

Audit Report

Department of Social Services
Use of Gift Cards and Bus Tokens



Office of the County Auditor
Baltimore County, Maryland
October 2008



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October 29, 2008

Honorable Members of the County Council
Honorable James T. Smith, Jr., County Executive
Baltimore County, Maryland

We have audited the use of gift cards and bus tokens by the Department of Social Services for the period from July 1, 2006 through March 13, 2008.

The Department uses gift cards and bus tokens in place of cash to provide financial assistance to clients. Although the Department reported approximately \$283,000 of gift card and bus token purchases over the 18-month period from July 1, 2006 to January 10, 2008, purchases may have totaled more than \$438,000 based on our audit findings.

Our audit disclosed significant deficiencies in the Department's internal control procedures related to the use of gift cards and bus tokens. In particular, the Department did not maintain accurate, complete or reliable records; did not adequately safeguard all gift cards and bus tokens against loss, misuse, or theft; did not establish adequate segregation of duties; and did not establish written policies and procedures to guide employees in the use of gift cards and bus tokens. As a result, the Department was not able to account for \$154,910 of gift cards and bus tokens that were purchased over an 18-month period and could not account for \$48,706 of gift cards and bus tokens that were disbursed over a 20-month period. Additionally, the Department was not able to account for 340 gift cards totaling \$5,773 that were missing at the time of our physical inventory count on January 15, 2008. Further, we noted that the Department paid \$5,169 of avoidable fees in excess of the face value for certain gift cards and allowed \$1,750 of unused gift cards to expire and become worthless.

A response to our findings from the Department of Social Services is included as Appendix A to this report. Our comments regarding the Department's response are included as Appendix B.

We wish to express our appreciation to the Department of Social Services for the cooperation and assistance extended to us during our audit.

Our audit reports and responses thereto are available to the public and may be obtained on-line at "www.baltimorecountymd.gov/agencies/auditor" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland 21204.

Respectfully submitted,

A handwritten signature in cursive script, reading "Mary P. Allen", followed by a horizontal line extending to the right.

Mary P. Allen, CPA, CGFM
County Auditor

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Background

According to its mission statement, the purpose of the Baltimore County Department of Social Services is “to provide essential protective, financial, and supportive services to needy and at-risk children, adults, and families of Baltimore County so that they can lead safe, responsible, and economically independent lives.” The Department operates pursuant to the laws of both Baltimore County and the State of Maryland and is funded by County, State, and Federal dollars. The Department’s organizational structure consists of an administrative support division (the Administrative Services Program) and the following five major divisions:

- Family Investment;
- Adult and Community Services;
- Family Services;
- Children’s Services; and
- Housing.

As a means of providing financial assistance to its clients, the Department often uses gift cards and bus tokens in place of cash. Specifically, gift cards and bus tokens are used to provide direct (e.g., transportation stipends and basic necessity assistance) and indirect (e.g., program supplies and materials) assistance, and to provide rewards and incentives to clients for meeting individual performance goals. Gift cards of denominations ranging from \$5 to \$250 to area retail stores, gas stations, and restaurants and bus tokens of \$1.55 each are used in place of cash by the Department’s various assistance programs. The gift card denomination most frequently used ranged from \$5 to \$50. The Department reported gift card and bus token purchases totaling approximately \$283,000 from July 1, 2006 to January 10, 2008.

The Department’s Administrative Services Program and various assistance programs keep separate inventories of gift cards and bus tokens on hand to be used as needed. The Administrative Services Program is responsible for centrally purchasing the gift cards and bus tokens, distributing them to Department personnel for the assistance programs, and maintaining records (e.g., hand-written ledgers, written purchase requests) to document related transactions. The various assistance programs maintain documentation regarding the end-use disbursement of these assets as financial assistance to clients.

Findings and Recommendations

- 1. The Department's records related to gift cards and bus tokens were not accurate, complete, or reliable. For example, we noted unrecorded purchases totaling \$154,910 and undocumented disbursements totaling \$48,706.**

Effective internal control requires accurate, complete, and reliable records to serve as a decision-making tool for management and to help detect possible fraud, waste, or abuse of assets. However, our audit disclosed that the Department's records related to the purchase and distribution of gift cards and bus tokens were not complete, accurate, or reliable and did not track individual gift cards from the time of purchase through disbursement. Specifically, our review disclosed the following:

- The Department did not always record purchases of gift cards and bus tokens in its ledgers. Although the Department reported purchases totaling \$283,108 during the 18-month period from July 1, 2006 to January 10, 2008, purchases may have actually totaled \$438,018 based on our audit. Specifically, our audit disclosed at least \$154,910 of unrecorded gift card and bus token purchases for this time period based on a cross-check of the Department's ledgers to accounting records maintained by the County's Office of Budget and Finance and the State's Department of Human Resources.
- The Department could not account for gift card and bus token disbursements totaling \$48,706 to clients (\$21,450) and to Department employees (\$27,256) for the various assistance programs. Specifically, we noted the following:
 - > Assistance programs did not maintain adequate documentation to account for the distribution of gift cards and bus tokens to clients. For example, one Job Network Program site (Catonsville Job Center) did not maintain any supporting documentation for the distribution of gas station gift cards and bus tokens for the 14-month period ending August 31, 2007. As a result, the Department could not account for \$21,450 of disbursements (\$16,610 of bus tokens and \$4,840 of gas station gift cards) to clients. Further, our audit disclosed that forms to document the distribution of gift cards and bus tokens to clients served throughout the three assistance programs we tested were not consistently signed by clients to evidence receipt of the gift cards and bus tokens.
 - > The Administrative Services Program did not maintain adequate documentation for gift cards and bus tokens disbursed to Department employees for the various assistance programs. Our tests of the Program's ledgers disclosed that the Program could not account for disbursements totaling \$27,256, consisting of 4,855 gift cards valued at \$26,450 and 520 bus tokens valued at \$806.

- The Administrative Services Program's ledgers contained mathematical inaccuracies and were not appropriately maintained to document and track the purchase and disbursement of gift cards and bus tokens. For example, we noted that transfers between assistance programs were not adequately documented, and gift card identification numbers were not recorded.
- The Responsible Fathers and Job Network (including the Customer Incentive activity) Programs did not maintain ledgers to sufficiently track and account for gift cards and bus tokens received from the Administrative Services Program.

Consequently, the Department lacks assurance that gift cards and bus tokens, which much like cash are highly susceptible to fraud, waste, or abuse, are adequately tracked from the time of purchase through disbursement.

We recommend that the Department maintain accurate, complete, and reliable records to adequately account for the purchase and disbursement of all gift cards and bus tokens. Specifically, individual gift cards should be tracked from the time of purchase through disbursement. Ledgers should include the date of the transaction, type of transaction (purchase or disbursement), type of asset (gift card or bus token), the denomination, identifying number (or block of numbers), the value of the transaction, and the signature of each individual involved in the transaction. Supporting documentation that contains evidence of the proper authorizations and explanations for related gift card and bus token purchases and disbursements should be maintained on file in accordance with the Department's records retention policies.

2. Gift cards and bus tokens were not adequately safeguarded against unauthorized use and theft.

Effective internal control requires assets to be protected against the risk of loss, misuse, or theft. Our audit disclosed, however, that the Department did not adequately safeguard gift cards and bus tokens against loss, misuse, or theft. Specifically, we noted the following:

- The Responsible Fathers Program allowed gift cards on hand to be maintained by employees in unsecured locations (e.g., purse, briefcase, etc.).
- According to a police report filed by a Department employee, gift cards totaling \$600 were stolen from an unlocked briefcase in the employee's cubicle.
- The Department did not perform independent, unannounced periodic physical inventory counts by supervisors or managers of gift cards and bus tokens on hand to reduce the risk of loss or abuse.

- According to our January 15, 2008 physical count of gift cards on hand at the Administrative Services Program Office, 340 gift cards totaling \$5,773 could not be adequately accounted for or reconciled to the perpetual inventory records.
- The Administrative Services Program does not require countersignatures in gift card and bus token ledgers as evidence of distribution of gift cards and bus tokens to Department employees for the assistance programs.

As a result, the Department lacks assurance that gift cards and bus tokens are protected against the risk of loss, misuse, or theft.

To safeguard gift cards and bus tokens against loss, misuse, or theft, we recommend that the Department complete periodic (at least annually) independent, unannounced physical inventory counts of all gift cards and bus tokens on hand and promptly investigate any discrepancies with the inventory records. Periodic inventory counts should be completed by supervisors or managers without custodial responsibilities over these assets. In addition, we recommend that all gift cards and bus tokens be stored in a secure location (e.g., locked cabinet) with access limited to authorized personnel. Finally, we recommend that the Administrative Services Program require countersignatures in the ledgers when cards or tokens are distributed to Department employees for the assistance programs.

3. Adequate segregation of duties was not established over gift card activities.

Effective internal control requires the segregation of incompatible duties. An "incompatible" duty is one that would put a single individual in the position of being able both to commit an irregularity and then conceal it. Our audit disclosed that Department employees were performing incompatible duties. For example, we noted one employee in the Administrative Services Program was responsible for purchasing and receiving gift cards, maintaining gift card ledgers, disbursing cards to other employees for the assistance programs, and performing periodic physical inventories. As a result, this employee is in the position to commit an irregularity and conceal it.

To improve internal control, we recommend that the Department utilize existing personnel to segregate incompatible duties. For example, the duties of custody, access to records, and authorization (of purchases and disbursements) should be assigned to different personnel.

4. The Department paid up to 10%, or \$5,169, in excess of face value for certain gift cards and paid \$1,750 for gift cards that expired and became worthless.

Effective internal control prescribes that assets should be obtained at the least possible cost consistent with quality as a way to achieve economy and maximize the use of resources. Our audit disclosed, however, that the Department paid up to 10%, or \$5,169, in excess of face value for gas station gift cards. According to two local gas stations we contacted, gift cards are available in all denominations at anytime at face value without paying any additional fees. In addition, we noted that the Department paid \$1,750 for gift cards that expired and became worthless. As a result, the Department did not maximize the use of funding for client financial assistance.

We recommend that the Department prohibit the payment of fees in excess of face value for all gift cards and require all gift cards to be disbursed prior to expiration.

5. The Department had not established written policies and procedures for the use of gift cards and bus tokens as a means of providing financial assistance to clients.

Effective internal control includes written policies and procedures to ensure that management's directives are properly communicated and implemented on a consistent basis. During our audit, we noted that the Department had not established written policies and procedures to ensure the proper and consistent purchase, disbursement, and safeguarding of gift cards and bus tokens. For example, our audit disclosed the following:

- Although the Department advised that the Administrative Services Program is responsible for centrally purchasing gift cards and bus tokens, we noted that two of the three assistance programs we tested also purchased these assets.
- Authorization for gift card purchases was not always properly documented. In some cases, the Administrative Services Program purchased gift cards based on verbal requests or based on anticipated needs without written authorization.
- Gift card transaction documentation was inconsistently maintained (e.g., initials and date indicating receipt of cards were not consistently recorded, order forms were inappropriately used as supporting invoices, using programs were not clearly denoted, and documentation attached to support transactions varied from transaction to transaction).
- Procedures for the physical security and safeguarding of gift cards were not consistent among the assistance programs.

Without written policies and procedures, the Department lacks assurance that management's directives are properly communicated and that gift cards and bus tokens are properly purchased, recorded, disbursed, and safeguarded on a consistent basis. This condition greatly increases the risk that gift cards and bus tokens could be lost, stolen, or misused without timely detection.

We recommend that the Department establish written policies and procedures related to the purchase, disbursement, and safeguarding of gift cards and bus tokens. These policies and procedures should ensure that all transactions are authorized, executed, and recorded consistently and in accordance with management's directives.

Audit Scope, Objective, and Methodology

We have audited the procedures and controls for the use of gift cards and bus tokens by the Baltimore County Department of Social Services for the period from July 1, 2006 through March 13, 2008. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with the Baltimore County Charter, Section 311, the objective of our audit was to evaluate the adequacy of internal control practices and procedures over the Department's use of gift cards and bus tokens to provide financial assistance to clients. In planning and conducting our audit, we focused on gift cards and bus tokens maintained by the Department's Administrative Services Program and three financial assistance programs that, according to the Department's records, used the highest dollar volume of gift cards and bus tokens from July 1, 2006 to January 10, 2008. These three assistance programs were: Interagency Family Preservation, Responsible Fathers, and Job Network (including the Customer Incentive activity).

Our audit procedures included inquiries of appropriate personnel, inspections of documents, records, gift cards and bus tokens on hand, and observations of the Department's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objective.

The Department's management is responsible for establishing and maintaining effective internal control to adequately account for and safeguard its gift cards and bus tokens. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Department's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, or regulations.

APPENDIX A

**DEPARTMENT OF SOCIAL SERVICES
RESPONSE**

BALTIMORE COUNTY, MARYLAND
INTER-OFFICE CORRESPONDENCE

To: Mary P. Allen, County Auditor

From: Timothy W. Griffith, Director
Baltimore County Department of Social Services

Date: October 24, 2008

Subject: Response to Gift Card and Bus Token Audit

The Department of Social Services (DSS) has received the draft report of the referenced audit. The DSS Response to the draft report, which was developed with assistance from the County's Office of Budget and Finance (OBF), is attached.

As evidenced by the attached response, I am fully cognizant of the seriousness of the audit findings, and I have personally taken responsibility for making sure that a comprehensive fiscal control process is implemented relative to DSS's use of Gift Cards and Bus Tokens. To accomplish this objective, I have instructed the Administrative Services Program to work closely with OBF to develop policies and procedures that will guarantee that these DSS program assets are adequately accounted for and completely safeguarded from this point forward. This will ultimately entail the implementation of a broad set of procedures that give OBF critical oversight and approval for gift card and bus token purchases.

Of special note, I would like to point out that an internal reconciliation has been undertaken in conjunction with OBF to identify in detail the current inventory of gift cards and bus tokens, coupled with a complete review of purchase records to address specified discrepancies with DSS ledgers. To allow this review to move forward, I understand that you have already authorized OBF to receive specific information from your Office's audit workpapers, and I am most appreciative of the assistance you and your staff are providing.

Of immediate concern to me has been the \$154,910.38 in possible unrecorded gift card and bus token purchases that were presented in Audit Finding #1. This finding has precipitated a complete review of all of this agency's County and State records, since funding came from both sources. Using your Office's audit workpapers, which presented an original unrecorded total of \$158,320.24 (\$3,409.86 in unrecorded purchases occurred after the audit end date of 1-10-2008), the initial review of our records by DSS and OBF staff shows that the \$158,320.24, reduced by \$10,850 in double-counted workpaper entries, to an adjusted total of \$147,470.24, was split \$57,021.80 County and \$90,448.44 State. At this point in the analysis, in which we focused primarily on the County's \$57,021.80 in purchases, we have identified \$41,274.30 in gift cards/bus tokens that

were, in fact, ordered and recorded in either the DSS Finance Office or the various program ledgers, while the balance of \$15,747.50 in purchases was ordered but not properly recorded in either the DSS Finance Office or the various program ledgers.

With respect to the State's possible unrecorded purchases, totaling \$90,448.44, our internal analysis is progressing at this time. The overall review covering all County and State gift card and bus token purchases, along with the development by OBF of a comprehensive set of policies and procedures for use by all County agencies, should be completed in the next three weeks, followed by the issuance of a summary report to your Office.

At this time, I also recognize that this audit has uncovered major problems within the Administrative Services Program. To address this situation, I will initiate an organizational evaluation immediately with assistance from the State Department of Human Resources and OBF, so that any program deficiencies can be resolved in a timely manner.

Finally, I commend your audit staff for the professionalism exhibited during the performance of this audit. The audit required contact with a broad section of DSS staff, all of whom appreciated the willingness of your Office's staff to be flexible and to accommodate their schedules.

Attachment

**BALTIMORE COUNTY DEPARTMENT OF SOCIAL SERVICES
GIFT CARD AND BUS TOKEN AUDIT**

Finding #1: The Department's records related to gift cards and bus tokens were not accurate, complete, or reliable.

Agency Response/Corrective Action:

The Department's Administrative Service Program (Finance Office) has centralized its record keeping for gift card and bus token inventory control, which was previously handled by multiple employees on manual ledgers. They have developed Microsoft spreadsheets to track inventory levels for the Finance Office and for the various assistance programs. All transactions from the point of purchase to the point of disbursement are now recorded at the time of the transactions. Separate forms containing all relevant information documenting purchase authorizations and distribution of the cards and tokens have been developed, are in use and will remain on file in accordance with the Department's records retention policy.

Record keeping procedures have been implemented by the assistance programs to parallel the processes that are in place in the Finance Office. Program inventory records will be maintained to account for the end-use distribution of cards and tokens to assistance clients.

The County Administrative Officer has assigned independent Office of Budget and Finance (OBF) personnel to conduct on-site reviews of assistance program's operations related to gift cards and bus tokens to assure that appropriate internal control measures are implemented. A team of OBF and DSS personnel started performing physical inventory counts on 10/14/08 at all locations that handle the cards and tokens. The counts will be compared with the inventory records maintained and corrected to agree with the quantities actually on hand. These counts will also serve as the starting point to hold custodians accountable for card and token inventory control.

Finding #2: Gift cards and bus tokens were not adequately safeguarded against unauthorized use and theft

Agency Response/Corrective Action:

The following corrective actions have been taken to safeguard cards and tokens against unauthorized use and theft:

1. The Department's revised gift card policy requires that each assistance program perform a weekly accounting of gift card and bus token transactions to the DSS Finance Office. This accounting will be performed by a designated employee other than the program's designated custodian and alternate custodian.

2. Upon receipt of the weekly accounting, the DSS Finance Office will perform a reconciliation of each program's cards and tokens. Any discrepancies noted during the reconciliations will be promptly investigated.
3. DSS Finance Office personnel will periodically perform unscheduled gift cards/bus tokens inventory counts. An accounting of the card numbers will also be performed as part of the inventory count.
4. The Department will evaluate historical program activity levels to limit the number of cards and tokens in inventory. Per instructions from the Administrative Officer, the OBF has assumed oversight responsibility for inventory control. At this time, until the internal analysis is complete, the Department cannot purchase additional cards/tokens without the final approval from the Director of OBF or the Administrative Officer.
5. The Department now prohibits the transfer of cards and tokens between programs and has eliminated the use of cards to make purchases by Department employees. The Department cannot make card/token purchases using the County's procurement cards.
6. DSS Finance Office requires countersignatures by designated custodians on standard forms which document the distribution of cards or tokens to the programs.
7. Each designated custodian will be provided with a secured device that is not easily movable to ensure the physical security of gift cards and tokens in their custody.

Finding #3: Adequate segregation of duties was not established over gift card activities.

Agency Response/Corrective Action:

The Department has two levels of delegated responsibility for custodianship of cards and tokens and for documenting related transactions into and from inventories. One is at the DSS Finance Office to maintain inventory control related to central purchasing and subsequent distribution to the various assistance programs. The other is at the program level to account for the final end-use distribution of cards and tokens to clients with oversight from the Finance Office.

Current staffing at the Finance Office now allows appropriate segregation of duties of custody, access to accounting records, and transaction authorization. The Department recently filled a professional Accountant position that had been vacant for an extended period.

Custodial responsibility has been assigned to one employee, with a designated alternate at each program. The Program Administrator that requests the purchase of gift cards is not the custodian or alternate. A request to purchase gift cards must be submitted by the Program Administrator for recommendation by the Assistant Director and then final approval by the Director. All changes made to the custodianship and location of gift cards are reported to the DSS Finance Office.

Finding #4: The Department paid amounts in excess of face value for certain gift cards and paid for gift cards that expired before being used.

Agency Response/Corrective Action:

Maryland law, since 7/1/2006, prohibits the issuance of a gift card by a retailer that is subject to an expiration date or any fees within 4 years of the date of issuance. Inventory control will be maintained on a First-In-First-Out basis where expiration of cards will not be an issue. The Department now explicitly prohibits the payment of fees in excess of face value which is in violation of State law.

Finding #5: The Department had not established written policies and procedures for the use of gift cards and bus tokens as a means of providing financial assistance to clients.

Agency Response/Corrective Action:

The Department implemented new policies and procedures effective August, 2008 to ensure that record keeping for the purchase, disbursement, and safeguarding of gift cards and bus tokens are consistently applied on a Department-wide basis. The new written policies and procedures have been disseminated to the programs that use the cards and tokens, as well as the management. Written policies and procedures will be updated, as needed, based on the independent internal control review by OBF personnel.

APPENDIX B

**AUDITOR'S COMMENTS ON AGENCY
RESPONSE**

Appendix B

Auditor's Comments on Agency Response

The Department of Social Services (DSS), in its response (Appendix A) to the audit report, indicates that, of the \$154,910 we reported as unrecorded gift card and bus token purchases (Finding # 1), it identified \$10,850 of purchases that were double-counted and \$41,274 of purchases that were recorded in either the DSS Finance Office or the various program ledgers. The Department advised that it accounted for the \$41,274 of unrecorded purchases in October 2008.

Upon further review of our test work, we determined that the total of unrecorded gift card and bus token purchases should be \$149,591 rather than \$154,910 as noted in Finding #1. The relatively insignificant adjustment of \$5,319 reflects \$2,809 of purchases that were double-counted and \$2,510 of purchases that were included in the records provided to us at the time of our audit test in January 2008. The Department's subsequent identification of recorded purchases relied on records that were not provided to us or did not contain sufficient information to agree to purchase documents at the time of our audit test. Therefore, the unrecorded purchases at the time of our audit test total \$149,591.

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