risk that a single person could conceal errors and irregularities in the normal course of their duties.

Recommendation:

We recommended that management review the ICCM requirements and develop procedures that segregate duties and mitigate risk over the prepaid card process.



Current Status: Partially Implemented

The Department adheres to the policies and procedures outlined in the ICCM Chapter 2-3 "Principles of Internal Control" and Chapter 19-3 "Guidelines". The Department made changes to segregate job duties so that no one individual has access to the entire prepaid process at the Joshua Tree location.

However, the following conditions were noted when we tested ten samples of prepaid card distribution packets at three locations:

- There were 19 instances totaling \$3,650 in which distribution packets were approved by the designated custodian, instead of a pre-designated Department employee at the following locations:
 - Central location (8) totaling \$1,075
 - Rancho Cucamonga (10) totaling \$2,375
 - Joshua Tree (1) \$200
- There were two instances in which prepaid card distributions totaling \$225 at the Central location were not approved prior to distribution.
- There was one instance in which the card custodian at the Central location requested prepaid card distribution totaling \$125.
- There were three instances totaling \$300 in which the distribution receipts were not filled out or were missing at the following locations:
 - Central (2) totaling \$250
 - Joshua Tree (1) \$50

Management's Response:

The Department did not have a complete understanding of the segregation of job duties. ATC provided clarification on the roles and responsibilities of each role according to the ICCM. The Department is making changes to further segregate the duties of requesting, approving, and issuing the cards to ensure staff are not performing multiple roles. The Department also plans to conduct training with staff soon to ensure the job duties of each role are clear.

Auditor's Response:

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