

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Aging and Adult Services: Prepaid Cards Follow-Up Audit



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SUBJECT: Prepaid Cards Follow-Up 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 a follow-up audit of the Department of Aging and Adult Services Prepaid Cards for the period of September 23, 2015 through August 12, 2016. The objective of the audit was to determine if the recommendations for the findings in the September 22, 2015 audit of prepaid cards 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, *Aging and Adult Services Prepaid Cards Audit*, issued on September 22, 2015. Of the four recommendations from the original audit report, one has been implemented, and three have been partially implemented.

We sent a draft report to the Department on December 5, 2016. 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 Aging and Adult Services who assisted and cooperated with us during this engagement.

Respectfully submitted,

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Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



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Aging and Adult Services: Prepaid Cards Follow-Up Audit

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Scope and Objective

Our audit examined the Department's Prepaid Card records for the period of September 23, 2015 through August 12, 2016.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Prepaid Cards Audit*, issued on September 22, 2015.

Methodology

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

- Interviewing department staff that were directly involved in the prepaid card process.
- Examining original source documents.
- Testing a sample of prepaid card distributions.



Prior Finding 1: Employees other than the Fund Custodian are maintaining custody of prepaid cards.

Chapter 20 of the Internal Controls and Cash Manual (ICCM) states that every department that distributes prepaid cards must designate an employee to be the custodian in charge of these cards. At all times, the card custodian must be able to account for all prepaid cards in the form of cards on-hand, distributed cards, and cards on order from the vendor. The card custodian must also be able to account for the specific physical location(s) of all cards.

The ICCM also states the fund custodian must maintain a continuous written log documenting card receipts, distributions, intradepartmental movement (prepaid cards for a single program distributed to multiple locations) and related documentation. 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.

The ICCM further states that the Department must submit a "Signature/Fund Custodian Authorization" for each fund custodian and complete a "Questionnaire for Prepaid Debit and Gift Cards" form for each location the prepaid cards are stored. These forms are to be submitted to the Auditor-Controller/Treasurer/Tax Collector's Internal Audits Section for each fiscal year that the Department maintains and distributes prepaid cards.

The following conditions were noted during our review of prepaid card distributions:

- The fund custodian distributes prepaid cards monthly to two Department supervisors who deliver blocks of bus passes to several distributing employees at the field offices. The employees at field offices who keep the cards at their desk were acting as fund custodians, but had not completed the Signature Fund Custodian Authorization Form or the Questionnaire for Prepaid Debit and Gift Cards.
- Two distributing employees in Barstow access and distribute prepaid cards from each other's desks without showing the transfer from one employee to the other on a continuous written log.

The Department was not familiar with the fund custodian requirements in the ICCM. The potential of misappropriation of the prepaid cards increases when they are not maintained by an authorized fund custodian. When transfers between employees are not tracked on a continuous written log, the opportunity for theft increases.



Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM and the Department's Fiscal Operations Manual. The Department should establish prepaid card fund custodians at each location where cards are stored. Each fund custodian should complete a Signature Fund Custodian Authorization Form, and a Questionnaire for Prepaid Debit and Gift Cards should be completed for each location where prepaid cards are stored.

Additionally, we recommend that each fund custodian account for all prepaid card activity, including the transfer of cards between fund custodians, on a continuous written log. The established fund custodians in Barstow should not have access to each other's desks where prepaid cards are stored.

Current Status: Partially Implemented

The Department has established fund custodians at each location where prepaid cards are stored and each fund custodian has accounted for all prepaid card activities on continuous written logs. Additionally, Barstow fund custodians do not have access to each other's desks where prepaid cards are stored.

A review of the documentation submitted to the Auditor-Controller/Treasurer/Tax Collector (ATC) Internal Audits Section (IAS) found that four of twelve fund custodians did not have a completed Signature Fund Custodian Authorization Form and the Questionnaire for Prepaid Debit and Gift Cards.

Management's Response:

- 1) On 12/21/2016, the Department sent four completed Signature Fund Custodian Authorization forms for the four fund custodians that did not have one on file.
- 2) Stephanie Smith obtained three additional questionnaires and sent them to ATC on 1/5/17. The fourth person is no longer with the department, and as soon as a new card custodian is designated, the Signature Fund Custodian Authorization, along with the questionnaire will be sent to ATC. A Signature Fund Custodian Authorization form cancelling the fourth person will be sent to ATC Accounts Payable.



Auditor's Response:

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

Prior Finding 2: The Prepaid Card Request Form is not being used properly.

According to the ICCM, Chapter 20, County departments must distribute prepaid cards according to the following procedures:

1. A Department employee completes a prepaid card request form to initiate the distribution stating the date, prepaid card merchant, purpose of the distribution, 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. The employee will return the request form signed by the card recipient to the card custodian.

Furthermore, the Department Fiscal Operations Manual: Prepaid Debit Cards, Gift Cards, Gift Certificates, Vouchers, and Coupons - Distribution and Inventory Procedures state that all staff requests for distribution of cards, vouchers, or coupons require a completed Prepaid Card Request form that is signed by a supervisor.



The following conditions were documented during our audit:

- When a grocery card, gas card or monthly bus pass was needed for a client, the distributing employee filled out a Request For Services - Title IIIB (Title IIIB) form. This form is used in place of the prepaid card request form. However, the Title IIIB form was not signed by the requestor or the recipient.
- When a recipient was given a single use bus pass, a prepaid card request form was not completed and the distribution was not initiated by an employee other than the fund custodian. Because a form was not used, there is no evidence of the request being approved by the supervisor.

Department Staff do not complete a Prepaid Card Request form, as indicated in their Department's Fiscal Operations Manual, or a Title IIIB form every time a prepaid card is distributed to a client.

The risk of prepaid card distributions to ineligible recipients increases when distributions are not properly documented and approved.

Recommendation:

We recommend the Department use a prepaid card request form or Title IIIB form for all prepaid card distributions to recipients, including single use bus passes. The requestor must be an employee other than the fund custodian and must obtain appropriate approval prior to presenting the request to the card custodian. The recipient and the requestor should sign and date the Request to Distribute Prepaid Cards or Title IIIB form.

Current Status: Implemented

We reviewed a sample of transactions from Barstow and Victorville offices. Transaction packets included the supervisor approved request form and the distribution log signed by recipient.



Prior Finding 3: Prepaid cards are not properly safeguarded.

According to Chapter 20 of the ICCM, Departments distributing prepaid cards must follow all applicable procedures in the Safeguarding Cash section of Chapter 3 because prepaid cards are a cash equivalent. Chapter 3 states to place all cash 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. Since the ICCM allows cash to be stored in a safe or locked file cabinet, the cabinet lock should be changed in the same manner as a safe combination.

The following conditions were noted during our audit:

Fiscal Office

- Department staff had no knowledge of the lock to the cabinet where the cards are stored having been changed or re-keyed.
- The key to the cabinet that contains prepaid cards was stored in an unlocked desk drawer.

Victorville and Barstow

- Department staff had no knowledge of the lock to the cabinet and desk drawers where the cards are stored having been changed or re-keyed.

The Department was not aware of the ICCM policies and procedures as they relate to safeguarding cash equivalents. The prepaid cards are susceptible to theft if controls are not set in place to effectively safeguard cash equivalents.

Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM and the Department's Fiscal Operations Manual.



Also, we recommend the cabinets and desk drawers that the prepaid cards are stored in should be re-keyed at least annually. They should also be rekeyed when an employee who has access to the key terminates County employment, is transferred to another department, or is assigned other duties.

Current Status: Partially Implemented

The Victorville and Barstow sites had not rekeyed either the lock box or the cabinet where prepaid cards are stored within the last year or when employees who had access to the key were terminated from County employment, transferred to another department, or assigned other duties.

Management's Response:

- 1) Locks were re-keyed at the Barstow office on 12/22/2016.
- 2) The Victorville office submitted request to rekey locks on 12/28/2016 and have ordered a new programmable lock box.
- 3) Training will occur on a yearly basis where Cash Control procedures will be redistributed to the proper parties. Cash Control information is given to each new Card Custodian when they are designated. Logs will also be kept and Supervisors will put a reminder in Outlook for when the locks need to be re-keyed annually.

Auditor's Response:

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

Prior Finding 4: The Department did not submit prepaid card payment documents to the Internal Audits Section.

The County's ICCM, Chapter 20 states that if the department is using a FAS Payment document to purchase prepaid cards, it must forward the completed payment document to IAS. If the department is using Cal Cards to purchase the prepaid cards, it must notify IAS by sending an interoffice memo stating the amount of cards to be purchased prior to making the purchase.



We reviewed all seven prepaid card purchases during the audit period. We noted that the Department did not submit payment documents to IAS for any of the seven purchases for new prepaid cards.

The Department was not aware of the need to submit documentation to IAS prior to purchasing prepaid cards. There is an increased risk the Department could purchase cards in excess of what 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.

Current Status: Partially Implemented

The Department submitted the required documentation to IAS for 15 of the 18 prepaid card purchases.

Management's Response:

Fiscal staff was reminded that all pre-paid card payment documents must be sent to ATC IAS instead of Accounts Payable. This is included in the procedures and will be included in all future training.

Auditor's Response:

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