

# AUDIT REPORT

Clark County Department of Family Services  
Purchasing Card and  
Gift Card Controls Audit  
*January 26, 2022*



**CLARK COUNTY** *Nevada*  
Audit Department

Angela M. Darragh, CPA, CISA, CFE  
Audit Director  
[countyauditor@clarkcountynv.gov](mailto:countyauditor@clarkcountynv.gov)

# Audit Executive Summary

## Family Services Purchasing Card and Gift Card Controls Audit

January 2022

**Background** | The Department of Family Services often needs to make quick purchases for children in its care. Because of this, the Department has been issued a single purchasing card for use when buying items.

A purchasing card is a credit card intended to make quick purchases outside the County's traditional procurement process. Charges are paid in full every month and Department personnel are responsible for oversight of the card purchases. DFS primarily uses their purchasing card to make online purchases for the Child Haven Campus and to purchase merchant specific (i.e., Target, Walmart) reloadable gift cards for in-person purchases.

There were 3,740 transactions on the Department's purchasing card between July 1, 2019 and June 30, 2020 totaling \$600,051.

This audit included a review of financial activities between July 1, 2019 and June 30, 2020, as well as a review of some administrative activities up to August 2021.

**Purpose of Audit** | We conducted this audit to determine whether the Department of Family Services designed appropriate internal controls over the Department's purchasing card and gift card program and whether the controls are working as intended. We also determined whether purchases were approved, business appropriate, properly supported, and for the benefit of children in care. Finally, we also assessed the adequacy of segregation of duties and physical security over the cards.

**Summary and Key Findings** | Overall, we believe that the Department of Family Services implemented satisfactory controls over their purchasing card and reloadable gift cards.

Reconciliations are performed and purchases are appropriate, supported, and for the benefit of children in care.

We did identify some concerns and opportunities for improvement as follows:

- The number of purchasing cards assigned to staff should be increased to improve accountability. (Page 11)
- A specific merchant's shipping practices creates an administrative burden for the Department. This is because one order results in a large number of small charges to the purchasing card. These charges require additional reconciliations, time to manage, and they also make it difficult to review the invoice. (Page 12)
- Segregation of duties and compensating controls for online purchases should be improved. (Page 16)
- The Department currently has a large volume of single use gift cards in inventory. We believe the number and dollar value are excessive given the distribution history. (Page 18).
- Inventory controls for items stored at the Child Haven Campus could be improved to ensure items are not lost or stolen. (Page 19)
- The Department of Family Services did not set a purchase limit for the purchasing card to minimize potential loss in the event the card information is misused. (Page 22)

**See audit report for full details.**

**Recommendations** | This audit report contains a total of 14 recommendations intended to improve the identified conditions and concerns.

The Department has reviewed the recommendations and will work towards addressing the findings.

For more information about this or other audit reports go to [clarkcountynv.gov/audit](http://clarkcountynv.gov/audit) or call (702) 455-3269.

Clark County Audit Department



## Audit Team

---

Angela Darragh, Director  
Cynthia Birney, Audit Manager  
Felix Luna, Principal Auditor  
Tracy Banks, Internal Auditor  
Apryl Kelly, Internal Auditor

## Audit Committee

---

Commissioner Michael Naft  
Commissioner William McCurdy II  
Commissioner Ross Miller

## About the Audit Department

---

The Audit Department is an independent department of Clark County reporting directly to the County Manager. The Audit Department promotes economical, efficient, and effective operations and combats fraud, waste, and abuse by providing management with independent and objective evaluations of operations. The Department also helps keep the public informed about the quality of Clark County Management through audit reports.

You can obtain copies of this report by contacting:

Clark County Audit Department  
PO Box 551120  
Las Vegas, NV 89155-1120  
(702) 455-3269

CountyAuditor@ClarkCountyNV.gov

Or download and view an electronic copy by visiting our website at:

<https://www.clarkcountynv.gov/audit/Pages/AuditReports.aspx>



## Table of Contents

---

Background.....	1
Purchased Goods/Services are for the Benefit of Children in Care.....	3
Some Child Haven Campus Inventory is Purchased with the Purchasing Card .....	3
Purchasing Cards Necessitate Strong Internal Controls .....	7
Scope and Objectives .....	7
Methodology .....	7
Conclusions .....	11
Findings, Recommendations, and Responses .....	11
Department Should Reconsider Number of Purchasing Cards Needed (High Risk).....	11
Split Online Orders Create Administrative Burden and Weaken Monthly Statement Review Process (Medium Risk).....	12
Segregation of Duties and Compensating Controls for Online Purchases Should be Revisited (Medium Risk) .....	16
Large Volume of Single Use Gift Cards May be Excessive (Low Risk) .....	18
Child Haven Campus Inventory Controls Can Be Enhanced (Low Risk) .....	19
Department Should Set Purchasing Card Single Purchase Limit (Low Risk).....	22

---

## Background

---

Up until 2001, responsibility for Child Welfare in Nevada was separated between the state and counties. Counties were responsible for child protective services and the State was responsible for foster care and adoption services.

In 2001, the Nevada Legislature passed Assembly Bill 1. This bill transferred foster care and adoption services from the State to Counties (*only for those whose population exceeds 100,000.*) In response, Clark County expanded the Department of Family Services (DFS) in June 2002 to include the new areas.

The Clark County Department of Family Services provides child protective services, permanency services, shelter services, and oversight for a children's assessment center. The Department performs investigations, provides temporary care at the Child Haven Campus, and also administers a hotline.

The Department of Family Services is supported by an executive management team, support services team, and fiscal management team. The Department has approximately 900 employees as of August 30, 2021.

To fulfill its mission, the Department of Family Services often needs to purchase goods and pay for miscellaneous services for children in its care. Because of this, the Department was issued a Purchasing Card for these types of purchases.

---

A Purchasing Card is a charge card intended to make quick purchases.

---

A purchasing card (*also known as procurement card or p-card*) is a physical credit card issued by a bank or other financial institution. These cards are intended to make quick purchases outside the County's traditional procurement process. The Department of Family Services has one purchasing card for the entire department.

Purchasing cards are a flexible purchasing tool. They provide an efficient and cost-effective method of purchasing and paying for time-sensitive purchases. Purchasing card charges are paid in full each month and costs are assigned to corresponding general ledger accounts and governmental accounting funds depending on what was purchased.

Purchasing cards promote operational efficiency by reducing both the volume and the time needed to process traditional purchase orders, invoices, petty cash transactions and check payments. This allows departments the ability to make quick and timely purchases.

The County's Purchasing Card Program is administered by the Finance Department in collaboration with the Purchasing and Contracts Department. The County has a list of approved vendors and program guidelines.

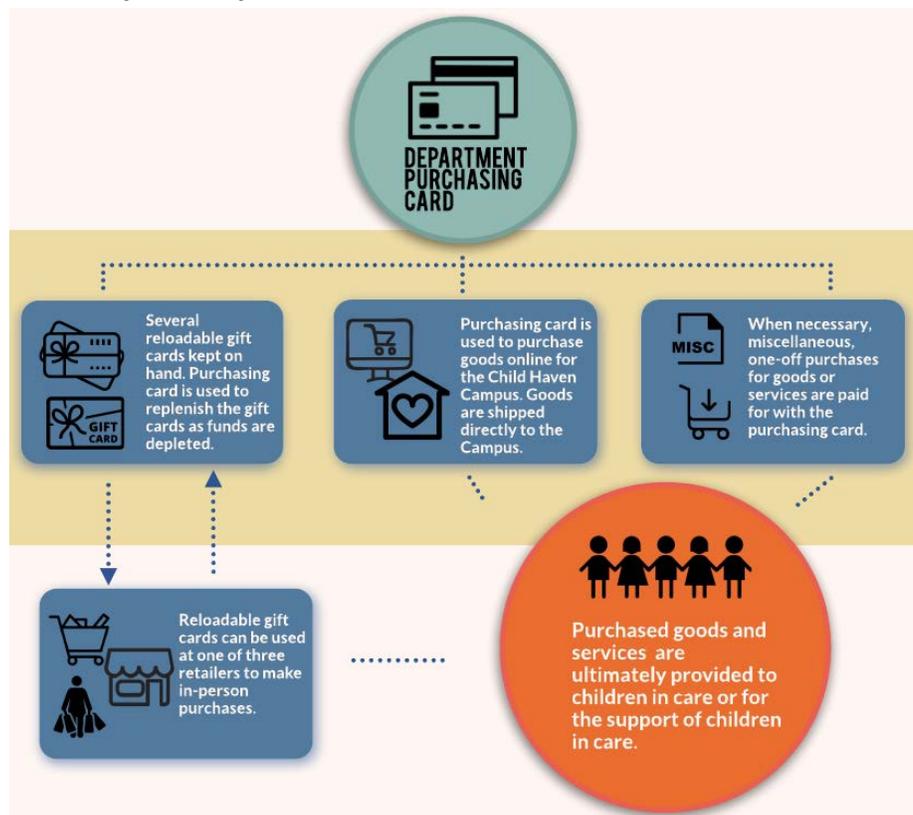
DFS Funds a Series of Reloadable Gift Cards with their Purchasing Card

DFS primarily uses their purchasing card to make online purchases, fund merchant specific reloadable gift cards, and purchase one time use gift cards. The Department seldomly makes in-person purchases with their physical purchasing card.

By using reloadable gift cards, DFS ensures that more than one case worker is able to make purchases at a time. Further, it limits financial liability and exposure by reducing access to the Department's purchasing card.

At any given time, the Department's reloadable gift cards carry a value of no more than \$500 - \$1,500. For our audit period, the Department had 17 of these type of reloadable gift cards on hand. Exhibit 1 illustrates the overall relationship and workflow between the various cards.

**Exhibit 1: DFS Purchasing Card is Used to Fund Several Reloadable Gift Cards, Order Child Haven Inventory and Pay for Miscellaneous Items/Services**



Source: Auditor Prepared

---

Purchased Goods/Services  
are for the Benefit of Children  
in Care

---

Overall, the purchasing card and reloadable gift cards are used to purchase items needed by or in support of the children/youth in care of the Department. This includes children in custody of the County's temporary shelter facility (Child Haven) for children who cannot safely remain with their families.

Typically, the Department purchases clothing, hygiene products, personal care items, equipment to support learning, special dietary food, and other items as needed. In some cases, costs are funded by grants, which often allow specific purchases.

The Department's reloadable gift cards are specific to three major retailers: Target, Walmart, and Kroger (*parent company of Smith's Food and Drug*). These gift cards are generally used to make in-person purchases.

---

Some Child Haven Campus  
Inventory is Purchased with  
the Purchasing Card

---

The Department also uses their purchasing card to purchase goods online. Online purchases are namely to acquire inventory for the Child Haven Campus.

As an emergency shelter, the Campus maintains inventory to support children in the facility. This includes supplies provided during intake, while staying on the Campus, or upon departing the Campus. The supplies are generally purchased in bulk and kept in stock in one of three rooms.

DFS reports an average daily population of 54 children at the Child Haven Campus, with an average length of stay of 9.5 days, as of March 2021.

Items stocked in inventory include the following:

- clothing
- shoes
- sleepwear
- hygiene products
- special dietary food
- other personal goods.

Exhibit 2 illustrates some of the inventory kept on hand in the inventory rooms.

**Exhibit 2 - Child Haven Inventory Rooms Help Keep Essential Items<sup>(1)</sup> in Stock**





Source: Auditor - Picture Taken September 1, 2021

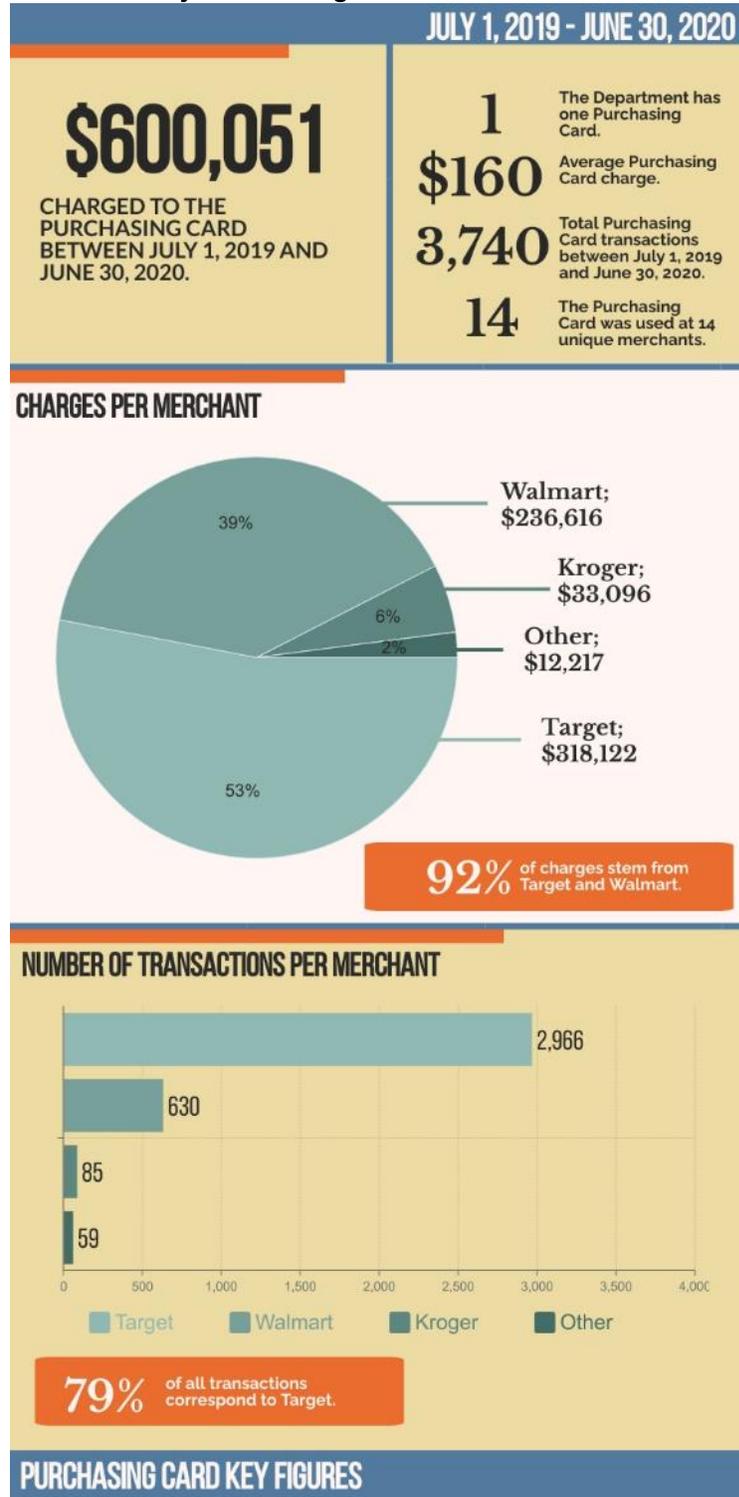
<sup>(1)</sup> Not all stocked items are purchased with the Department's purchasing card. Some stocked items are procured via the County's normal procurement process that includes formal purchase requisition, approval, and purchase order.

Online ordering is the preferred purchasing method for obtaining supplies for the Campus, as staff usually orders items in bulk to maintain a strong inventory (*local retailers may not have sufficient inventory on hand to meet the demand.*) Further, online shopping eliminates the need for support staff to leave the Campus.

There were 3,740 transactions on the Department's purchasing card between July 1, 2019 and June 30, 2020.

These transactions totaled \$600,051. Exhibit 2 summarizes some of the key metrics.

### Exhibit 3 - Key Purchasing Card Statistics



Source: Auditor prepared using electronic data from American Express account holder system

The Department's purchasing card function is managed by the DFS Fiscal Unit. The Fiscal Unit is responsible for the following:

- Monitoring the activity of the purchasing card,
- Maintaining adequate documentation to support purchases,
- Maintaining departmental specific policies and procedures,
- Reconciling the reloadable gift cards,
- Reconciling monthly purchases with the credit card statement,
- Ensuring timely submission of monthly transaction support documentation to the County's Finance Department.

Strong internal controls over purchasing cards are important, as the separation from the County's normal procurement processes increases the risk of intentional or unintentional misuse. The Department's large transactional volume adds to this risk.

This audit was performed as part of our annual audit plan.

## Scope and Objectives

---

The objectives of this audit were to:

- Determine whether appropriate internal controls over the Department's purchasing card and gift card program are both in place and working as intended;
- Assess the adequacy of segregation of duties and physical security over the cards; and
- Determine whether purchasing card and gift card purchases are approved, business appropriate, supported and for the benefit of children in care.

Our procedures considered the period of July 1, 2019 through June 30, 2020. The last day of fieldwork was September 1, 2021.

## Methodology

---

To accomplish our objectives, we conducted a preliminary survey that included reviewing applicable policies, procedures, and statutes. We also interviewed staff and performed an observation of key operational areas. We performed a walkthrough of key internal controls, related to the purchasing card and gift cards, to determine whether they were designed appropriately.

Based on the risks identified during our preliminary survey, we developed an audit program and then performed following testing procedures:

- Analyzed all purchasing card transactions for the audit period to determine whether suppliers/merchants were on the County's authorized vendor list or there was justification for using the supplier.
- Used statistical sampling to select 72 out of 3,450 purchasing card charges during the audit period.
  - If the sampled purchasing card purchase was for the replenishment of one of the Department's reloadable gift cards, we reviewed documentation to determine that:
    - Receipts were on file for the purchases that reduced the gift card balance and triggered the replenishment;
    - The purchased goods were appropriate, reasonably priced and for the benefit of children in care or for the support of children in care;
    - A purchase request was submitted and authorized by appropriate staff;
    - Purchased goods, per receipt, agreed with the approved purchase request and the total spent did not exceed the approved purchase request;
    - Purchased goods were not prohibited items per County policy;
    - Sales Tax was not charged;
    - The gift card balance was reconciled using the purchase amounts and card replenishment amount;
    - The gift cards' ending card balance did not exceed the established card limit; and
    - The stated gift card beginning balance agreed to the merchant's records and the stated replenishment agreed to the purchasing card charge amount.
  - If the sampled purchasing card purchase was for an online order, we reviewed documentation to determine that:
    - Sales order agreed with the amount charged to the purchasing card;
    - Purchased goods were shipped directly to the Child Haven Campus;
    - The purchased goods were appropriate, reasonably priced and for the benefit of children in care or for the support of children in care;

- Purchased goods were not prohibited item per County policy;
    - Purchased goods were indeed shipped; and
    - Sales Tax was not charged.
  - If the sampled purchasing card purchase was for a one-off purchase, we reviewed documentation to determine that:
    - A receipt was on file and the purchase total agreed to the amount charged to the purchasing card;
    - The purchased goods were appropriate, reasonably priced and for the benefit of children in care or for the support of children in care;
    - A purchase request was submitted and authorized by appropriate staff, if applicable;
    - Purchased goods and amounts did not exceed the approved purchase request, if applicable;
    - Purchased goods agreed to the approved purchase request, if applicable;
    - Purchased goods were not prohibited item per County policy; and
    - Sales Tax was not charged.
- We identified all single-use gift cards purchased during the audit period using the Department's purchasing card. We then performed the following:
  - Confirmed that the Department maintains an inventory record sufficient to identify cards purchased, cards on hand, equipment on hand (*purchased with a single use gift card*), dates, distribution reason and overall documentation to allow an independent party to reconcile the card inventory;
  - Confirmed that the Department is performing a periodic count of single use gift card inventory;
  - Performed an independent count of all cards on hand as of July 2021 and agreed to the Department's record; and
  - Used professional judgement to select 25 single use gift cards that were distributed to confirm that:
    - The gift card was provided to children in care; and
    - An appropriate reason was documented for providing the single use gift card / or equipment.
- Confirmed that the Department is following best practices for safeguarding their purchasing card, reloadable gift cards, single use gift cards, and any equipment

purchased with those cards. Best practices include limiting access to the cards to only appropriate staff, keeping all cards and equipment safeguarded when not in use, maintain a log of all cards and limiting access to the areas used for safeguarding.

- Used professional judgement to select 3 purchasing card monthly invoice payments for the audit period (*out of 12*) to confirm that the charges were classified to the correct purchase order and purchase order line item based on the actual goods purchased and DFS prepared reconciliation documentation.
- Confirmed that the Department has created a log for the reloadable gift cards that documents pertinent information whenever a gift card is checked in and checked out.
- Used professional judgement to select 25 instances when a reloadable gift card was checked out to confirm that the card was brought back within 24 hours and the log was appropriately filled out.
- Reviewed all purchasing card monthly statements for the audit period (12) to confirm that the statement was reconciled and reviewed by appropriate DFS staff and County Finance staff. Also, that the invoice was submitted in a timely manner and no interest fees or late fees were incurred.
- Reviewed any written policies and procedures to confirm that key operational functions are addressed, and policies and procedures are both disseminated to staff and available for review.

While some samples selected were not statistically relevant, we believe they are sufficient to provide findings for the population as a whole.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal control are included in the detailed results.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our department is independent per the GAGAS requirements for internal auditors.

## Conclusions

---

Overall, we found that the Department of Family Services has implemented satisfactory controls over their Purchasing Card and reloadable gift cards. We found that reconciliations are being performed and purchases are appropriate, supported and for the benefit of children in care.

We believe the Department should increase the number of purchasing cards in use to improve accountability and enhance their segregation of duties controls. We identified a concern related to one merchant's practice of splitting orders and found a large volume of single use gift cards pending disposition. Lastly, we found some opportunity for improving controls over purchases made with the purchasing card for the Child Haven Campus as well as a need to establish a transaction limit.

Each finding includes a ranking of risk based on the risk assessment that takes into consideration the circumstances of the current condition including compensating controls and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties.

Auditee responses were not audited, and the auditor expresses no opinion on those responses.

## Findings, Recommendations, and Responses

---

### Department Should Reconsider Number of Purchasing Cards Needed (High Risk)

During our audit we found that the Purchasing Card number is stored on at least one online merchant system and the purchasing card is often used (*for business related transactions*) by persons other than the listed cardholder.

Clark County Purchasing Card guidelines require that only the card holder whose name is embossed on the purchasing card be allowed to make purchases. Further the guidelines require that the card account number be reasonably secured.

This shared arrangement is a result of a business need due to the transactional volume of the Department. As previously mentioned, the Department processes a high volume of purchases. It would be unrealistic to expect that one person could manage the entire volume. This shared arrangement allows a staff of four to handle the purchasing card transactions for the Department. Nonetheless, this

arrangement is not in adherence with the Purchasing Card guidelines.

The Department held preliminary discussions about expanding the number of purchasing cards but raised concerns about splitting the monthly credit limit between cards and thus not being able to fulfill their purchasing needs. These preliminary discussions centered around having purchasing cards for several hundred case workers.

We believe this discussion should be revisited with an emphasis on having two to three cards, specific to purchasing areas, as opposed to a card for each case worker.

Sharing the account number and CVV code increases the risk of unauthorized transactions and reduces accountability.

#### *Recommendation*

- 1.1 Reassess the number of Purchasing Cards needed to maintain business needs. Consider adopting a card for major purchase areas (*i.e. Child Haven online purchase, in-person case worker purchases, Child Haven in-person purchases*).
- 1.2 Confirm with County Purchasing Card Administrator that the current shared arrangement is acceptable.

#### *Management Response*

- 1.1 DFS Management is considering the recommendation and intends on requesting three (3) Purchasing Cards, which will serve Child Haven purchases, on-line purchases, and in-person purchases. This recommendation requires Clark County Executive Management approval before it can be implemented.
- 1.2 It is the understanding by DFS Management that there is not a formal shared agreement; however, based on the previous recommendation the need for a shared agreement would no longer be required.

#### Split Online Orders Create Administrative Burden and Weaken Monthly Statement Review Process (Medium Risk)

We found that goods purchased online through Target are often shipped in separate shipments. While this is a common business practice, Target charges the purchasing card for every individual shipment instead of a single charge for the entire order.

This practice results in one order having multiple shipments and also multiple individual charges on the purchasing card.

We found that each Target order resulted in an average of 24 charges to the purchasing card. Exhibit 4 details the number of orders and individual charges for each month.

**Exhibit 4 - One Target Online Order Results in Several Purchasing Card Charges**

<b>Month - Year</b>	<b>Number of Individual Target Orders</b>	<b>Number Corresponding Charges to the Purchasing Card</b>
July 2019	6	159
August 2019	8	181
September 2019	7	210
October 2019	9	170
November 2019	10	267
December 2019	7	119
January 2020	11	305
February 2020	11	296
March 2020	10	132
April 2020	12	302
May 2020	9	289
June 2020	16	433
<b>Total</b>	<b>116</b>	<b>2,863</b>
<b>Average</b>	<b>10</b>	<b>239</b>

Source: Auditor Prepared

We believe Target’s shipping and billing practices create an administrative burden for the Department in two ways. First, the number of charges per individual order requires additional time to manage. Second, compiling supporting documentation for the various shipments becomes more challenging and voluminous.

**Split Order Charges Require Additional Time to Manage**

DFS Fiscal oversees the charges on their Purchasing Card. This entails approving the purchase, ensuring purchase receipts are retained, the purchase is business appropriate, and the charge reconciles with the receipts. However, with a split online order, this work is multiplied.

Split Shipments Require Additional Time to Manage

To manage split orders, DFS Fiscal Unit staff must identify and reconcile each individual charge to an individual shipment and then to the primary order. This process that can be labor intensive given the volume of charges per order (*as illustrated above*). In addition, staff must also monitor for pending order shipments, cancellations, and delays. This results in additional time spent by staff solely because of split shipment charges.

For comparison, an online order with only one charge to the Purchasing Card would not need this level of management.

### **Support for Each Purchasing card Charge Not Always Provided with Overall Invoice Support Packet**

The independent invoice review process involves verifying that each purchasing card charge is supported through independent documentation (*store receipts, approvals etc....*). This is done to adhere to County Fiscal Directive Number 10, Invoice Payment Requests, which states:

*“D. Comptroller’s Office Responsibilities*

*1. The Comptroller’s Office is responsible for the integrity of all claims paid against County accounts. The Comptroller’s shall review the propriety of support documentation which includes verifying:*

*g. Dollar amount agrees to the supporting documents. “*

With Target online orders, one order results in several charges to the purchasing card.

These Target related charges are currently supported with an internally prepared ledger that lists each charge corresponding to a single order. This is combined with a printout of the first page of the order confirmation which notes the total dollar amount of items ordered and a snippet of what was ordered (*up to what can fit in one page*).

The independent reviewer uses the Department prepared ledger and first page of the order confirmation to support the various charges for the single order.

We believe the current practice is not ideal, as the independent reviewer is not able to validate the support for each purchasing card charge associated with a single online order. Further, this does not comply with the ‘Purchasing Card - Departmental Responsibilities’ agreement that requires itemized sales slips.

With current practices, the reviewer relies on the Department prepared reconciliation sheet, which is not a source document. Further, since only the first page of the online order is provided, the reviewer is not able to review the support for each charge (*aside from knowing that the charge stemmed from Target*).

Because one Target online order results in various small shipments and charges, providing the support for each individual purchasing card charge (*corresponding to that single order*) would add a large volume of documentation to an already lengthy support packet.

For reference, for the 12-month audit period, the invoice support packet was on average 396 pages long.

The additional time spent by staff is compounded by the Department's large volume of purchases.

For comparison, the other primary merchant (Walmart) does not usually charge the purchasing card on individual shipments.

Neither of the primary merchants provides any volume discount or incentive rebates to the County. Target and Walmart customers using a branded credit card receive a 5% discount on purchases. This discount is not available to the County due to the use of the purchasing card and gift cards. For fiscal year 2020, the lost discount totals \$27,736.90.

We acknowledge that some merchants provide specialty goods, lower priced items or clothing styles that are favored by youth. However, during our testing, we found that a majority (*38 out of 47*) of sampled Target purchases were for items that were common, not a specialty item and/or for younger children, where style preference is not as much of a consideration.

We also acknowledge that it is unreasonable to expect DFS to control a vendor's shipping and billing practices. However, we believe work could be done to reserve Target online orders to when it is necessary and/or seek to make purchases from a merchant that has more favorable billing practices.

### *Recommendation*

- 2.1 Consult with Purchasing and Contracts to determine whether some of the items can be purchased using traditional methods, which would enable the County to take advantage of discounts and reduce the administrative burden currently experienced with online purchases.
- 2.2 Reserve Target purchases for unique situations or when items are unavailable from another source.
- 2.3 Submit support for individual charges stemming from online Target orders. Work with the designated County Finance invoice reviewer to determine whether providing electronic support (*for individual Target charges*) would be reasonable.

### *Management Response*

- 2.1 DFS Management has agreed to work with purchasing to determine if purchases using traditional methods for certain reoccurring items such as hygiene products and selected clothing items is possible.

2.2 Walmart is the preferred vendor and Target is the secondary vendor to DFS Fiscal. However, DFS Management is taking into consideration the recommendation. The audit timeframe covered a period in which the Walmart website experienced significant downtime and based on the immediate need of items Target was utilized during this period.

2.3 DFS Fiscal will include itemized support from Target's website to include with invoice documentation. The correction has been implemented since the discovery of this finding.

**Segregation of Duties and Compensating Controls for Online Purchases Should be Revisited (Medium Risk)**

As noted throughout the audit report, the Department purchases goods online for the Child Haven Campus using their Purchasing Card.

Segregation of duties is a control where one person is not able to have full control of the purchase, payment, and inventory of items. When staffing limitations prevent this, organizations should have compensating controls to reduce the risk of inappropriate, unauthorized, or fraudulent transactions.

Exhibit 5 illustrates the current segregation of duties for making online purchases.

**Exhibit 5 - Segregation of Duties Matrix - Online Purchases**

Function	Employee Performing Task		Compensating Controls
	Employee 1 <sup>(1)</sup>	Employee 2 <sup>(2)</sup>	
Ability to Initiate Order via Merchant's Online Store	X		
Ability to Enter Shipping Address	X		
Ability to Modify/Add Shopping Cart Contents <sup>(3)</sup>	X		
Ability to Pay for Online Order <sup>(4)</sup>	X		Automated e-mail message sent to Supervisor ( <i>not employee 1</i> ) when an item is shipped. Message indicates shipping address and goods shipped.

Performance of Shipment Charges Reconciliation Using Department's Online Order Reconciliation Ledger	X		
Performance of Monthly Purchasing card Statement Reconciliation and compiling support for all charges	X		
Review Monthly Purchasing Card Statement for Support Before Submitting for Invoice Payment		X	DFS provides first page of online order indicating total order amount. This is supplemented with a Department prepared reconciliation spreadsheet that enumerates the individual orders.  Reviewer uses these two documents to confirm purchasing card online charges. However, the individual shipment address and order details is not listed on the provided documentation.

Source: Auditor Prepared Based on Observations

<sup>(1)</sup> Employee 1 is a DFS Fiscal Unit staff member.

<sup>(2)</sup> Employee 2 is a County Finance employee.

<sup>(3)</sup> Child Haven staff adds requested items to an online shopping cart for Fiscal review and processing.

<sup>(4)</sup> Purchasing Card Number and Expiration Date stored in merchant online store. The CVV code is generally known among key Fiscal staff members due to frequency of usage.

As illustrated above, Employee 1 has full access to the online purchasing cycle. This increases the risk for unauthorized charges going undetected.

To mitigate this risk and identify any unauthorized charges, a supervisor reviews merchant automated e-mail messages that are sent whenever an order is shipped. These emails identify item(s) shipped and shipping address. Further, the monthly purchasing card statement is reviewed by a County Finance employee that is independent of the Department. This person verifies available support for all charges.

The concerns we have with the mitigating controls are that the volume of automated merchant e-mails could prevent a

supervisor from reviewing each single message and thus identifying where an order was shipped and what was shipped.

Further, when support for the monthly purchasing card statement is prepared, only the first page of the online order is included. This first page includes order totals and depicts the first few items ordered but does not detail all of the items ordered, nor does it indicate where each item was shipped (*as discussed in the previous finding*).

Lastly, there is risk of a ghost merchant account being created to make unauthorized purchases and then masked during the reconciliation process.

We acknowledge the difficulty in having perfect segregation of duties with a small staff. We believe the Department should explore whether it is feasible to introduce an additional employee to the online purchase cycle. We believe this would strengthen the segregation of duties control and improve the compensating controls.

We rated this finding a medium risk because although the Department has implemented some compensating controls in light of the extended access, we cannot test to determine whether those controls are working.

*Recommendation*

3.1 Reassess the online purchasing workflow and determine whether it would be feasible to implement an additional employee into any part of the cycle.

*Management Response*

3.1 Based on this recommendation, DFS Fiscal has implemented that a Senior staff member at Child Haven send an email to the Office Services Manager for pre-approval of desired purchases. Based on the approval of the purchases by the Office Services Manager the email is forwarded to the Senior Office Specialist.

**Large Volume of Single Use Gift Cards May be Excessive (Low Risk)**

We found that the Department currently has a total of \$109,267 in prepaid, single use gift cards in inventory. The majority of the volume stems from \$93,000 in \$500 denomination Walmart gift cards.

Some of the cards were acquired in September 2020 with the intention of using the gift cards to purchase cellular phones for youth in care of the Department. However, DFS did not distribute the cards or purchase the phones, as there was a shortage in phone chip inventory, resulting in quantity limits on cellular phone purchases.

Having this level of single use gift cards increases the risk of loss, as these cards are similar to cash. Further, the children

are not getting the intended benefit when the cards are sitting in inventory.

We do believe that the Department has adequate safeguarding practices over the cards. However, the Department does not have written policies and procedures addressing those safeguarding measures.

DFS counts the cards quarterly and maintains supporting documentation when cards are distributed. Further, they have plans to distribute the majority of the cards in the near future. For these reasons, we rated this finding a low risk.

*Recommendation*

- 4.1 Establish written single use gift card safeguarding policies and procedures, including the count frequency and a requirement that at least two people be involved with the count. Continue to perform a periodic count of all gift cards on hand.
- 4.2 Monitor progress of the proposed distribution plan for the \$500 gift cards to ensure equipment is indeed purchased and provided to children/youth.
- 4.3 When possible, avoid maintaining large volumes of gift cards that cannot be distributed within 0-3 months.

*Management Response*

- 4.1 Procedures are in place, however DFS Fiscal will implement written policies and procedures based on the recommendation for future single use gift card purchases.
- 4.2 The requests are made by independent living, which are approved and monitored. This recommendation was considered and regarded as best practices. It should be noted that the items in question were one-time purchases and are unlikely to reoccur.
- 4.3 The items in question were one-time purchases and are unlikely to reoccur. DFS fiscal has been made aware of the recommendation and is taking it into consideration.

**Child Haven Campus  
Inventory Controls Can  
Be Enhanced (Low Risk)**

As noted in the background section of this audit report, the purchasing card is used to purchase Child Haven Campus inventory. We believe that some inventory practices and controls could be enhanced.

**Written Policies and Procedures Need to be Documented:**  
The Department has only informally established policies and procedures related to managing inventory at the Child Haven Campus. This includes minimum inventory levels for critical items that are purchased with the purchasing card, procedures for requesting items to be purchased, safeguarding procedures, the decision process for merchant

use, and general purchasing guidance for when to purchase items in-person versus online.

Written policies and procedures are important internal controls because they promote uniformity and provide a resource for both existing and new staff. Further, it allows management the opportunity to provide written guidance for staff.

**Develop a Formal Purchase Request Form for Child Haven Purchases:** DFS has established a comprehensive purchase request form for purchases made with one of the reloadable gift cards. This form includes reasoning, items to be purchased, estimated costs, and supervisor approval.

However, for Child Haven Campus purchases (*both in-person and online*), the request is informal. The request typically consists of a brief e-mail message requesting to use one or several of the reloadable gift cards or notifying Fiscal Unit that requested items have been placed in an online shopping cart and need to be paid for.

We believe establishing a more formal Child Haven purchase request form increases accountability and provides documentation that could be referenced by management should there be a need. Further, it would provide the DFS Fiscal Unit with confirmation that supervisory staff formally approved the items intended to be purchased as opposed to the current method of only copying the supervisor on purchase emails.

**Retain Goods Receipt Documentation in Accordance with Record Retention Guidelines:** The Child Haven Campus has a high volume of shipments. Shipment documentation is retained and filed after a shipment is received. However, DFS did not formally document a retention period.

We believe establishing a documented retention period for shipment documentation would enhance accountability. It would also provide the DFS Fiscal Unit with a means to research pending shipments.

**Inventory of Items at Child Haven should be Tracked:** The Child Haven Campus has three inventory rooms used to store purchased items that are pending distribution. Individually, items are low-cost and immaterial to the County's financial position. However, it is at risk of loss, which would directly affect the Department's ability to provide services (clothing and other personal care items) and any large loss would harm the reputation of the Department. Without an inventory system, we have no way of determining if any of the items were misappropriated.

We believe the Department should explore the feasibility of implementing an inventory management system that would allow for items to be checked in, checked out, and logged in a central database.

**Cameras Should Be Installed in Inventory Rooms:** The Child Haven Campus currently does not have a camera system in place to monitor the inventory rooms. On weekends and evenings, a single individual may enter the room to remove items.

We believe the Department should consider installing a low cost security monitoring system to allow for recording of access to the room.

We rated this finding a low risk due to controls already in existence and because of the needs of the Child Haven Campus.

*Recommendation*

- 5.1 Develop policies and procedures to address the management of Child Haven inventory purchased through the purchasing card. Include minimum inventory levels, procedures for ordering inventory, workflow, safeguarding procedures, inventory receipting procedures, procedures for handling shipment variances and returns, guidance on when to use certain merchants and guidance on purchasing online versus in-person.
- 5.2 Formalize the Child Haven purchase requisition documentation for both in-person and online purchases. Include intended items to be purchased, intended merchant, estimated purchase amount and supervisor approval.
- 5.3 Remind staff of the retention period for online shipment documentation. Documentation should evidence receipt of goods and affirmation that item(s) were received.
- 5.4 Implement an inventory management system and/or security monitoring system for the Child Haven inventory rooms.

*Management Response*

- 5.1 DFS Management will request an inventory system as part of the FY23 Capital request. Should the inventory system be approved DFS Fiscal will develop policies and procedures for ordering/receiving.
- 5.2 DFS Fiscal will develop a cover sheet for the in-person requests which include supervisor approval and estimated dollar amount.

5.3 Formal policies and procedures will be developed by DFS fiscal, which will include the retention policy and the retention of evidence receipt of goods and affirmation that item(s) were received (packing slip) by Child Haven staff. The affirmation that item(s) were received will be sent to DFS Fiscal for safekeeping in accordance with the Clark County retention policy.

5.4 DFS Management will request an inventory system and cameras as part of the FY23 Capital request.

Department Should Set Purchasing Card Single Purchase Limit (Low Risk)

We found that the Department has not established a single purchase (*transaction*) limit for their purchasing card. A transactional limit would automatically decline any single purchase beyond the established limit.

We did find that the Department's purchasing card has a monthly credit limit of \$125,000 and American Express reports to have a default transaction limit of \$25,000. During our audit period, the highest single transaction was \$5,820.

The Department performs periodic monitoring of the Purchasing Card charges. Nonetheless, we believe implementing a transactional limit would be a sound practice to reduce liability should the card be lost, stolen, or the card number compromised. Having the transactional limit would minimize potential losses.

*Recommendation*

6.1 Assess business need to determine a purchase limit per transaction. Relay this amount to the County Purchasing Card Administrator for implementation moving forward.

*Management Response*

6.1 DFS Management has taken the recommendation into consideration and will Work with Clark County Executive Management to establish and appropriate purchase limit for each P-Card.