

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

503



FROM: County Auditor-Controller

**SUBMITTAL
DATE:**
October 30, 2012

SUBJECT: Internal Audit Report 2011-017: Countywide Gift Card Audit

RECOMMENDED MOTION: Receive and File Internal Audit Report 2011-017: Countywide Gift Card Audit.

BACKGROUND: We conducted a Countywide Gift Card audit. We performed the audit between September 14, 2011, and April 5, 2012, covering the period July 1, 2009 through October 31, 2011. Our audit included five County departments: Community Action Partnership, District Attorney's Office, Mental Health, Public Health, and Public Social Services.

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	
	Requires 4/5 Vote	

C.E.O. RECOMMENDATION:

APPROVE

BY: *Karen L. Johnson*
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Benoit, seconded by Supervisor Stone and duly carried, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Buster, Stone, Benoit and Ashley
Nays: None
Absent: Tavaglione
Date: November 20, 2012
xc: Auditor

Kecia Harper-Ihem
Clerk of the Board
By: *Kecia Harper-Ihem*
Deputy

2.5

Prev. Agn. Ref.: District: ALL **Agenda Number:**

ATTACHMENTS FILED WITH THE CLERK OF THE BOARD

Departmental Concurrence

Policy Policy

Consent Consent

Dept's Recomm.: Per Exec. Ofc.:

BACKGROUND continued:

Based upon the results of our audit, we determined Community Action Partnership, District Attorney's Office, Mental Health, and Public Social Services had adequate internal controls over gift cards. However, we noted areas for improvement regarding transfer of accountability and untimely reconciliations for Public Health Department. We will conduct a desk review with Public Health in six months to determine if actions were taken to correct the findings noted.



County of Riverside

INTERNAL AUDIT REPORT

2011-017

Countywide Gift Cards

October 30, 2012

Office of
Paul Angulo, CPA, MA-Mgmt.
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



COUNTY OF RIVERSIDE
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AUDITOR-CONTROLLER

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ACC AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA-Mgmt.
AUDITOR-CONTROLLER

October 30, 2012

Susan Harrington, Director, Community Health Agency
Susan Loew, Director, Department of Public Social Services
Maria Juarez, Executive Director, Community Action Partnership
Jerry Wengerd, Director, Mental Health
Paul Zellerbach, District Attorney

Subject: Internal Audit Report 2011-017: Countywide Gift Cards

Dear Department Heads:

In an effort to provide independent, objective, and reliable assessments of internal controls to the Board of Supervisors and management in accordance with Board of Supervisors Resolution 83-338, the Internal Audit Division of the Auditor-Controller's Office conducted a Countywide Gift Card audit. We performed the audit between September 14, 2011, and April 5, 2012, covering the period July 1, 2009, through October 31, 2011. Our audit included five County Departments: Community Action Partnership, District Attorney's Office, Mental Health, Public Health, and Public Social Services.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain reasonable assurance our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the adequacy and effectiveness of internal controls, compliance with applicable laws and regulations, and performing other procedures we consider necessary. We believe the audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency, compliance with laws and regulations, and reliability of financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we determined Community Action Partnership, District Attorney's Office, Mental Health, and Public Social Services had adequate internal controls over gift cards. However, we noted areas for improvement regarding transfer of accountability and untimely reconciliations for Public Health Department.

We discussed the results contained in this report with the appropriate level of management in the course of the audit.

We thank your department for their cooperation and assistance during the audit.

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

A handwritten signature in black ink that reads "Rachelle Román". The signature is written in a cursive style with a large, prominent "R" at the beginning.

By: Rachelle Román, MPA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Gift cards are payment cards with values preloaded and are usually given as an incentive to participate in an approved County program. A recipient is able to use the gift card to acquire goods or services from one or more merchants. There are generally two types of gift cards:

Branded or Open-System Gift Cards:

These cards are endorsed by retail electronic payment networks such as VISA, Visa Electron, MasterCard or Maestro, and are treated much like debit cards but do not require a checking account. The dollar values on these cards can be redeemed for goods only and is not redeemable for cash. Branded gift cards are sold by savings associations and other outlets and can be used at any merchant that accepts the corresponding payment network brand.

Private-Label or Closed-System Gift/Debit Cards:

These cards have emerged and replaced the conventional gift certificates. Commonly known as merchant gift cards, these closed system cards are only accepted at a single merchant and are limited to the initial value posted to the card.

Departments issue private-label gift cards for varying purposes. The electronic debit gas card enables Public Health and Mental Health clients to purchase gasoline at various service stations throughout Southern California. These gas cards are available in \$10 and \$50 increments, respectively. Other departments disburse gift cards as incentives to complete surveys, attend a class, or participate in a program. The types of cards provided are Wal-Mart, Target, Regal Theaters, Stater Brothers, Vons, etc.

Riverside County has no established policies and procedures regarding the authorization, issuance/usage and safeguarding of gift cards. The departments have Board Policy A-34, Recognition of Service to the County and Presentation Awards as a general guideline. Each of the five departments we selected for audit provides assistance to residents of the County. With funding sources ranging from government grants to the County's general fund, we identified over \$357,258 was disbursed to purchase approximately 7,620 gift cards during our audit period. Community Action Partnership gives County residents the opportunity to receive tax preparation services at no cost through the federally funded Voluntary Income Tax Assistance Program and Year Round Earned Income Tax Credit Grant Program. The volunteer tax preparers are awarded gift cards for their services. Additionally, gift cards are delivered to families affected by severe weather when conditions warrant Severe Weather Disaster Relief.

The District Attorney's Office Division of Victim's Services provides gift cards to witnesses (or victims) who are testifying in court and have a financial hardship. The gift cards offered include local fast food restaurants that are located in close proximity to courthouses.

The Department of Public Social Services provides gift cards to clients who are out of the state and/or in a state that is contiguous. These clients are wards of Riverside County and are placed in homes deemed best for the children.

We selected the departments for review based on responses to a countywide survey regarding the use of gift cards. Our audit covered the handling of gift cards from the original requisition to final disposition and concentrated on the internal controls utilized to ensure accountability. The following table identifies the funding source, programs available and reviewed, and the total gift cards reviewed for the five selected departments.

Department/Agency	Funding Source	Number of Programs Available	Number of Programs Reviewed	Total Gift Cards Reviewed	Value of Gift Cards on Hand
Community Action Partnership	Grants	5	5	532	\$4,265
District Attorney's Office	General Fund	1	1	360	\$2,430
Mental Health	Grants	2	2	355	\$7,978
Public Social Services (Children's Services)	Grants	1	1	100	\$2,500
Public Health	Grants/General Fund	7	4	591	\$7,015
Total:		16	13	1938	\$24,188

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over gift cards.

Audit Conclusion

Based upon the results of our audit, we determined Community Action Partnership, District Attorney's Office, Mental Health, and Public Social Services had adequate internal controls over gift cards. However, we noted areas for improvement regarding transfer of accountability and untimely reconciliations for Public Health Department.

Public Health

Background

Public Health provides services to residents throughout the County of Riverside. Grant monies have been awarded to the agency to assist qualifying individuals in the community with health care services. Gift cards are used as incentives for participation in outreach programs, such as the Childhood Asthma Program, Family Planning, which offers classes at a local community center, Safe Routes to Schools program, which encourages participants in the Desert Region to walk to school, and Lead Hazard Program, which promotes awareness of potential lead poisoning in older residential homes.

Objective

To determine if internal controls are maintained over the department's authorization, issuance, and safeguarding of gift cards.

Audit methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances;
- Conducted interviews and performed walkthroughs with department personnel;
- Utilized PeopleSoft voucher queries to identify the volume of gift cards, the frequency of gift card purchases, and the source of funding;
- Verified appropriate levels of management authorized and approved the purchase of gift cards;
- Selected sample of gift card purchases to perform detailed testing; and
- Verified the safeguarding of gift cards.

Results

We reviewed the following Public Health programs for this audit: Disease Control/Tuberculosis, Asthma/Tobacco Control, Maternal Child Adolescent Health, Family Planning, HIV/STD/Industrial Hygiene, Injury Prevention, and Fiscal Services. In an effort to gain an understanding of the controls implemented for authorization, issuance, and safeguarding of gift cards, we conducted walkthroughs of each program and selected four of the seven programs for detailed testing. These selections were based on the number of gift cards on hand and in the majority of the cases were purchased within our audit period. We selected Asthma/Tobacco Control, Family Planning, HIV/STD/Industrial Hygiene, and Injury Prevention.

Gift cards are often used as incentives to obtain participation in the County programs. The branch chiefs are authorized to approve up to \$2,500 in the purchase of gift cards. In general, gift cards were purchased with grant funds or through the County's General Fund.

Gift cards are provided to asthma clients when they complete surveys regarding their asthma condition, while the Tobacco Control grant gift cards are given to teenagers who participate in the removal of cigarette butts from local parks. Family Planning educates the public on teen pregnancy. For each registrant who attends a workshop, a gift card is provided. In the case of HIV/STD program, clients who are tested receive a gift card. Also, for families living in older homes, the Industrial Hygiene program targets those families to allow County officials to test the homes for lead. And finally, the Injury Prevention program has Safe Routes to School, which promotes a healthy lifestyle for children in the Desert Communities. The students in participating schools are encouraged to walk or ride a bike to school for this one day event. Gift cards are awarded to the classroom with the most participants.

Finding 1:

We found the Injury Prevention and Family Planning branches did not use a transfer of accountability form in the issuance of gift cards. More specifically, the custodians of the gift cards do not use a transfer of accountability form when issuing the gift cards to program coordinators. In addition, when STD was transferred from the Disease Control to HIV/AIDS Program in 2010, a transfer of accountability was not provided to show who received gift cards on hand when provided to the new program. All other documents relating to their issuance was not readily available for review.

In general, department officials have utilized the transfer of accountability form but did not in the above mentioned transfers. Internal Control Handbook, Chapter 2, Paragraph 2(h)(5) states, "All transfers of money from one accountable employee to another should be evidenced by a written receipt relieving the one employee of a specific amount of money and establishing the responsibility for the receiving employee of the same amount." Failure to implement a transfer of accountability form may result in loss or misappropriation of funds or in this case, the loss or misappropriation of gift cards.

Recommendation 1:

Utilize a transfer of accountability form for all transfer of gift cards from one employee to another.

Management's Reply:

Concur: "Recommendation has been implemented."

Finding 2:

The Injury Prevention branch did not perform regular reconciliations. Reconciliations of the gift cards were not completed at least monthly by Injury Prevention staff. Internal controls are strengthened when consistent reconciliations are conducted. According to Standard Practice

Manual (SPM) 104, (B) (3), "Review and Reconciliation: Records are routinely examined and reconciled to determine that transactions were properly processed."

Recommendation 2:

Require all Public Health branches to reconcile gift cards at least monthly.

Management's Reply:

Concur: "Recommendation has been implemented."