



Bill Perrone, CIA
Internal Audit Manager

February 27, 2009

Assignment 10209

To: Distribution List

Subject: Internal Audit Report – Social Services Agency Purchases, Accountability, and Distributions of Performance Incentives

We have completed the Social Services Agency Purchases, Accountability, and Distributions of Performance Incentives audit. We conducted the audit during October through December 2008 covering fiscal years 2006 through 2008.

We thank the Social Services Agency staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signature on file

Bill Perrone, CIA
Internal Audit Manager

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INTERNAL AUDIT REPORT

Social Services Agency Purchases, Accountability, and Distributions of Performance Incentives



Assignment 10209
January 27, 2009

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Executive Summary

Conclusion Based upon the results of our testing, the Social Services Agency (SSA) needs to improve its control environment, monitoring, and control activities over the purchases, accountability, and distributions of performance incentives (gift cards and items) by CalWORKs Employment Services (CWES). CWES should better manage its inventory of gift items to reduce the risk of loss and reduce staff resources to adequately maintain, monitor, and reconcile the items. The community providers have more gift cards on hand than permitted by CWES written policies and procedures on vouchers. It would have been a better practice if the County had purchased and accounted for \$292,000 in gift cards purchased by the community providers. Two of these community providers submitted claims and were paid for expenses not incurred at the time of claim submission. Although improvements are needed over the purchases, accountability, and distributions of performance incentives, SSA states that Santa Clara County has one of the highest work participation rates in the State.

The Department of Families and Children's Independent Living Program was not able to support all performance incentive distributions in FY 06; however, no exceptions were noted for FY 07 and FY 08.

The Social Services Agency is in agreement with all the findings and recommendations contained in this report.

Audit Objectives The audit objectives were to determine whether the Social Services Agency has adequate internal controls over the purchases, accountability, and distributions of performance incentives, including gift cards. This audit does not address whether incentives should be used, how it should be used, or the types of incentives that should be used.

Audit Scope The scope of the audit included:

- Fiscal Years 2006 through 2008
- Department of Employment and Benefit Services, CWES
- Department of Families and Children Services, Independent Living Program

Audit Background We conducted this audit based on the referral from the Controller-Treasurer Department as a result of their Audit-After-The-Fact and P-card audits. We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Details about our findings and recommendations are provided below.

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Findings and Recommendations

Finding 1 Internal controls over the distribution of \$908,776 in performance incentives to CalWORKs clients need improvements.

CalWORKs Employment Services receives annual Single Allocation funding from the State and Federal governments. These funds are to be used to improve participation rates among CalWORKs clients. As part of this objective, performance incentives (gift items and cards) are purchased for distribution to clients. In FY 06 and FY 08, CWES purchased at least \$908,776 in gift cards and items. See Attachment A. However, the control activities and monitoring over the accountability and distribution of these performance incentives need to be strengthened.

Distribution of incentive items

CWES purchased backpacks and other incentive items for inclusion in the backpacks. The backpacks (emergency survival, summer enrichment, and back-to-school) were assembled at SSA and then picked up by the community providers and Social Services Agency district offices for distribution to clients. There are reports tracking the distribution to the providers and to the clients for the backpacks, audio books, and electronic dictionaries; however, there is no detail list demonstrating that each item purchased for the backpacks was included during assembly and then distributed to providers and clients. Although CWES has not yet conducted its annual monitoring (done during mid-year) of service providers and district offices, discrepancies exist between the quantities purchased and expected quantities on hand based on distributions to clients. Monthly distribution reports obtained from service providers also show discrepancies between the number of items given to clients and the supporting signatures.

We also noted the following issues with performance incentive items:

- Backpack distributions to clients are not properly supported by signatures. For the back-to-school backpacks, there were four more signatures than the reported number distributed to clients. There were six more signatures for the summer enrichment bags than the number reported as distributed to clients. The empty backpacks distribution is missing 65 signatures. The community providers incorrectly checked off the backpack given or did not obtain client signatures.
- There were a total of 13 fewer signatures than number of books reported as distributed to clients for all three types of audio books. Also, our physical inventory identified a net overage of 15 audio

books (25 overage for *Getting Things Done*, eight shortage for *Goals*, and two shortage for *Now and Discover Your Strength*).

- 200 prepaid phone cards were given to two providers without obtaining their signatures acknowledging receipt.
- 64 prepaid phone cards are unaccounted.
- One provider did not keep the backpack with phone cards in a secured area.
- One provider is missing three back-to-school backpacks.
- Two summer enrichment backpacks are unaccounted at one provider.
- CWES cannot account for three empty backpacks.
- One provider is missing one empty back pack.
- 11 cell phones that should have been in the emergency backpacks are missing.
- In June 2008, CWES purchased 1,800 snack items (for the backpacks), which have expired on November 14, 2008. Of the 1,800 snack items, 900 have been placed in backpacks given to providers but not yet distributed to clients. The remaining expired 900 snack items are at CWES. CWES stated that Costco was contacted and the vendor agreed to replace the expired food items.

Distribution of gift cards

Prior to September 2007, there were no monthly reports identifying the number of gift cards given to providers, the number of gift cards providers distributed to clients, and the number of gift cards on hand. Additionally, client signatures could not be consistently tied to distributions. As of September 2008, a total of 1,025 (\$25,625) gift cards were unaccounted (the number of cards purchased less the number of cards given to clients does not tie to the number of cards on hand). In addition, a total of 412 (\$10,300) gift cards purchased did not tie to the number given to providers and the number on hand (in the safe). These differences were identified by our reconciliation of gift cards purchased to the monthly summary distribution and reconciliation of vouchers reports. We believe that the differences identified above occurred prior to September 2007. We also noted the following issues with gift cards:

- 33 Lucky gift cards are missing from one district office during November 2008.

- Eight extra Safeway cards and six extra Lucky cards were noted at one district office.
- One gas gift card was unaccounted at one provider.
- One provider has an overage of three gift cards.
- The providers do not consistently indicate on the client signature sheets the type of card distributed for all the months tested.
- There is no physical inventory of gift cards on hand with the community providers.

To demonstrate proper accountability, a trail of each gift item or card purchased should be accounted while at CWES, upon distribution to community providers, and after distribution to clients. CWES did not establish the necessary controls to properly account for the purchases and distributions of gift items and cards. Without the proper internal controls, gift items and cards will not be distributed to the clients as intended.

Recommendation 1.1 CWES should verify the monthly reports submitted by providers to ensure that the number of reported distribution is supported by client signatures. [Priority 1]

Recommendation 1.2 Until all the performance incentive items (backpacks, audio books, electronic dictionaries, cameras, prepaid phone cards, etc) have been distributed, CWES should conduct physical inventories of selected providers and district offices on a consistent basis. The physical inventories should be conducted at a minimum annually and more frequent (such as monthly or quarterly) based on identified risks such as the result of previous physical inventory, dollar value of the items, discrepancies with monthly distribution reports, discrepancies with signatures submitted by the providers, weak internal controls over the security of the items, etc. The inventory count should be compared to the tracking reports showing the quantities on hand. [Priority 1]

Recommendation 1.3 CWES should conduct physical inventories of gift cards on hand with selected community providers at a minimum annually and more frequent (such as monthly or quarterly) based on identified risks such as the result of the previous physical inventory, dollar value of the gift cards on hand, discrepancies with monthly distribution reports, discrepancies with signatures submitted by the providers, weak internal controls over the security of the gift cards, etc. The count should be compared to the monthly distribution and reconciliation of vouchers report. [Priority 1]

Recommendation 1.4 The Social Services Agency should perform reconciliations of gift cards at a minimum annually and more frequent (such as monthly or quarterly) based on identified risks such as the result of the physical inventories,

dollar value of the purchase, discrepancies with the monthly distribution reports, discrepancies with signatures submitted by providers, weak internal controls over the security of the gift cards, etc. The purpose of the reconciliation is to determine whether all quantities purchased, quantities distributed to providers, quantities distributed to clients, and quantities on hand are accounted. [Priority 1]

Recommendation 1.5 CWES should collect all the expired food items (at CWES and in backpacks distributed to providers) and exchange them with Costco so that the expired food items will not be given to clients. [Priority 1]

Recommendation 1.6 CWES should have sign-in sheets, for the distribution of performance incentive items, which list all the contents being distributed so that clients are aware of what they should be receiving. [Priority 2]

Recommendation 1.7 CWES should ensure that all providers indicate the type of voucher issued as part of their monthly review of provider distributions to client. [Priority 2]

Recommendation 1.8 For future distributions of incentive items, CWES should establish a comprehensive list that include the quantities purchased, the quantities assembled, and quantities given to providers for each item purchased. [Priority 2]

Finding 2 **CalWORKs Employment Services should better manage performance incentives inventory to reduce the risk of loss and inventory management costs.**

CWES purchases performance incentives (gift items and cards) to give to clients who have met or exceeded the Welfare-To-Work program expectations. SSA states that the performance incentives are an important part of the County's CalWORKs program and is one of the reasons the County has a high work participation rate.

It has been CWES' practice to purchase performance incentives in bulk, once a year near year-end. In April and May of 2006, CWES purchased gift cards for \$260,000. Then another \$130,000 worth of gift cards were purchased in June 2008 when there were approximately 2,500 cards (\$62,500) that had not been given to clients from the FY 06 purchases. Also, \$292,000 in gift cards were purchased by community providers which would have been better if purchased and accounted for by the County (See Finding 5). In addition to the gift card purchases, CWES bought at least \$225,000 of performance incentive items (backpacks, audio books, electronic dictionaries, cameras, prepaid phone cards, cell phones, etc). Attachment A shows the performance incentives purchased by CWES in FY 06 and FY 08, totaling \$908,776. The

CalWORKs Single Allocation for FY 06 and FY 08 were \$72,836,908 and \$81,957,541, respectively.

As of September 2008, \$632,045 or 70% from our tested purchases for FY 06 and FY 08 had not been distributed to clients. See Attachment B for the list of FY 06 and FY 08 purchases not yet distributed to clients.

Performance incentives inventory should be better managed to reduce the risk of loss associated with maintaining large amounts of cash equivalents and inventory items. Gift cards should be treated like cash and thus only the minimum amount necessary should be on hand. Buying once a year and storing performance incentive items not only provide the opportunity for loss but also takes up additional staff resources required to properly maintain, monitor, and reconcile the items.

CWES stated that performance incentives were purchased at year-end (rather than throughout the year) because it was not informed about the unexpended funds until June and it wanted to maximize the funding allocation for the fiscal year. Based on our survey of local counties, San Mateo and Contra Costa counties indicated that gift cards are purchased throughout the year on an as-needed basis. Both of these counties have lower work participation rates than Santa Clara County.

Recommendation 2 CWES should determine the performance incentive (gift items and cards) needs and to the extent possible buy quarterly and distribute during that time frame. Purchasing in bulk at year end should only be done if funding was not available during the year but is available at year end. Purchasing and distributing to clients within the quarter coincides with SSA's timeframe of quarterly claim submissions, reduces the risk of loss, and reduces the staff resources required to properly maintain, monitor, and reconcile performance incentives. [Priority 2]

Finding 3 **The number of gift cards on hand at the community providers exceed the amount allowed per written policies and procedures.**

CWES written policies and procedures on vouchers stated that no providers should have more than 100 gift cards on hand. However, during March through October 2008, at least half of the community providers have more than 100 gift cards on hand. Several providers have more than 300 on hand most months during this time frame, with one provider having more than 600 cards on hand for two months (April and June 2008). During September 2007 through September 2008, we noted the average monthly gift cards distribution to clients per community provider was less than 100.

CWES is not complying with its written policies and procedures. In

addition, issuing more gift cards than the rate of distribution to clients provides opportunities for loss or errors in tracking and monitoring. Providers should not keep more on hand than the quantity needed for a month. CWES staff has monthly meetings with community providers and can distribute cards at those meetings.

Recommendation 3.1 CWES should comply with their written policies and procedures by ensuring that the providers do not have more than 100 gift cards on hand. If more than 100 gift cards on hand is deemed appropriate for certain providers, the written policies should be revised to obtain approval for any deviation. [Priority 2]

Recommendation 3.2 CWES should review the monthly usage for each provider when approving their requests for gift cards and issue only the quantity needed for a month. [Priority 2]

Finding 4 **It would have been a better practice for the County to purchase and account for \$292,000 in gift cards purchased by the community providers.**

In FY 08, nine community providers purchased 10,193 (\$292,000) gift cards for distribution to clients. These gift cards are retained by the providers and CWES does not maintain an accounting of these cards and monitor the distribution to clients by requesting monthly reports and client signatures. It would have been a better practice if these gift cards were purchased, maintained, tracked, and monitored by the County because they are given to CalWORKs clients in the same manner as the gift cards purchased by the County.

The cost of these gift cards were included in the monthly expense reports submitted to the County for reimbursement. CWES amended the contracts of these nine community providers in April 2008 to include the gift card purchases.

CWES stated that it needed to expend the annual Single Allocation funding for FY 08 and that these were one-time purchases by the community providers. Having contractors hold large quantities of gift cards (which are cash equivalents) on hand, with no monthly reporting and monitoring, provides opportunity for loss and demonstrates lack of proper fiscal accountability over cash equivalent.

Recommendation 4 CWES should monitor and reconcile the gift cards purchased by the community providers in the similar manner as the gift cards purchased by the County. [Priority 1]

Finding 5 **Two community providers on cost reimbursement contracts with the County submitted claims for expenses not yet incurred.**

Two community providers submitted a total of \$46,000 for the reimbursement of gift card purchases for CalWORKs clients; however, the money had not been spent at the time of the claim. CWES approved the claim and remitted payment. One provider submitted a claim in May 2008 for \$21,000 but the gift cards were not purchased until June 23, 2008. The other provider submitted a claim in April 2008 for \$25,000 but the gift cards were not purchased until May 2008. Only expenditures incurred should be claimed on a cost reimbursement contract. In addition, the providers certified that the claim and supporting documentation submitted and the payments reflected were requested and made in accordance with the terms of the contract. CWES did not adequately review and approve the claims to ensure that they represented costs incurred. Contractors who submit claims when the expenditures have not been incurred are in violation of the contract terms. No adjustments are necessary as the costs claimed were spent prior to the fiscal year-end.

Recommendation 5 CWES should improve its monitoring and approval of community provider claims to ensure that payments are remitted only for expenditures that have been incurred. [Priority 2]

Finding 6 **The Independent Living Program was unable to locate all the supporting documents for the performance incentive distributions in FY 06.**

The Independent Living Program (ILP) issues performance incentives (gift items and cards) to foster care youths at various events to encourage participation. During FY 06, ILP purchased approximately \$20,000 of performance incentives (250 duffle bags, 250 Jamba Juice gift cards, and 280 Safeway gift cards). The events at which these items were distributed were identified; however, ILP was not able to locate client signatures for the majority of the distribution. There were supporting documents such as event agendas and emails regarding the events and the distribution of the performance incentive items. ILP distributes gift items at the same events each year using a list of foster care youths who RSVP to the events. All distribution of performance incentives should be supported by client signatures. Also, each gift item should be accounted since they could be distributed at several events. The ILP supervisor during FY 06 indicated that signatures were obtained for all distributions but may have been misplaced due to staff turnover and transitions during that time. Without client signatures, ILP is unable to demonstrate that gift items and cards were properly distributed to the clients.

We also reviewed distributions of performance incentives for FY 07 and FY 08 noting that all distributions were properly supported by client

signatures. ILP stated that it no longer purchases gift cards; only gift items will be given out as incentives. Starting with the next event, ILP will scan all client signatures and submit to Financial Management Services for attachment in SAP.

Recommendation 6.1 ILP written policies and procedures for gift cards should be revised to include gift items. The policy should indicate that gift items will be given as incentives and the usage of gift cards will require written approval from the Department of Families and Children Services Director. The procedures should include purchasing, accountability, safekeeping, and distribution procedures for gift items. [Priority 2]

Recommendation 6.2 ILP should revise the current sign-in sheets for gift items to include all items to be distributed so participants know what they are getting when they sign. In addition, the person issuing the gift cards should also sign on the sign-in sheet to properly document the transfer. [Priority 2]

Attachment A
FY 06 and FY 08 CWES Purchases Tested

Vendor	FY	Date	Amount	Description
Albertsons	2006	5/15/2006	\$30,000	1,200 gift cards (plus 72 free)
Albertsons	2006	4/19/2006	\$100,000	4000 gift cards (plus 240 free)
Safeway	2006	5/11/2006	\$30,000	1,200 gift cards (plus 60 free)
Safeway	2006	4/19/2006	\$100,000	4000 gift cards (plus 240 free)
Costco	2008	6/20/2008	\$4,998	Emergency backpack supplies (chapstick, sunblock, fruit snack, crayon, cold pack, tape recorder)
Costco	2008	6/20/2008	\$4,998	Emergency backpack supplies (travel alarm, crayon, pencil, blanket, tape recorder)
Costco	2008	6/20/2008	\$21,963	Emergency backpack supplies (sewing kit, travel kit, flashlight, travel alarm, snacks, water, map, tape recorder, cold pack, lotion)
Target	2008	6/20/2008	\$10,000	400 gift cards
Safeway	2008	6/16/2008	\$10,000	400 gift cards (plus 20 free)
Barnes & Noble	2008	6/26/2008	\$10,000	598 children's books for the summer back packs
Lucky	2008	6/16/2008	\$10,000	400 cards (plus 12 fee)
Safeway	2008	6/11/2008	\$25,000	1,000 gift cards (plus 50 free)
Lucky	2008	6/11/2008	\$25,000	1,000 gift cards (plus 30 free)
Barnes & Noble	2008	6/20/2008	\$38,927	1,500 audio books for Distance Learning Program.
Barnes & Noble	2008	6/20/2008	\$50,000	2,000 gift cards (plus 150 free)
Franklin Electronics	2008	6/11/2008	\$44,995	453 electronic dictionaries and 75 headphones
Target	2008	6/9-6/12/08	\$17,076	87 phone cards, 133 cells phones, 124 cameras, diapers, baby bottles, towels, combs, maps, toothpaste, personal items
Target	2008	6/6-6/13/08	\$18,815	87 phone cards, 133 cells phones, 124 cameras, diapers, baby bottles, towels, combs, maps, toothpaste, personal items
Costco	2008	6/24/2008	\$14,993	750 prepaid phone cards for backpacks (back-to-school, emergency, and summer enrichment)
Office Depot	2008	6/26/2008	\$50,012	1,400 backpacks
Various	2008	Various	\$292,000	10,193 gift cards purchased by community providers (See Finding 5)
Total Tested Purchases			\$908,776	
Total FY 06			\$260,000	
Total FY 08			\$648,776	
Total Tested Purchases			\$908,776	

Attachment B
 FY 06 and FY 08 Tested CWES Purchases Not Distributed To Clients

Vendor	Date	Undistributed Quantity	Undistributed Amount	Description
Costco	6/20/2008	125	\$4,697	Items for emergency backpacks
Costco	6/20/2008	125	\$4,698	Items for emergency backpacks
Costco	6/20/2008	125	\$20,642	Items for emergency backpacks
Costco	6/24/2008	699	\$13,993	Prepaid phone card for emergency backpacks, summer enrichment backpacks, and back-to-school backpacks
Target	6/20/2008	398.92	\$9,973	Gift cards
Target	6/9-6/12/08	241	\$11,963	Prepaid phone cards, cells phones, cameras, diapers, baby bottles, towels, combs, maps, toothpaste, personal items for back-to-school backpacks, emergency backpacks, and summer enrichment backpacks
Target	6/6-6/13/08	241	\$13,562	Prepaid phone cards, cells phones, cameras, diapers, baby bottles, towels, combs, maps, toothpaste, personal items for back-to-school backpacks, emergency backpacks, and summer enrichment backpacks
Safeway	6/16/2008	2113	\$52,825	Gift cards
Safeway	6/11/2008	[1]	[1]	Gift cards
Safeway	5/11/2006	[1]	[1]	Gift cards
Safeway	4/19/2006	[1]	[1]	Gift cards
Lucky	6/16/2008	400	\$10,000	Gift cards
Lucky	6/11/2008	1,030	\$25,000	Gift cards
Albertson	4/19 & 5/15/06	1,304	\$32,600	Gift cards
Barnes & Noble	6/26/2008	58	\$5,743	Children's books for summer enrichment backpacks
Barnes & Noble	6/20/2008	1,232	\$29,539	Audio books for Distance Learning Program
Barnes & Noble	6/20/2008	2,019	\$50,000	Gift cards
Franklin Electronic	6/11/2008	453	\$44,995	Electronic dictionaries
Office Depot	6/26/2008	1,018	\$36,366	Backpacks
Various	Various	9,098	\$265,450	Gift cards purchased by community providers (See Finding 5)
Total			\$632,045	

[1] The undistributed quantities is calculated using the total Safeway cards on hand and not calculated for each purchase date. Once the cards are distributed to the community providers, the purchase date is no longer tracked.

County of Santa Clara
Social Services Agency



333 W. Julian Street, 5th Floor
San Jose, California 95110

February 17, 2009

TO: Vinod Sharma, Controller-Treasurer
Bill Perrone, CIA, Internal Audit Manager

FROM: Will Lightbourne
Agency Director, Social Services Agency

A handwritten signature in black ink, appearing to read "Will Lightbourne".

RE: **Social Services Response – Internal Audit SSA Purchases, Accountability, and Distribution of Performance Incentives**

The Agency has received the completed Internal Audit of SSA Purchases, Accountability, and Distribution of Performance Incentives. This memorandum serves as the Agency's response to the audit findings and recommendations.

Finding 1 Internal controls over the distribution of \$908,776 in performance incentives to CalWORKs clients need improvements.

Recommendation 1.1

CWES should verify the monthly reports submitted by providers to ensure that the number of reported distribution is supported by client signatures.

Response

The CWES procedures and protocols have been revised to confirm providers' monthly distribution reports are supported by client signatures.

Recommendation 1.2

Until all the performance incentive items (backpacks, audio books, electronic dictionaries, cameras, prepaid phone cards, etc) have been distributed, CWES should conduct physical inventories of selected providers and district offices on a consistent basis. The physical inventories should be conducted at a minimum annually and more frequent (such as monthly or quarterly) based on identified risk such as the result of previous physical inventory, dollar value of the items, discrepancies with monthly distribution reports, discrepancies with signatures submitted by the providers, weak internal controls over the security of the items etc. The inventory count should be compared to the tracking reports showing the quantities on hand.

Response

CWES will review and inventory incentive items during the February 2009 scheduled annual monitoring. CWES will conduct more frequent reviews including physical inventories based on risk, discrepancies identified during the monitoring and monthly reviews until all incentive

RE: Social Services Response – Internal Audit SSA Purchases, Accountability, and Distribution of Performance Incentives

items are distributed to clients. It is important to note, the backpack performance incentive program was a unique FY 2008 initiative, and was made possible due to State approval to distribute the remaining FY 2007 Single Allocation funds to counties as an augmentation to FY 2008 allocations.

Recommendation 1.3

SSA should conduct physical inventories of gift cards on hand with selected community providers at a minimum annually and more frequent (such as monthly or quarterly) based on identified risks such as the result of the previous physical inventory, dollar value of the gift cards on hand, discrepancies with monthly distribution reports, discrepancies with signatures submitted by the providers, weak internal controls over the security of the gift cards etc. The count should be compared to the monthly distribution and reconciliation of vouchers report.

Response

CWES is currently conducting its scheduled annual physical inventories of gift cards on hand for district offices and providers. As recommended, DEBS will conduct more frequent physical inventories based on risk, discrepancies identified during the monitoring and monthly reports, and CWES will compare the count to the monthly distribution and reconciliation of voucher report.

Recommendation 1.4

CWES should perform reconciliation of gift cards at a minimum annually and more frequently (such as monthly or quarterly) based on identified risks such as the result of the physical inventories, dollar value of the purchase, discrepancies with monthly distribution reports, discrepancies with signatures submitted by providers, weak internal controls over the security of the gift cards, etc. The purpose of the reconciliation is to determine whether all quantities purchased were distributed to providers, distributed to clients, or on hand and accounted.

Response

CWES is currently conducting a complete annual physical inventory of gift cards on hand with the providers. SSA is revising its gift card reconciliation process to incorporate Internal Audit recommendations.

Recommendation 1.5

CWES should collect all the expired food items (at CWES and in backpacks distributed to providers) and exchange them with Costco so that the expired food items will not be given to clients.

Response

CWES inspected all remaining backpacks and expired items were removed. CWES, in coordination with SSA's Purchasing Department, worked with the vendor and exchanged all expired goods.

RE: Social Services Response – Internal Audit SSA Purchases, Accountability, and Distribution of Performance Incentives

Recommendation 1.6

CWES should have sign-in sheets for the distribution of performance incentive items, which list all the contents being distributed so that clients are aware of what they should be receiving. In the future, when distributing incentive items that contain multiple items, CWES will follow the same process.

Response

CWES will modify current procedures to incorporate Internal Audit recommendations to add a sign-in sheet for distribution of performance incentive items which lists all contents being distributed.

Recommendation 1.7

CWES should ensure that all providers indicate the type of voucher issued as part of their monthly review of provider distribution to client.

Response

CWES is currently reviewing providers' client signature sheets and is incorporating Internal Audit recommendations to indicate the type of voucher issued as part of monthly review of providers' distributions to clients.

Recommendation 1.8

For future distributions of incentive items, CWES should establish a comprehensive list that include the quantities purchased, the quantities assembled, and quantities given to providers for each item purchased.

Response

SSA will develop a comprehensive process to include quantity purchased, quantity assembled, and quantity issue to providers.

Finding 2 CalWORKs Employment Services should better manage performance incentives inventory to reduce the risk of loss and inventory management costs.

Recommendation 2

CWES should determine the performance incentive (gift items and cards) needs and to the extent possible buy quarterly and distribute during that time frame. Purchasing in bulk at year end should only be done if funding was not available during the year but is available at year end. Purchasing and distributing to clients within the quarter coincides with SSA's timeframe of quarterly claim submissions, reduces the risk of loss, and reduces the staff resources required to properly maintain monitor, and reconcile performance incentives.

Response

While SSA concurs in concept, it is important for the Agency to maintain flexibility to pursue optimal motivational incentives to fit a variety of client profiles. SSA will review the current practice and develop a replenishment threshold and distribution policy to address this recommendation.

Finding 3 The number of gift cards on hand at the community providers exceed the amount allowed per written policies and procedures.

Recommendation 3.1

CWES should comply with their written policies and procedures by ensuring the providers do not have more than 100 gift cards on hand. If more than 100 gift cards on hand is deemed appropriate for certain providers, the written policies should be revised to obtain approval for any deviation.

Response

When the policies and procedures were developed, the 100 gift card limit was set as a baseline. It is CWES' practice to identify the number of gift cards on hand at the time of the request. The need is estimated based on academic cycle, enrollment or participation. Incentives during the school breaks (winter, spring and summer) and peak enrollment periods are key to maintaining client participation. During these periods, the providers' needs may exceed the established gift card limit. CWES will modify policies and procedures to incorporate Internal Audit recommendation to allow for deviation from the established gift card limit with approval.

Recommendation 3.2

CWES should review the monthly usage for each provider when approving their request for gift cards and issue only the quantity needed for a month.

Response

CWES is modifying the gift card process to include Internal Audit recommendations for the review process of monthly usage for each provider when approving their request for gift cards.

Finding 4 It would have been a better practice for the County to purchase and account for \$292,000 in gift cards purchased by the community providers.

Recommendation 4

CWES should monitor and reconcile the gift cards purchased by the community providers in the similar manner as the gift cards purchased by the County.

Response

CWES will monitor and reconcile the gift cards purchased by community providers in the same manner as the gift cards purchased by the County.

Finding 5 Two community providers on cost reimbursement contracts with County submitted claims for expenses not yet incurred.

Recommendation 5

CWES should improve its monitoring and approval of community provider claims to ensure that payments are remitted only for expenditures that have been incurred.

RE: Social Services Response – Internal Audit SSA Purchases, Accountability, and Distribution of Performance Incentives

Response

CWES has revised its monitoring and approval process to include the recommendation by the auditor to process payment only for approved expenditures that have been incurred by the community provider. If future contracts include direct purchase of gift cards for incentives, receipts will be required with invoice(s).

Finding 6 The Independent Living Program was unable to locate all the supporting documents for the performance incentive distributions in FY '06.

Recommendation 6.1

The Independent Leaving Program (ILP) written policies and procedures for gift cards should be revised to include gift items. The policy should indicate that gift items will be given as incentives and the usage of gift cards will require written approval from the Department of Families and Children Services Director. The procedures should include purchasing, accountability, safekeeping, and distribution procedures for gift items.

Response

The Department of Family and Children's Services (DFCS) has revised ILP written policies and procedures to incorporate Internal Audit recommendations, and has forwarded a copy of the revised documents to Internal Audit.

Recommendation 6.2

ILP should revise the current sign-in sheets for gift items to include all items to be distributed so participants know what they are getting when they sign. In addition, the person issuing the gift cards should also sign on the sign-in sheet to properly document the transfer.

Response

The Department of Family and Children's Services (DFCS) has revised ILP written policies and procedures to incorporate Internal Audit recommendations, and has forwarded a copy of the revised documents to Internal Audit.

cc: Kathy Buckovetz, DEBS Director
Jan Picolorich, DEBS Asst Director
Denise Boland, DEBS, Administrator Benefit Services
Norma Sparks, DFCS Director
Jaime Lopez, DFCS Asst Director
Sandra Dalida, Chief Financial Officer
Ranjan Bagla, SSA Fiscal Officer