

COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

ANDREW C. SISK, CPA Auditor-Controller E-mail: asisk@placer.ca.gov

NICOLE C. HOWARD, CPA Assistant Auditor-Controller E-mail: nhoward@placer.ca.gov

October 16, 2012

Dr. Richard Burton, Director Health and Human Services Department County of Placer 379 Nevada Street Auburn, CA 95603

Re: Countywide Gift Card Audit Follow-Up

Dear Dr. Burton:

The Internal Audit Division of the Auditor-Controller's Office performed a six month follow-up to our previous review of internal controls over gift cards (and other cash equivalents) in the Health and Human Services Department (Department). The objectives of our follow-up procedures were to determine how recommendations from the previous review were implemented to strengthen internal controls.

Additionally, in March 2011, the Auditor-Controller's Office began requiring departments to count gift card inventory on hand and submit the inventory count on a reconciliation form every quarter. These quarterly reconciliations resulted in our office learning of approximately 20 other programs/divisions within HHS that utilize gift cards. We proceeded to review these programs for gift card usage during our follow-up procedures.

Our procedures included inquiries of Department personnel regarding deficiencies in internal control, procedures implemented by the Department as a result of our prior review, along with a physical inspection and/or inventory counts, understanding and documenting policies and procedures, and testing of the gift card disbursement supporting documentation. We noted new and continued deficiencies in the current internal controls over gift cards which are established to ensure proper approval, purchasing, recordkeeping, distribution, and safeguarding of these assets.

This report is divided into two sections: An update on the current status of programs we reviewed initially and then programs that we did not previously review but came to our attention as part of this follow-up. Our findings and recommendations are as follows:

Programs Reviewed During Initial Audit:

Human Services Division

Gift Card Vouchers/Supporting Documentation/Verification of Amounts

We had previously noted issues with required information on gift card vouchers, insufficient supporting documentation and the inability to verify amounts given out on vouchers.

We had recommended revisions to the voucher form, as well as staff following all written policies and procedures to ensure established internal controls safeguard the assets.

Auditor Follow-Up: We noted significant improvements by Human Services staff in all areas noted above and had no repeated or new findings.

<u>Children's System of Care - Longitudinal Child and Family Outcome Study/Substance Abuse</u> <u>Mental Health Services Administration (SAMHSA) Program</u>

The previous review of the SAMHSA program deemed the records essentially unauditable, distribution records were unable to be quantified, and the program administrators had inaccurate inventory records. During our initial review, we were told by the program administrators that the importance of conducting the study outweighed the concerns with accuracy and completeness of information from the contractor, so the Department moved forward with the program despite the challenges, which surfaced early in the program. Even then, a sampling of the data compiled by the contractors proved to be unreliable and contained questionable authenticity.

Auditor Follow-Up: Since we were unable to quantify the issues in the initial audit and did not feel significant improvements had been made to the recordkeeping, we utilized data from the Federal SAMHSA database along with the current program administrator's gift card logs to analyze the entire five year program. Based on our compilation and analysis, our summary of the program findings are as follows:

Inadequate Supporting Documentation

Gift cards were to be disbursed to participants in the program for interviews at various intervals (intake, 6 months, 12 months, 18 months, etc). The recordkeeping supporting the qualifications for a gift card was inadequate. Some examples are as follows:

- Interview packets (supporting documentation for gift card disbursement) were missing, had intervals shorter than guidelines, erroneous dates for interviews, duplicate dates for interviews, etc.
- Interview packets had missing and/or conflicting data such as child identification numbers, living situation, gender, etc.
- Four gift card receipt forms contained nothing but the participant's name and signature on each indicating they were signed without gift card disbursement.

• Gift card forms contained corrective tape throughout, which creates doubt as to the authenticity of the forms. Gift card receipt forms should be filled out when the participant completes the interview process.

Children's System of Care Programs - overall

Quarterly Reconciliations

In March 2011, the Auditor-Controller's Office began requiring departments to count gift card inventory on hand and submit the inventory count on a reconciliation form, including brief descriptions of the activity (purchases, disbursements) for the quarter. The amounts documented on these reconciliations by the program administrators do not match their other records provided (i.e. database of interviews, disbursement logs, etc).

Recordkeeping Deficiencies/Unaccounted Gift Cards

The program administrators do not have adequate supporting documentation, in the form of complete logs or records, to account for all the disbursements made throughout the course of their program. There are differences in reporting per the program administrator versus the contractors versus the auditor's compilation. The gift card disbursement log for the program administrator reported to have contained all disbursements for all of the programs under their management since inception.

The administrators reported to us there were \$17,155 purchases of gift cards over the past five years. Of the \$17,155, only \$15,620 has been recorded in the gift card log/database (i.e. 9% or \$1,535 not logged at all). In addition, 24% (\$4,055) of the gift cards on the log had no disbursement data (other than an interviewer's name), 30% (\$5,065) lacked adequate or complete disbursement data (i.e. participant first and last name, case or identification number, date received by participant, purpose (meeting or event, etc.), 6% (\$1,075) were recreated (information added to the log/database during the course of our review by the administrator) and two cards were duplicates within the database. Therefore, over 68% of gift card purchases are either unaccounted for (not included in the gift card log/database) or have insufficient disbursement data.

Since the grant has ended we have no recommendations for the SAMHSA study; however, in all cases in which gift cards are utilized, we recommend the following:

- Quarterly reconciliations containing accurate reporting of gift card purchases and disbursements,
- A quality control program over any divisions which utilize gift cards be implemented and performed regularly by HHS Administration to ensure close monitoring of gift card transactions,
- Develop guidelines or criteria for gift card distribution, especially for non-routine, incidental disbursements with proper supporting documentation that would include, for

every gift card purchased by the County regardless of distribution process: reason/justification for gift card, date of disbursement, amount given, type of card, staff signature and recipient signature, and

Program managers and contractors strictly adhere to all County policies and procedures.

Programs Not Reviewed During Initial Audit:

<u>Adult System of Care - Welcome Center</u> <u>Children's System of Care - Children's Receiving Home</u>

Donated Cash Equivalents

Certain Department divisions received donations of bus passes or vouchers, gift cards and cash equivalents from many different sources and since they were donated and not purchased, these items were not included in the quarterly reconciliation reporting sent to the Auditor-Controller's Office.

We recommend all cash equivalents (donated or purchased) within each division be tracked and reported quarterly with the reconciliations.

Department Response:

The Department agrees with the above finding. ASOC's Welcome Center has implemented the above recommendations for all cash equivalents, including any occasional donations. CSOC's Children's Emergency Shelter (CES) has been tracking and submitting quarterly reconciliations on county purchased incentive gift cards since March 1, 2011. The CES has also been tracking and submitting quarterly reconciliations on public donations of gift cards since January 1, 2012. In addition, a sign out log has been utilized for coupons donated by local merchants or vendors since March 2012.

Adult System of Care Mental Health Transportation - Roseville

Inventory/Reconciliation Inaccuracy

During our inventory count and review of the reconciliations, we found discrepancies for all denominations of bus passes and had difficulty agreeing passes to the logs. It appears the logs were commingled and temporary office assistants (TOAs) were not properly trained on how to utilize them.

We recommend staff separate the bus pass logs, make the logs more descriptive as to the types of passes and then train the TOAs once revised. In addition, purchase information needs to be provided to the custodian of the passes by the accountant in order to ensure the accuracy of the reconciliation.

Department Response:

The Department agrees with the above findings and ASOC has implemented the following policies/practices per the Auditor's recommendations:

- Separated the logs by Placer Transit and Roseville Transit as well as separated the denominations on the quarterly report.
- Notate all purchase details on the quarterly report.
- Ensure reconciliations are completed on time quarterly.
- Trained and will continue to train all Temporary Office Assistants as necessary.

Children's System of Care - Transportation Assistance Fund

Unreported Theft of Bus Passes

During our interview, we were told about a \$900 theft of bus passes from Cirby Hills in September 2011; however, the Auditor's Office was never notified at the time of the theft as required by County policy. The Sheriff's Office and Risk Management were involved in the investigation, but the Department should have submitted a Relief of Accountability to our office and to the Board of Supervisors upon determination of the loss. We reported this omission to Department management in December 2011 and it was subsequently reported to the Board of Supervisors on March 13, 2012.

We recommend management ensure the policies and procedures in the Accounting Manual for Cash are adhered to and that all cash losses be reported to the Auditor-Controller.

Department Response:

The Department agrees with this finding and has implemented security of bus passes at the affected locations at Cirby Hills and Conroy Lane, and recent review determined that no further losses are evident. Passes are under lock and key, and are available after hours only through a supervisor. The Board of Supervisors was made aware of this loss and the Department's steps to remedy them per County policy.

<u>Children's System of Care – Wrap Around/RAFT</u>

Participant List Excluded

During our review of the Wrap Around/Rally Around Families Together (RAFT) Program, we were not able to obtain a listing of all participants who attended a Wrap Around graduation celebration meal (obtained by purchasing four \$50 restaurant gift cards on a County credit card) as required for CSOC program reimbursement. The CSOC form states "List number of participants and names of any county employees involved." The number of attendees is imperative in order to determine whether or not County per diem rates have been adhered to.

We recommend each form include the required list of participants so per diem rates can be accurately calculated to ensure compliance with the County's meal policies.

Department Response:

The Department agrees with this finding, and has fully implemented the Auditor's recommendations. CSOC shared with Audit staff during the review the accounting forms used in the Wraparound program to account for each and every purchase, and has since ensured that every form has a supervisor signature indicating that the purchase was reasonable, appropriate, and contains the required list of participants. The manager overseeing the credit card account also signs off on the monthly credit card use statement to ensure complete compliance with County policies.

<u>Children's System of Care - Transition Age Youth</u>
<u>Children's System of Care - Community Readiness Assessment</u>
<u>Children's System of Care - Cultural and Linquistic Competency</u>

<u>Inadequate or Lack of Disbursement Records</u>

The gift card log/database for the programs noted above lacked completeness in recording of disbursement information (i.e. participant first and last name, case or identification number, date received by participant, purpose (meeting or event, etc.). There is no disbursement data for \$180 (it does not exist in the log/database) and inadequate disbursement data for \$1,125 for these programs. In addition, there are no "tracking forms" signed by recipients, so there is no evidence that participants received the gift cards.

We recommend supporting documentation that includes reason/justification for gift card, date of disbursement, amount given, type of card, staff signature and recipient signature be required for all disbursements of gift cards. If the gift cards were given to a contractor to distribute, the contractor should require this same key data, as well as having end users sign a form/receipt evidencing receipt of the gift card. All of this data should still be included in the gift card log/database once received from the contractor after disbursement.

Department Response:

The Department agrees with this finding. CSOC initiated the signed reconciliation sheets which were approved by the Auditor's office, (document listing the gift card number, vendor, and date those cards were disbursed to the interviewer) and receipts in March 2011, in response to the initial audit, and has signed receipts for each gift card with the identifying number, date, card number, vendor, and card amount, and recipient's signature since that time.

The Department's responses to the new recommendations identified in our review are included above. We did not audit the Department's responses and, accordingly, we express no opinion on them.

We appreciate the Department staff's courtesy and cooperation throughout the course of this review.

Respectfully,

Nicole C. Howard, CPA

Assistant Auditor-Controller

cc: James Gandley, Assistant Director, Health and Human Services

Richard Knecht, Director, CSOC

Cheryl Davis, Director, Human Services

Jim Nissen, Administrative and Fiscal Operations Manager, CSOC

Brian Rupprecht, Administrative and Fiscal Operations Manager, Human Services

Rebecca Mellott, Client Services Program Manager, HHS

Andrew Sisk, Auditor-Controller

Placer County Audit Committee