

OFFICE OF AUDITS & ADVISORY SERVICES



AUDIT OF THE ELECTRONIC BENEFIT TRANSFER (EBT) CARD INVENTORY

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

July 11, 2014

TO: Nick Macchione, Director
Health and Human Services Agency

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: ELECTRONIC BENEFIT TRANSFER CARD INVENTORY

Enclosed is our report on the Electronic Benefit Transfer (EBT) Card Inventory. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Ida Miclat at (858) 694-2050.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:IM:aps

Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Dean Arabatzis, Chief Operations Officer, Health and Human Services Agency
Richard Wanne, Deputy Director, Agency Operations, Health and Human Services Agency
Andrew Pease, Executive Finance Director, Health and Human Services Agency
James Lardy, Finance Officer, Health and Human Services Agency

INTRODUCTION

Audit Objective The Office of Audits & Advisory Services (OAAS) completed an audit of the Electronic Benefit Transfer (EBT) Card Inventory. The objective of the audit was to identify and evaluate internal controls around the safeguarding of EBT cards.

Background EBT is an electronic system used by California Department of Social Services (CDSS) for distributing CalFresh benefits (formerly known as Food Stamps and currently known as federally Supplemental Nutrition Assistance Program) and cash aid benefits. Recipients of public assistance in California access their issued benefits with the Golden State Advantage EBT Card. The Health and Human Services Agency (HHSA) Fiscal Services Division (FSD) is responsible for the oversight and administration of the EBT Card program for the County of San Diego (County). The County has 13 Family Resource Centers (FRC) that are authorized to issue EBT cards.

Audit Scope & Limitations The scope of the audit included fiscal year 2012-13 to current. The audit included an assessment of EBT Card inventory controls administered by FSD and controls administered by selected Family Resource Centers (FRCs). The FRCs selected for testing included:

- El Cajon
- Lemon Grove
- South Region

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology OAAS performed the audit using the following methods:

- Reviewed FSD and each FRC unit's policies and procedures regarding the current process on receiving, safekeeping, and issuance of EBT cards to the eligible recipients.
- Conducted on-site interviews and observations to verify if the controls are in place and adequate.
- Conducted physical count of EBT cards to verify inventory accuracy.
- Reviewed card issuance documentation to ensure compliance to program requirements.
- Tested EBT cards that were printed but not distributed to ensure documentation and timely destruction.
- Reviewed user access to EBT card applications to ensure no single individual has complete control over all issuance activity.

AUDIT RESULTS

Summary

Within the scope of the audit, there is reasonable assurance that internal controls around the safeguarding of EBT cards are adequate. To further strengthen controls and improve effectiveness, OAAS has the following findings and related recommendations:

Finding I:

Physical Inventory Controls Over EBT Cards Need to be Strengthened

OAAS identified issues related to the EBT card physical inventory controls including the following:

- One FRC unit was not taking physical count of EBT cards on a monthly basis.
- FRC units were not required to submit monthly inventory reports and completed EBT card logs to FSD.
- The monthly physical count of EBT cards at FSD has been conducted by the same person in-charge of issuing EBT cards.

Lack of a reconciliation process may cause inaccuracies and failure to detect irregularities.

CalFresh Regulation 63-601.154 requires the county to establish an issuance and accountability system which will ensure that inventory issuance and reconciliation activities are properly conducted and accurately reported.

CalFresh Regulation 63-702.32 requires the county to ensure that inventories are in fact based on actual counts and should witness these counts on a selected basis. Corrected reports shall be submitted when the current month reported beginning inventory does not coincide with the ending inventory reported for the previous month.

Recommendation:

FSD should develop a standard guideline for taking a physical inventory of EBT cards and communicate to all FRCs. The guideline should also include the reporting requirements such as submission of the monthly inventory report and the completed EBT card logs to FSD.

Finding II:

Lack of Guidelines on Segregation of Duties

The FRCs have not established adequate segregation of incompatible duties over EBT card issuance applications including the following:

- Three Immediate Need staff in two FRCs have access to all EBT card issuance applications: CalWIN,¹ EPPIC,² and PIN³ Select.

¹ CalWIN is used to validate client data and process issuance of benefits

² EPPIC is used by IN units to view client information when CalWIN is down.

³ PIN select is a device used by eligible recipient to select PIN to activate card.

- One program supervisor in one FRC has access to the vault and to all three EBT card issuance applications.

Lack of standard guidelines on segregation of duties creates the risk of both erroneous and inappropriate actions.

CalFresh Regulation 63-602.22 requires that EBT card issuance responsibilities shall be divided between at least two persons to prevent any single individual from having complete control over all issuance activities.

Segregation of duties requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping. Having different individuals perform these functions creates a system of checks and balances.

Recommendation: FSD should develop and communicate standard guidelines on implementing the principle of segregation of duties to maintain a system of checks and balances and to prevent fraudulent activities.

Finding III: **Procedures to Safeguard EBT Cards Need to be Strengthened**
Issues relating to safeguarding of EBT cards have been identified as follows:

- One FRC unit has the safe open all day until the last client is served.
- All FRCs have no approval process for vault combination reset.

Absence of standard vault procedures in all FRC units may result in unauthorized access to EBT cards.

CalFresh Regulation 63-601.153 requires the county to establish an issuance and accountability system which will ensure that EBT card inventory are accepted, stored and protected with due security after delivery to receiving points within the county.

Recommendation: FSD should develop standard vault procedures to be communicated to all FRC units.

Finding IV: **EBT Card Destruction Controls Need to be Strengthened**
Issues have been identified relating to the EBT card destruction process including the following:

- Two FRCs have shredded EBT cards with no review process.
- Two FRCs have not maintained record logs for destroyed cards.
- One FRC kept printed cards that had not been picked up by recipients for several months.

Lack of written policies and procedures on card destruction creates the risk of fraudulent activities.

CalFresh Regulation 63-70 requires the county to destroy deactivated cards by shredding, tearing or cutting so they are not negotiable. Two County Welfare Department (CWD) designated employees shall witness and certify the destruction information.

Recommendation: FSD should develop and communicate standard EBT card destruction policies and procedures including but not limited to review process, maintaining record log, and destroying cards.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

HEALTH AND HUMAN SERVICES AGENCY

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NICK MACCHIONE, FACHE
DIRECTOR

ANDREW PEASE
EXECUTIVE FINANCE DIRECTOR

July 9, 2014

RECEIVED

TO: Juan R. Perez
Chief of Audits

FROM: Jim Lardy
Finance Officer, HHS

JUL 09 2014

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: AUDIT OF THE ELECTRONIC BENEFIT TRANSFER (EBT) CARD INVENTORY

Finding I: Physical Inventory Controls Over EBT Cards Needs to be Strengthened

Action Plan: We agree with the recommendations. We have implemented additional physical inventory controls over the EBT cards to strengthen internal controls. The FRC and Fiscal Services EBT Card Inventory Procedures were updated to include the following changes:

- Each FRC is now required to take a physical count of EBT cards on a monthly basis.
- Each FRC is now required to submit monthly inventory reports and completed EBT card logs to Fiscal Services
- The monthly physical count of EBT cards at Fiscal is now being conducted by a person different from the person in charge of issuing the EBT cards to the FRCs.

Fiscal Services also conducted several WebEx training sessions for the FRCs on the new procedures for EBT cards. The updated procedures for EBT cards were distributed to the FRC Managers, Regional Financial Leads, Chief of Eligibility Operations and Program Managers.

The attached EBT Card Inventory procedure is evidence of implementation for internal control (see Attachment A – FRC EBT Card Inventory Procedure).

Planned Completion Date: Implemented

Contact Information for Implementation: Jim Lardy, Finance Officer

Finding II: Lack of Guidelines on Segregation of Duties

Action Plan: We agree with the recommendation. Fiscal has existing procedures on internal controls for the FRCs and identifies the responsibilities for each clerk (see Attachment B – EBT Immediate Need Procedure).

In order to maintain segregation of duties, Eligibility Operations has developed and strengthened existing procedures. These procedures include detailed tracking of user access and additional levels of verification for granting access requests to EBT issuance applications. Eligibility Operations has also conducted a review of all existing users to ensure that no one user has access to both EPPIC and PIN select.

Planned Completion Date: August 31, 2014

Contact Information for Implementation: Jim Lardy, Finance Officer

Finding III: Procedures to Safeguard EBT Cards Needs to be Strengthened

Action Plan: We agree with the audit recommendation. HHSA FSSD has developed a standard vault/safe procedure which will be communicated to all FRC units as well as other Agency sites. A WebEx Training will be scheduled in July 2014.

Attached are the Safe/Vault Procedure and the four forms as evidence of implementation for internal control:

- Attachment C – Safe/Vault Procedures
- Attachment D – List of Authorized Individuals Form
- Attachment E – Safe/Vault Authorization Form
- Attachment F – Safe/Vault Inventory List
- Attachment G – Safe/Vault Activity Log

Planned Completion Date: July 31, 2014

Contact Information for Implementation: Jim Lardy, Finance Officer

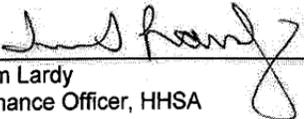
Finding IV: EBT Card Destruction Controls Need to be Strengthened

Action Plan: We agree with the audit recommendation. The EBT card destruction procedure for the FRCs has been updated (see Attachment H – FRC EBT Card Destruction Disposal Procedures).

Planned Completion Date: Implemented

Contact Information for Implementation: Jim Lardy, Finance Officer

If you have any questions, please contact me at (619) 338-2278.



Jim Lardy
Finance Officer, HHSA