



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

CONTROLS OVER GIFT CARDS: DEPARTMENT OF HUMAN SERVICES (DHS) AND JUVENILE DISTRICT COURT (JDR)

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Our FY 2024 Risk-Based Internal Audit Work Plan identified controls over gift cards as a potential risk area warranting audit coverage. DHS and JDR purchase gift cards for multiple uses in carrying out their missions. For example, at DHS, gift cards are provided to clients as financial assistance and at JDR they are used as part of client incentive programs. For Fiscal Year 2024, DHS handled approximately \$55,000 in gift cards and JDR handled approximately \$1,500 in gift cards. DHS and JDR have established policies for covering the purchase and safeguarding/control of gift cards. Gift cards are synonymous with cash and therefore, strong internal controls for gift card receipt and distribution are necessary to prevent mishandling of County funds.

The objective of the audit was to evaluate the design and operating effectiveness of the internal controls for purchasing, receiving, storing, disbursing, recording and reconciling gift card activity in DHS and JDR.

We sampled disbursements and inventory checks for the period covering July 1, 2023, to June 30, 2024.

This report is organized as follows:

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| Executive Summary | This section provides the scope and objective of the audit and a summary of the issues noted during this audit. |
| Details of Findings, Recommendations and Management Actions | This section gives a detailed description of the issues noted during this audit, recommended actions, and management’s corrective action plan, including the responsible party and estimated completion date. |

We would like to express our appreciation to the staff in multiple departments involved with this review.

Respectfully submitted,
Internal Audit
Department of Management and Finance

EXECUTIVE SUMMARY

In accordance with the FY 2024 Arlington County Annual Internal Audit Plan, we performed a review of controls over the purchase and use of gift cards in DHS and JDR.

Background: The County's Funds Handling policy establishes uniform procedures to be followed for all departments in Arlington County for the proper handling of County funds to include gift cards. Departments must ensure tight and clear written procedures exist and managers and employees are aware of policies and have appropriate training. Documentation must be established, to ensure appropriate controls and segregation of duties exist amongst personnel who handle collecting, disbursing, reconciling, or storage duties of gift card transactions.

Objective of Audit: Evaluate the design and operating effectiveness of the internal controls for purchasing, sourcing, receiving, storing, disbursing, recording and reconciling gift card activity in DHS and JDR.

Scope of Audit: We selected a total sample of 66 of 1885 (4%) gift card disbursements from the period July 1, 2023, to June 30, 2024, and the audit included:

- Evaluating departments' policies, procedures, and guidelines around the handling of gift cards to review the level of oversight and monitoring and the adequacy and effectiveness of internal controls and compliance with the County's policy.
- Evaluating tracking logs maintained by the department to record the movement of gift cards from the purchase by the department to the gift card recipient.

Evaluating that Departments are compliant with the approval process for purchasing gift cards in accordance with grant or budget requirements and County P-card Policy and testing compliance in accordance with the Department's Gift Card Policy and procedure requirements. Our audit disclosed that DHS and JDR generally complied with the County's Funds Handling policy, Department's Gift card policies and procedures, however, our review identified instances of inadequate internal controls related to segregation of duties over the gift card process, gift card inventory, training, and gift card logs and receipts. During the audit, management was made aware of certain practices needing improvement and they took some immediate actions to remediate those areas. We have identified these actions in our report. There are additional management actions that are needed to comply with the County's Funds Handling policy, strengthen internal controls and protect the County's interests as detailed in this report.

Executive Summary

A summary of the findings identified, and their relative risk ratings is provided below:

1. Internal Controls – Segregation of Duties. High Risk Rating.

We noted some weaknesses in internal controls surrounding segregation of duties in DHS - Economic Independence Division (EID) that if corrected, would strengthen the controls, and protect the County's interests.

2. Gift Cards Inventory. High Risk Rating.

During our physical gift card inventory review, we noted a high number of gift cards in stock in DHS- Child and Family Services Division (CFSD). We also noted that the gift card tracking log in DHS-EID did not reconcile to the physical inventory of gift cards in the safe. We also became aware there was a physical inventory review performed by DHS Financial Management of the EID- Community Assistance Bureau (CAB) Safe in which \$950 gift cards were unaccounted for

in February 2024 for which corrective action was requested internally by DHS- Financial and Administrative Support Services (FASS), however, there was no subsequent corrective measures that took place.

3. Funds Handling Training. Medium Risk Rating.

Overall, we found cases where staff did not take the Funds Handling training timely. Even though they didn't handle funds in these cases, they should have taken Funds Handling training as they were in roles that had the ability to handle gift cards. In one case, we became aware of an employee handling funds prior to taking DMF's Funds Handling training.

We recommend establishing a requirement that Funds Handling training be completed prior to the handling of any funds.

4. Client Receipts. Low Risk Rating.

Our review disclosed that prior to February 2024, gift cards disbursed were not being appropriately logged when disbursed at JDR – Girls Outreach program, an after-school program for teens. They are now being appropriately logged when disbursed as of February 2024. Additionally, JDR – Girls Outreach program did not have receipt documentation signed by clients. As of June 2024, JDR – Girls Outreach program implemented receipt documentation signed by clients.

Risk Factors

Relative risk factors have been assigned to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the options. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

✓ High - Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately.

✓ Moderate - Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term.

✓ Low - Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure.

DETAILED FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

| 1. Internal Controls – Segregation of Duties | High Risk |
|---|------------------|
| <p><u>Segregation of Duties</u></p> <p>The County’s Fund Handling policy and DHS - EID policies and procedures, require clear separation of duties for staff who have responsibility for handling gift cards. An individual should not have responsibility for more than one of the gift card handling components: collecting (purchasing or receiving donations), disbursing, reconciling, or storage duties. Divisions must ensure there is a system of checks and balances in place so that no one employee can complete related steps in handling gift cards from beginning to end.</p> <p>The segregation of duties section of DHS - EID policies and procedures define the following roles:</p> <ul style="list-style-type: none">a. Gift Card Manager: The designated manager assigned to store gift cards in the safe before they are distributed to responsible staff. <i>Gift Card Managers cannot distribute gift cards to clients.</i> It is recommended that each division should have a primary and a back-up manager.b. Responsible Staff: The DHS staff member who distributes the gift card directly to the client.c. CAB (Community Assistance Bureau) - CCP (Clinical Coordination Program Supervisor): The DHS staff member who tracks, manages, and reconciles gift card distributions with active inventory. <p>Our review disclosed the following segregation of duties issues:</p> <ul style="list-style-type: none">• The DHS-EID Community Assistance Bureau Chief is assigned the primary Gift Card Manager role and is also assigned the role as Responsible Staff. Per DHS-EID’s policies and procedures, <i>Gift Card Managers cannot distribute gift cards to clients.</i>• The DHS-EID Principal Program Specialist is assigned the Gift Card Manager backup role, the Responsible Staff role and CAB-CCP Supervisor role. Per EID’s policies and procedures, an individual should not have responsibility for more than one of the gift card handling components: collecting, disbursing, reconciling, or storage duties. <p>For the 10 DHS-EID gift card disbursements sampled, we noted that the DHS-EID Community Assistance Bureau Chief disbursed 4 gift card for a total of \$200 and the DHS-EID Principal Program Specialists disbursed 2 gift cards for a total of \$100. We have signed client receipts evidencing that those were disbursed to clients. The other 4 gift cards were disbursed by the DHS- EID Human Services Specialist with no concerns noted.</p> <p><u>Gift Card Request Form</u></p> <p>In DHS – EID, there is no gift card request form that is completed by an independent case worker who determines and documents an individual’s eligibility for gift cards. To maintain strong internal controls, there should be a gift card request form added to the workflow process in DHS – EID. It should be noted that all departments in DHS have a gift card request forms as part of their process except for DHS-EID.</p> | |
| Recommendations | |
| <p>We recommend:</p> <ul style="list-style-type: none">1. DHS – EID review its internal controls design surrounding segregation of duties to ensure | |

no one person handles multiple roles in the process.

2. DHS - EID add a gift card request form to be completed by an independent caseworker to its workflow to ensure compliance with the DHS – EID gift card policies and procedures, Funds Handling policy.
3. DHS-EID re-emphasize policies and procedures to staff.

Management Response

DHS-EID has already revised its gift card policy to include clearer segregation of duties and has added in definitions and Standard Operating Procedures (SOPs) for each staff role, from the Gift Card Manager, Gift Card Disburser (who is separate from the Gift Card Manager), Gift Card Requestor, and the EID Finance & Administrative Support Services Team. In addition, a Gift Card Request Form has been created in Microsoft Forms to document requests more clearly. The EID Division Director and EID Administrative Officer will train staff in these revised policies and SOPs in November and December.

Responsible Party: Economic Independence Division Director and Administrative Officer, DHS – EID

Target Date: 1/1/25

2. Gift Cards Inventory

High Risk

Gift cards must always be adequately safeguarded as they are very similar to cash. All gift cards must be kept in locked drawers or a safe. In accordance with the County's Funds Handling Policy, the total amount of gift cards that can be in one person's locked desk rather than a safe cannot exceed \$250 total in gift cards. Gift cards exceeding a total of \$250 must be stored in a safe.

DHS - CFSD

During our physical inventory review, we noted that in DHS-CFSD, there were approximately \$21,000 worth of gift cards in the safe appears high. A risk exists that a high amount of gift cards in stock may result in theft or misuse. They also should re-assess the gift card need for the department. Internal Audit inquired with management regarding the high gift cards amount in the safe and management stated that when they are offered gift cards, they rarely refuse them because they allow them to provide immediate access to resources to the children and families that they serve and otherwise wouldn't be able to access as quickly. CFSD disbursed \$17,660 in gift cards in FY 2024.

DHS – EID

The Administrative Officer in DHS - Financial Management performed a physical inventory review of the DHS-EID-CAB safe in February 2024 and noted gift cards in the amount of \$950 were unaccounted for in the safe, without documentation showing that they were disseminated to clients. Several meetings and email exchanges between DHS – FASS and the Program Manager occurred to try and identify the missing gift cards. There was no root cause determined for the missing gift cards. DHS – FASS put in place corrective measures and the issues were also communicated to the DHS Director. The corrective measures put in place were the following: 1) CAB Safe Team must ensure that all gift cards provided to funds-control trained staff for client distribution are partial entered into Gift Card Tracking excel with bureau/unit and program staff (columns D/E) entry immediately or within 24-hours when there are extenuating circumstances. 2) Once gift cards are disseminated to clients, program staff must provide the CAB Safe Team with authorized client distribution forms within 5 business days. If this timeframe is exceeded, then the program staff supervisor must be notified via email of pending documentation. 3) The CAB Safe Team must follow-up weekly to ensure all gift cards are properly tracked and all forms are on file.

In addition, per the Funds Handling Policy, any variances for funds over or under \$100 must be reported to the Comptroller. The \$995 shortage was never reported to the Comptroller.

During our physical inventory review in May 2024, we noted that the DHS-EID master gift card tracking log did not reconcile to the physical inventory of gift cards in the DHS-EID-CAB safe. The DHS-EID master gift card tracking log indicated that a balance of \$6,875 gift cards was in the safe, however, we physically counted \$6100, \$775 less than expected. Again, there was no explanation determined for the missing gift cards, no root cause analysis provided, and the Comptroller was not notified. Internal Audit performed a follow up physical inventory of gift cards in DHS- EID-CAB safe in June 2024 and no concerns were noted.

Recommendations

We recommend DHS re-evaluate their policies and procedures and implement stronger controls such as adding FASS corrective measures into their policies and procedures and distributing to all staff, perform more frequent unannounced gift cards inventory audits and perform root cause analysis over any variances found and escalate it to management. In addition, DHS staff should be reminded that the Funds Handling policy requires that variances over \$100 be reported to the DMF-Comptroller. Management should always be monitoring compliance.

Management Response

- a. **DHS – CFSD:** DHS-CFSD will organize the annual holiday gift card giveaway for clients receiving services in CFSD themselves, as opposed to having it done centrally in DHS, which will greatly reduce our current inventory. Effective February 1, 2025, CFSD will maintain no more than \$5,000 in gift cards at any given time. The Quality Assurance Manager will audit the safe quarterly to ensure compliance. Quality Assurance Manager and Administrative Officer will update CFSD policies and procedures to reflect this change.

Responsible Party: CFSD Quality Assurance Manager and CFSD Administrative Officer.

Target Date: 2/1/25

- b. **DHS-EID:** DHS-EID has already revised its gift card policies and procedures to implement stronger controls, including FASS corrective measures if issues are uncovered. In addition, when DHS-EID re-trains all staff in the updated gift card policies and procedures, the training will emphasize the Funds Handling Policy, which requires variances over \$100 to be reported to the DMF-Comptroller. If and when there are variances, the DHS Division Director and FASS Administrative Officer will enact corrective measures for staff who are not in compliance, up to and including progressive disciplinary measures, depending on the severity of any identified issues and/or variances. With the clearer procedures and segregation of duties in the gift card policy, it will be easier to identify where issues reside and identify root cause analysis of the issues.

Responsible Party: Economic Independence Division Director and Administrative Officer, DHS – EID

Target Date: 1/1/25

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| <p>3. Funds Handling Training</p> | <p>Medium Risk</p> |
| <p>Per the Funds Handling policy, employees must be authorized prior to handling funds which includes completing the Department of Management and Finance (DMF) Funds Handling training course and completing DMF’s Authorization to Handle Funds Form.</p> <p>Generally, we found that DHS Funds Handling training and Funds Handling Authorization forms were completed. However, we found a few cases where people (whose roles that had the ability to handle gift cards) were not taking the training timely, even though in these cases, they did not handle gift cards, they should have taken appropriate Funds Handling training timelier.</p> <p>For – CFSD, we noted one issue below:</p> <p>DHS - CFSD:</p> <ul style="list-style-type: none"> • A Human Services Specialist that started in March 2024, handled gift cards in March 2024 through confirmation of the gift card log. This was prior to completion of Funds Handling Training and the Funds Handling Authorization Form which was not completed until September 2024. <p>JDR:</p> <p>Additionally, JDR’s processes do not include DMF’s Funds Handling Training and DMF’s Funds Handling Authorization Form included in their policies and procedures.</p> | |
| <p>Recommendations</p> | |
| <p>We recommend:</p> <p>DHS establish a process where training requirements are appropriately monitored and reporting on compliance with the requirements is communicated to management.</p> <p>JDR include the County’s Funds Handling Training and Funds Handling Authorization Form in their policies and procedures.</p> | |
| <p>Management Response</p> | |
| <p>a. DHS-CFSD: CFSD Quality Assurance Manager and Administrative Officer will review the funds handling training status for all CFSD staff on a quarterly basis to confirm completion. Any new hire that has not completed the form or training will receive an email reminder with a copy to their supervisor and will be informed that they cannot request gift cards until this is completed. CFSD Managers will receive additional communication regarding this policy. Policies and procedures will be updated to include Gift Card Manager verification of completion of training prior to gift card distribution.</p> <p>Responsible Party: CFSD Quality Assurance Manager and CFSD Administrative Officer. Target Date: 1/1/2025</p> <p>b. JDR revised their gift card policy and added the Funds Handling Policy, SharePoint authorization form and the DMF Funds Handling training presentation. Additionally, new hires and transfer employees will be required to complete DMF Funds Handling training within 30 days of hire date or transfer date. As for current employees, the deadline for completion of the DMF Funds Handling training will be February 14, 2025.</p> <p>Responsible Party: JDR Court Director and JDR Management Specialist Target Date: 2/14/25</p> | |

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| 4. Client Receipts | Low Risk |
| <p>Generally, most Divisions in DHS and JDR were appropriately monitoring gift cards through maintaining logs and obtaining receipt documentation signed by clients. However, our review disclosed that prior to February 2024, gift cards disbursed were not being appropriately logged when disbursed at JDR – Girls Outreach program, an after-school program for teens. They are now being appropriately logged when disbursed as of February 2024. Additionally, JDR – Girls Outreach program did not have receipt documentation signed by clients. As of June 2024, JDR – Girls Outreach program implemented receipt documentation signed by clients. The JDR Girls Outreach program disburses approximately \$150 in gift cards a year.</p> | |
| Recommendations | |
| <p>We recommend the JDR – Girls Outreach Program establish a process to have clients appropriately sign for receipt of a gift card.</p> | |
| Management Response | |
| <p>JDR- Girls Outreach Program implemented receipt documentation signed by clients as of June 2024.</p> <p>Responsible Party: Juvenile Program Supervisor - JDR Target Date: Complete</p> | |

IMPROVEMENT OPPORTUNITY (UNRATED)

1. Funds Handling Policy – Department of Management and Finance
 - a. In the Funds Handling Policy, it does not state the timeframe in which Funds Handling Training and Authorization to Handle Funds Form must be completed. We recommend updating the Funds Handling Policy to have the training timeline completed within 30 days of hire/transfer and adding language prohibiting employees from handling funds until training is completed.

Response: The DMF Comptroller will update the Funds Handling Policy to have the training timeline completed within 30 days of hire/transfer and adding language prohibiting employees from handling funds until training is completed.

Responsible Party: DMF - Comptroller

Target Date: 1/31/2025