

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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## Department of Human Services: HS Auditing Division Prepaid Cards Follow-Up Audit



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# Auditor-Controller/Treasurer/Tax Collector

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## Department of Human Services – HS Auditing Division Prepaid Cards Follow-Up Audit

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**February 26, 2019**

**CaSonya L. Thomas, Assistant Executive Officer**

Human Services

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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 Human Services' Prepaid Cards. The objective of the audit was to determine whether the recommendations for the findings in the Human Services Auditing Prepaid Cards Audit dated May 2, 2018 were 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 May 2, 2018. The recommendations from the original report have been implemented.

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

Respectfully submitted,

**Ensen Mason, MBA, CPA, CFA**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By

**Denise Mejico**

Chief Deputy Auditor

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## Scope and Objective

Our audit examined the Department's internal controls over prepaid cards as of December 18, 2018.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *HS Auditing Prepaid Cards Audit*, issued on May 2, 2018.

## Methodology

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

- Review of last audit or permanent file
- Review of policies and procedures
- Review of pertinent documents
- Interviews of HS Auditing staff
- Walk-through of activity
- Examination of original source documents



### **Prior Finding 1: Department does not adhere to the ICCM regarding transferring of Prepaid Cards.**

The Internal Controls and Cash Manual (ICCM) Chapter 19-6 "Transfers of Prepaid Cards" states that in certain cases, departments may enter into agreements to purchase prepaid cards with the intent to transfer the cards to another department for final distribution to recipients. In these cases, both the transferring department and the receiving department must obtain authorization from the Auditor-Controller/Treasurer/Tax Collector (ATC) to distribute prepaid cards prior to purchasing or distributing cards. The transferring and receiving departments must both follow the instructions in the "Request to Distribute Prepaid Cards" section 19-4. In addition, page 19-7 states that each month, the transferring department must send a memo notifying ATC's Internal Audits Section (IAS) of cards that have been transferred.

The transferring Department must attach the following:

- A detailed list of the transferred cards including merchant, card denominations, quantities and total card value transferred.
- A detailed receipt from the receiving department signed by the receiving department's card custodian which lists the transferred cards' merchants, denominations, quantities and total values.

HS Auditing did not send a memo each month notifying ATC's IAS of cards that were transferred to CFS and TAD during FY16-17.

The department is unaware of the ICCM procedures regarding Transfers of Prepaid Cards. Without review and oversight of transfers of prepaid cards to other departments, prepaid cards could be misappropriated and sent to unauthorized departments.

### **Recommendation:**

We recommend management become familiar with the ICCM regarding the guidelines for transferring of prepaid cards between departments. The Department should send a memo each month notifying ATC's IAS of cards that are transferred.

### **Current Status: Implemented**

The Department adheres to policies and procedures outlined in the ICCM Chapter 19-6 "Transfers of Prepaid Cards". The Department sends the Carton Content of Control Valuables Stock Form on a monthly basis notifying ATC's IAS of prepaid cards that were transferred for the month.



### **Prior Finding 2: Prepaid card monthly inventories need to be improved.**

The ICCM Chapter 19 states a critical step in properly accounting for prepaid cards is conducting a monthly inventory. Employees other than the card custodian must complete the inventory, and an employee of a higher-ranking job code must review and sign off on it. Inventories must be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian.

The card custodian was completing the monthly inventories at the HS Auditing Office.

Management has not enforced ICCM procedures regarding the monthly inventory of prepaid cards. The risk of potential theft increases when an independent physical count of the cards is not performed each month.

#### **Recommendation:**

We recommend that physical inventories be conducted each month by an employee other than the card custodian. The physical inventory should be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian. The physical inventory should be reconciled to the log of purchases and issuances.

#### **Current Status: Implemented**

The Department adheres to policies and procedures outlined in the ICCM Chapter 19-9 "Inventory". Physical inventories are conducted by two employees, other than the card custodian, who record and verify individual counts on a monthly basis. The Department reconciles the physical inventory to the log of purchases and issuances.

### **Prior Finding 3: 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 the Auditor-Controller/Treasurer/Tax Collectors' (ATC) Internal Audit Section (IAS) regardless of the number of purchases made. ATC's IAS must review and approve the payment voucher and then forward the payment document to ATC Accounts Payable Section.

We noted that the department did not submit payment documents to IAS for 5 out of 48 purchases of prepaid cards for a total of \$1,523,868.



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.

### **Current Status: Implemented**

The Department adheres to policies and procedures outlined in the ICCM Chapter 19-5 "Purchasing Prepaid Cards". The Department codes purchases of prepaid cards to GL Account #53003206, which routes the purchase and required documentation to IAS in SAP.

### **Prior Finding 4: Controls over safeguarding of prepaid cards need to be improved.**

According to the ICCM Chapter 2, access to assets should be controlled in order to safeguard them. Chapter 3 indicates prepaid cards should be 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.

The combination to the safe that holds the prepaid cards was not changed since March 2016.

Management has not enforced ICCM procedures for controlling and safeguarding prepaid cards. The prepaid cards are susceptible to potential theft if controls are not in place to effectively safeguard the prepaid cards.

### **Recommendation:**

We recommend Management refer to the County's Internal Controls and Cash Manual to establish necessary prepaid card controls to safeguard the prepaid cards. Safe combinations should be changed when an employee terminates County employment, transfers, is assigned other duties or at least annually if there are no staffing changes.



### **Current Status: Implemented**

The Department has established procedures that adhere to the ICCM over safeguarding of prepaid cards. The Department prompted a safe combination change in October 2018 when an employee was assigned other duties. The Department requires the combination to the safe to be changed when an employee terminates County employment, transfers, is assigned other duties, or annually if there are no staffing changes.