

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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December 11, 2009

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**SUBJECT: WORKFORCE DEVELOPMENT GIFT CARD CONTROLS AUDIT**

## Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed an audit of the Workforce Development Department's (WDD) gift card controls. Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

## Background

The Department of Workforce Development provides comprehensive employment, training and support services in accordance with the Department of Labor Workforce Investment Act (WIA). Services provided are in response to the needs of job seekers, businesses and communities within the County of San Bernardino and are complementary to the strategic plan established by the Economic Development Agency (EDA).

Gift cards are payment cards with preloaded values, typically given as a gift. Like a gift certificate, a consumer may use the gift card to purchase goods or services from one or more merchants. There are generally two types of gift cards:

### 1) Branded or Open-System gift cards

These cards carry the logo of a payment card network (e.g., VISA, MasterCard), are sold by savings associations and other institutions or their thrift partners, and can be used at any merchant that accepts the corresponding payment network brand.

### 2) Private-Label or Closed-System gift/debit cards

These cards are usually limited to a defined merchant and to the initial value posted to the card.

The WDD issues private-label gift cards for two purposes. The electronic debit gas card enables WIA job seekers to purchase gasoline at ARCO service stations throughout Southern California. These gas cards are available in \$25 increments and may be used until the \$25 total has been depleted. In addition, WDD issues Omnitrans bus passes to WIA job seekers to provide transportation assistance during the participant's job search.

### **Objectives, Scope and Methodology**

The objective of the audit was to determine whether controls practiced by the department effectively safeguard gift cards.

We reviewed internal controls over gift cards for the period of June 1, 2008 through August 31, 2008. Our audit included review of the acquisition and tracking process, physical inventory, verification of proper distribution, and other audit procedures considered necessary.

### **Conclusion**

As a result of our analysis and tests performed, we concluded that controls over gift cards were not always adequate to safeguard gift cards effectively.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on 10/15/2009 and discussed our observations with management on 10/28/2009. The department's responses to our recommendations received on 11/19/2009. Management's responses have not been altered in any way and are included below as they were provided to us.

### **Findings and Recommendations**

#### **Finding 1: Duties Were Not Adequately Segregated**

The basic principle of segregation of duties is that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or a process. Staff responsible for the purchasing activity, including those who maintain contact with outside suppliers and issue purchase orders, should not perform any receiving, accounting or cash disbursement activities. However, the Supervising Fiscal Specialist purchased and received shipments of gas cards. In addition, the Supervising Fiscal Specialist received invoices for gas cards from the vendor by e-mail. The invoice was an electronic version (an Excel spreadsheet) and any information within the invoice could be altered (i.e. quantity, amount, date, etc.). She could also access and change the information on the inventory control log (an Excel spreadsheet) on which the department records gas cards after receipt.

The department has limited staff, and some functions are difficult to separate. However, if management does not adequately segregate duties or implement mitigating controls, staff will be able to misappropriate gas cards and conceal the misappropriation.

**Recommendation:**

We recommend that management separate the duties of purchasing and receiving gift cards. Only the Custodian should receive gift cards. In addition, a staff member independent of purchasing and receiving gift cards should compare invoices with receiving reports to ensure cards ordered were received. The staff person should provide evidence of this comparison.

We also recommend that management limit access to the inventory control log by ensuring that the spreadsheet is password protected.

**Management's Response:**

WDD agrees with the finding and has implemented the following corrective steps:

1. A staff person has been designated Custodian of Pre-Paid Cards. A Signature/Fund Custodian Authorization form has been completed and submitted to the AC/R. (Attachment 1)
2. WDD has revised its Pre-paid Cards procedures: (Attachment 2)
  - Only the Supervising Fiscal Specialist orders Pre-Paid Cards.
  - Only the custodian receives the Pre-Paid Cards.
  - A staff person independent of the custodian counts the number of cards received, compares the number to the invoice, and signs the packing slip as verification of the count.
  - The cards are returned to the custodian along with the verified packing slip. (Attachment 3)
  - The cards are logged into the control log by the custodian, placed into the safe and the validated packing slip is maintained on file as support.
3. The custodian has password-protected the inventory control log.

**Auditor's Response:**

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

**Finding 2: Lack of Adequate Controls**

According to the ICCM, chapters 3 and 20, management should designate an employee to be the gift card custodian. Access to these cards should be limited only to the designated custodian. Also, a chain of custody must be maintained with adequate security and documentation. In addition, management should restrict the safe combination to as few employees as possible. A Supervisor, Manager or designee should also perform independent monthly physical counts of gift cards. These counts should be unannounced and documented.

Due to management's desire to have sufficient backup staff, management did not formally assign an employee to be the custodian of gift cards. By not assigning a custodian, accountability of gift cards is reduced.

Furthermore, WDD administration does not have a list of Employee Resource Center (ERC) supervisors authorized to request cards as well as a list of ERC employees authorized to pick up gift cards from administration. Also, ERC requests for gift cards are by phone call only, and not written. The potential for loss or abuse of cards increases if there is no documentation of the authorized requester and person designated to pick up cards.

In addition, management divided the combination to the safe into two parts. Certain staff members had part one of the combination while a different set of staff members knew the second part of the combination. Both employees were able to observe the other employee's part of the combination while the safe was being opened. By not limiting access to the safe to as few employees as possible, accountability is decreased and the chance for misappropriation is increased.

Finally, staff stated that they do count gift cards; however, there was no evidence of physical counts. The potential for loss or abuse of cards increases if staff does not perform and document physical counts.

**Recommendation:**

We recommend that management:

1. Designate an employee to be the gift card custodian. Access to gift cards should be limited to the custodian and maybe a backup.
2. Immediately change the combination to the safe and restrict the new safe combination to the assigned employees.
3. Require administration to maintain a list of ERC supervisors authorized to request gift cards, and a list of ERC personnel authorized to pick up gift cards from administration.
4. Require the ERC to submit their requests for gift cards in writing, such as an e-mail, fax etc.
5. Assign an independent staff member to perform and document monthly, unannounced physical counts of gift cards in the presence of the gift card custodian.

**Management's Response:**

WDD agrees with the finding and has implemented the following corrective steps:

1. A staff person has been designated Custodian of Pre-Paid Cards. A Signature/Fund Custodian Authorization form has been completed and submitted to the AC/R.

2. On October 30, 2009, WDD had the combination to the safe changed (Attachment 4). Only the custodian was given the new combination. To ensure access to the safe is available should the need arise when the custodian is away from the office, the custodian has given two staff persons a sealed, signed envelope with the combination on a slip of paper. These persons are Staff Analyst II positions who work on opposite Fridays.
3. WDD has created and will maintain a list of ERC supervisors authorized to request gift cards, and a list of ERC personnel authorized to pick up gift cards from administration (Attachment 5).
4. WDD Pre-Paid Card procedures now require the ERC Supervisors to submit their requests for gift cards in writing.
5. WDD Pre-Paid Card procedures now require a staff person independent of the custodian to conduct an unannounced physical count of Pre-Paid Card on a monthly basis. This count is done in the presence of the custodian and the count is written in the Card Receipt log. The last unannounced count was performed on November 19, 2009.

**Auditor's Response:**

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

**Finding 3: Inadequate Recording Procedures**

According to the ICCM, chapter 2, the department should record all cash equivalent assets at the time of acquisition. Because management did not clearly communicate expectations, staff was unaware this control procedure should be followed.

As a result, the San Bernardino ERC did not record all gift cards immediately upon receipt. Instead, ERC staff stored the total gift cards received from administration in a drawer unrecorded. Staff took a small batch of cards from the drawer, and recorded only the batch. Then, when the ERC had given out all gift cards from the initial batch, staff recorded subsequent batches for use as needed.

If ERC staff does not record gift cards immediately upon receipt, the risk of loss or misappropriation is increased.

**Recommendation:**

We recommend that management update the department's policies and procedures to include recording and tracking gift cards for the ERC's immediately upon receipt and communicate these policies and procedures to all applicable staff.

**Management's Response:**

WDD agrees with the finding and has implemented the following corrective steps:

1. WDD has revised its Pre-Paid Cards procedures to include recording and tracking gift cards immediately upon receipt.

2. All applicable staff has been notified about the change in procedures.

**Auditor's Response:**

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

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By:

  
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