

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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## District Attorney: Prepaid Cards Audit



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# Auditor-Controller/Treasurer/Tax Collector

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## District Attorney Prepaid Cards Audit

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**June 6, 2019**

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**SUBJECT: PREPAID CARDS 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 an audit of the District Attorney’s (Department) prepaid cards for the period of January 1, 2018 through January 30, 2019. The primary objective of the audit was to determine if the internal controls over prepaid cards are effective and in compliance with the Internal Controls and Cash Manual. 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 May 6, 2019 and discussed our observations with management on May 9, 2019. The Department’s responses to 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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Chief Deputy Auditor

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## Summary of Audit Results

Our findings and recommendations are provided to assist management in strengthening internal controls and procedures relating to prepaid cards.

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

Finding No.	Findings and Recommendations	Page No.
1	The Department did not follow Internal Control and Cash Manual guidelines when distributing prepaid cards.	7
	We recommend the Department review the ICCM's Chapter 19 section and submit a memo notifying Auditor-Controller/Treasurer/Tax Collector (ATC) Internal Audits Section (IAS) of the Department's request to distribute a pre-determined amount of prepaid cards.	
2	Monthly inventory counts and reconciliations could be improved.	8
	We recommend 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 recommend that monthly prepaid card reconciliations are documented in writing and performed in accordance with the ICCM.	
3	Prepaid card purchases were not sent to ATC's IAS for review and approval.	9
	We recommend the Department submit the required documentation to IAS for each prepaid cards purchase by coding purchases to GL Account # 53003206.	
4	Controls over safeguarding of prepaid cards could be improved.	10
	We recommend the Department ensure that only employees designated as card custodians have access to prepaid cards and limit access to as few employees as possible.	
5	Segregation of duties could be improved.	11
	We recommend that management review the ICCM requirements and develop procedures that will segregate duties and mitigate risk over the prepaid card process.	



### PREPAID CARDS AUDIT

#### The Department

The District Attorney Department (Department) is the public prosecutor and has the mandated responsibility to prosecute crimes committed within the County of San Bernardino, including all city jurisdictions, pursuant to Government Code 26500. The Department provides legal assistance for criminal investigations conducted by law enforcement agencies throughout the County, is the legal advisor to the Grand Jury and initiates civil commitment petitions to keep Mentally Disordered Offenders and Sexually Violent Predators in locked facilities. It also employs civil proceedings in asset forfeiture matters and utilizes civil proceedings to seek sanctions and injunctive relief against businesses that pollute or create dangerous conditions for employees and citizens.

The San Bernardino County District Attorney's Office represents the interests of the people in the criminal justice system, as mandated by California State law. The Office serves the residents of San Bernardino County by respecting and inspiring confidence in the rule of law, both inside and outside the Office, collaboratively ensuring justice with excellence, integrity and compassion by transparently partnering with the public, law enforcement, and the judiciary, stewarding public resources to hold the guilty accountable, support victims of crime, and honoring the humanity of all involved in the criminal justice system, restoring a culture of service and accountability to the County law office whose singular mission will be to restore systems and people to provide equal justice for all.

#### Prepaid Cards

On January 6, 2015, through Board Agenda Item (Item) No. 32, the San Bernardino County Board of Supervisors (Board) approved Agreement No. 15-02 with the National Gift Card Corporation (NGC) and various County departments to purchase prepaid cards at fixed rates to be issued to eligible County clients for a total amount of up to \$17,500,000, through January 6, 2018, plus two one-year options to extend the agreement. Subsequently, on December 15, 2015 (Item No. 40), the Board approved Amendment No. 01 increasing the total contract amount to \$31,625,000. On January 9, 2018, the Board approved Amendment No. 02 (Item No. 28) extending the term from January 7, 2018 to June 30, 2019



and increasing the amount to \$38,197,200. Under the Agreement, NGC provides a tracking system for orders, and departments are responsible for tracking receipt and inventory of cards for auditing purposes.

Prepaid cards are provided to assist participants with program-specific requirements, and may include meals, clothing, hygiene products, living expenses, or gasoline. The Department's Victim Service Unit distributes prepaid cards to crime victims.



## Scope and Objective

Our audit examined the controls over prepaid cards for the period January 1, 2018 through January 30, 2019.

The objective of our audit was to determine if the internal controls over prepaid cards are effective and in compliance with the Internal Controls and Cash Manual.

## Methodology

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

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



**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 recommend 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.

**Management's Response:**

The Department understands that in addition to obtaining Board of Supervisors approval (BAI No. 28, January 19, 2018), it needs to follow the ICCM Chapter 19 and submit a Request to Distribute Prepaid Cards to ATC's Internal Audits Section (IAS) to request authorization to distribute prepaid cards. The Department has already submitted this form to ATC for the current Fiscal Year 2018-19 and will submit a request to ATC at the beginning of Fiscal Year 2019-20.

**Auditor's Response:**

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



### **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 30<sup>th</sup> 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 recommend 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 recommend that monthly prepaid card reconciliations are documented in writing and performed in accordance with the ICCM.



### **Management's Response:**

The Department has reviewed ATC's recommendations and will implement the recommendations as soon as possible. The Department understands that every office location that issues prepaid cards needs to submit monthly inventory reports and monthly reconciliation reports and that duties must be segregated according to the ICCM. The counters will be employees who are separate from the card custodian and the counting process will be observed by the card custodian. The inventory sheets will be reviewed by a separate and higher-ranking job classification than the card custodian.

### **Auditor's Response:**

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

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

### **Management's Response:**

When the Department was recently made aware that it needed to use the specific GL Account #53003206 to request to purchase prepaid cards, it



immediately began to use that GL Account. The Department will continue to use the account for future requests to purchase prepaid cards.

### **Auditor's Response:**

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

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

### **Management's Response:**

The Department is already in the process of procuring safes for each office that is responsible for managing the prepaid card program. The Department will ensure that the ICCM is followed for safeguarding the combination of the safes and only card custodians will have access to the cards.

### **Auditor's Response:**

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



### **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 recommend that management review the ICCM requirements and develop procedures that will segregate duties and mitigate risk over the prepaid card process.

### **Management's Response:**

As recommended by ATC, the Department is making changes to segregate job duties and minimize risk of errors and irregularities in its prepaid card program. Because some offices have a small number of staff, staff from other divisions will be assigned fiscal duties to meet the ICCM's requirements to properly manage the prepaid card program.

### **Auditor's Response:**

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