

# Internal Audit Report

Cuyahoga County, Ohio  
Department of Internal Auditing

**Veteran Services Commission  
Cash/Cash Equivalents Review  
June 30, 2023**

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**Veterans Service Commission – Consulting Engagement Memo**  
**Cash/Cash Equivalent Review**  
**9/26/2023**

To: Veterans Service Commission Executive Director Jon Reiss; County Fiscal Officer Michael Chambers; Assistant Fiscal Officer Leigh Tucker

At the request of the Veterans Service Commission (VSC), the Department of Internal Auditing (DIA) performed an assessment of the adequacy of policies, procedures, and controls over the cash/cash equivalents (including gift cards) maintained by the VSC. This review was performed as a consulting engagement. We were not engaged to and did not conduct an audit examination, and therefore are not attesting to the effectiveness of controls or accuracy of VSC's gift card inventory balances.

This consulting engagement was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA). The IIA standards define consulting engagements as advisory and related management services/activities, the nature and scope of which are agreed with and/or requested by management and is intended to add value and improve the County's governance, risk management, and control processes without the internal auditor assuming management responsibility. This review was performed as a consulting engagement under DIA's charter and does not constitute an audit in accordance with *Generally Accepted Government Auditing Standards*.

**VETERANS SERVICE COMMISSION**

VSC was established to assist honorably discharged veterans and their minor children and spouse who have met with an unexpected hardship resulting from the lack of employment, illness, or injury. VSC is legislated by the State of Ohio under Ohio Revised Code Chapter 5901 and funded by Cuyahoga County property taxes.

Financial assistance for clients is awarded in the form of gift cards or warrants, depending on the type of assistance. Gift cards are issued to clients for food, clothing, transportation, and personal care needs. Warrants are issued directly to vendors to cover other expenses on behalf of a client (e.g., rent or mortgage payments, property taxes, utility costs, burial costs, and car repairs).

Prior to 2020, monthly vouchers were the primary method for providing food assistance to clients. Since then, VSC decided to discontinue vouchers due to the inability of stores to accommodate weekly visits on a single voucher. This was a barrier for clients who wanted to purchase fresh foods. Consequently, VSC started purchasing gift cards to keep in inventory and distribute to clients as needed.

**PURPOSE AND SCOPE OF WORK**

The purpose of this consulting engagement was for DIA to assess the adequacy of policies, procedures, and controls in place over cash/cash equivalents (including gift cards) maintained by the VSC. To gauge current practices, the review was restricted to the design of processes and procedures in place as of June 1, 2023.

DIA used best practices as its criteria for assessing the adequacy of policies over gift cards. Per best practice, policies that ensure the appropriate disbursement, inventorying, and safeguarding of cash and cash equivalents (including gift cards) should be developed and implemented at the organizational level when possible to ensure consistency. Therefore, DIA included the Fiscal Office in its assessment of policies, if any, and made recommendations when appropriate.

To gauge the scope of the Fiscal Office’s potential oversight role over cash equivalents including gift cards at the County, DIA utilized INFOR Lawson, the County’s accounts payable system, to identify a population of departments that purchased gift cards from the beginning of 2020 (INFOR Lawson go live date) through the date of this report. This was an analytical procedure and not meant to be a full accounting of purchases, but rather an attempt to identify all the relevant departments and an estimate of purchases:

<b>Department</b>	<b>Gift Card Merchants</b>	<b>Amount Identified (2020 – 2023)</b>	<b>General Purpose</b>
Veterans Service Commission	ALDI, Walmart, RTA, Burlington, T.J.Maxx, Speedway	\$1,982,113	Financial assistance to veterans and bus passes
HHS—Child and Family Services	Dave’s Supermarket, RTA	\$208,350	Food assistance to clients and bus passes
Common Pleas Court	Prepaid VISA, Giant Eagle, Dave’s Supermarket, Speedway, RTA	\$115,961	Client incentives and bus passes
Board of Health	Prepaid VISA, Giant Eagle, Dave’s Supermarket, Speedway	\$98,333	COVID-19 response, client incentives and transportation
Juvenile Court	Dave’s Supermarket	\$33,523	Detention client food/activities

**COMMENDABLE PRACTICES:**

Based on the results of the engagement, we believe VSC follows many best practices relative to gift cards as cash equivalents. Below are some of the noteworthy practices:

- VSC has incorporated various internal controls to ensure gift cards are accounted for and secured, such as the use of locked safes and boxes, camera surveillance, perpetual inventory system, and periodic physical inventory and reconciliations.

- VSC has required gift cards purchased and provided to clients to have no expiration date and to prohibit use on alcohol, tobacco, or firearms. VSC’s policy (“Acceptable Expenditures List”) requires recipients provide itemized receipts to receive subsequent gift cards. These controls help ensure that expenditures are fully utilized and allowable per VSC policies and Ohio Revised Code.
- VSC has engaged in an effective vendor selection process that considered several factors aimed at determining the best quality service to clients, including product availability, impact of spending for clients, diversity of locations, card restriction availability, and discount to the County.

### **FINDINGS AND RECOMMENDATIONS**

Overall, DIA concluded that VSC’s policies, procedures, and controls over gift cards were reasonably designed; however, control gaps and potential enhancements were noted. The matrices in the following pages summarize our findings and recommendations.

DIA would like to thank the Veterans Service Commission and the Fiscal Office for their cooperation and commend the practices of the Veterans Service Commission representing the County as a model department with respect to written procedures and internal controls in place.

Sincerely,

A handwritten signature in blue ink that reads "Monica Houston". The signature is fluid and cursive, with the first name "Monica" and last name "Houston" clearly legible.

Monica Houston, CPA, CGMA, CFE, CIDA  
Director of Internal Audit

Cc: Audit Committee  
Katie Gallagher, Chief of Operations and Community Innovation

Fiscal Office

<u>Business Process</u>	<u>Control</u>	<u>Control Gaps</u>	<u>Recommendation</u>	<u>Management Responses</u>
Governance	Policy/Procedure Manual	The Fiscal Office lacks a gift card policy for departments to report all gift card purchases, implement adequate internal controls to safeguard gift cards, and maintain a perpetual inventory of gift cards.	The Fiscal Office should consult with the Auditor of State’s Local Government Services (LGS) as to the appropriate classification of gift card purchases and disbursements in the financial statements for conformity with GASB, as GASB does not explicitly mention prepaid or gift cards in any of its definitions. It is DIA’s interpretation that gift cards are to be classified as “Cash and Cash Equivalents” assets (if capitalization thresholds are met) and expended once disbursed. Such treatment would require departments to maintain a perpetual inventory and report all gift card purchases and disbursements annually to the Fiscal Office.	<p>Verification with the County Law Department on the Department’s/Agency’s ability to use gift cards. While it has been determined that some departments and/or agencies are using gift cards, it needs to be determined if there is a policy that gives them the authority to use gift cards or if it is a practice that has been adopted by the departments and/or agencies as a matter of convenience.</p> <ul style="list-style-type: none"> <li>• If the Law Department determines that gift cards are an allowable expense, the Fiscal Office will draft a governance policy over the allowable procurement and use of gift cards, as well as proper safeguarding, inventorying, and reporting procedures.</li> </ul>
Financial Reporting	Annual Inquiry Process	The Fiscal Office lacks a process to request from departments end-of-year inventory balances of gift cards for the purpose of the County’s financial statement reporting.	<p>The Fiscal Office should develop and establish a gift card policy for departments and ensure their compliance. The gift card policy should include the following requirements for departments:</p> <ul style="list-style-type: none"> <li>• Provide the Fiscal Office with any copies of departmental policies and procedures related to the appropriate purchasing, disbursing, inventorying, and safeguarding of gift cards.</li> <li>• Initial and periodic review of gift card policies by the Fiscal Office to ensure that adequate internal controls are in place.</li> <li>• Departments maintain a perpetual inventory of gift cards (in both quantity and dollar value).</li> <li>• Gift cards purchased must have security enhancements to help ensure their appropriate use by recipients (e.g., no expiration, limited merchant acceptance, no alcohol/tobacco/firearms). Prepaid debit cards (e.g., VISA or Mastercard) lack restrictions and thus should be prohibited.</li> </ul>	<ul style="list-style-type: none"> <li>• If the Law Department determines that gift cards are not an allowable expense, the Fiscal Office will draft a governance policy prohibiting the procurement and use of gift cards.</li> </ul> <p><b>Anticipated Date of Completion:</b> 120 days – If the Law Department hasn’t responded, the Fiscal Office will have a “draft policy” that will be pending the Law Department’s decision.</p> <p><b>Accountable Individual:</b> Assistant Fiscal Officer</p>

Veterans Service Commission

<b><u>Business Process</u></b>	<b><u>Control</u></b>	<b><u>Control Gaps:</u></b>	<b><u>Recommendation</u></b>	<b><u>Management Responses</u></b>
Governance	Policy/ Procedure Manual	Written Policy and procedures would benefit from the incorporation of additional best practices, controls, and updates as noted below.	VSC should consider implementing the following recommendations relative to its handling of gift cards.	-
	Segregation of Duties	Lack of user access review process to ensure that adequate segregation of duties is achieved in eVetAssist. Segregation of duties violations could exist, as VSC could not attest to the level of access assigned to users.	Define the roles and level of access in the eVetAssist system. Perform an audit of user roles to ensure that the current level of access assigned to users is appropriate. (For example, the Office Support Specialists disbursing gift cards should not have the ability to create or edit client applications, and the Eligibility Department should not have the ability to issue or edit disbursements to clients.)	The CCVSC agrees that roles should be clearly defined with appropriate segregation of duties and will ask vendor to make appropriate role adjustments.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Secretary
Procurement	Approval Process	Lack of a systematic approach for determining an appropriate quantity and frequency for purchasing gift cards.	Assess procurement needs (quantity and frequency) considering average expenditures, inventory on hand, delivery lead time, and reserve needs.  Require Executive Director review of current inventory and signature as approval for procurement.	The CCVSC will establish a replenishment plan that is considerate of all appropriate factors.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director
	Competitive Bidding/ Evaluation Processes	Safe Asset Procedures lack gift card requirement criteria for bid proposals to ensure that potential vendors are reputable, provide the best pricing, and product value.	Revise the Procedures to specify gift card criteria for bid proposals and ensures potential vendors are reputable, provide the best pricing and product value. Criteria should consider vendors that provide price discounts, adequate store availability in the County, and the ability to restrict the types of cards (e.g., no expirations, no alcohol/tobacco).	Procedures will be reviewed and modified accordingly.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director

<u>Business Process</u>	<u>Control</u>	<u>Control Gaps:</u>	<u>Recommendation</u>	<u>Management Responses</u>
		Purchasing Manual lacks a reference to the Fiscal Office's requirement (effective 9/1/2022) for the department to verify that any new vendor is not debarred and provide the completed verification form.	Revise the Manual to include reference to Fiscal Office's debarment verification requirement.	CCVSC will add debarment verification requirement.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director
Asset Management	Receipt Confirmation	Safe Asset Procedures do not require the individual receiving orders to document receipt, verify all gift cards have been securely stored in the large safe, and added to the inventory by the gift card custodian.	Revise the Procedures to require both the individual receiving orders and the gift card custodian to sign a document (dual sign-off and verification) as support that all gift cards have been received, securely stored in the large safe, and added to the inventory.	The CCVSC has already implemented this process and will update policy to reflect.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director
		Lack of process in the event of gift cards with remaining balances being returned in the mail by veterans under Section 5901 of the Ohio Revised Code. Currently, these returned gift cards are kept in the safe, but a decision has not been made as to how to reallocate the gift cards. Although VSC has a policy to refuse the return of gift cards in person, they cannot prevent the occasional situation of veterans who decide to return gift cards in the mail.	Implement a process for reallocating gift cards returned in the mail. However, since ORC 5901 does not explicitly address the permissibility of reallocating funds, it is recommended to seek guidance and interpretation from the Compliance Division within the Ohio Department of Veterans Service.	The CCVSC will establish a policy and have it reviewed by the appropriate compliance entity.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director
	Physical Controls	VSC building lacks a camera or lock in the receptionist area. Although the gift cards are secured in locked boxes with keys assigned to the Office Support Specialists, the door to the area is not equipped with a lock and there is not a camera facing their workstation.	If funding permits, consider increasing physical safeguards to secure and monitor the receptionist area at the VSC building where gift cards are distributed. Consult with the building manager for feasibility.	The CCVSC will consult with landlord and security company about appropriate modifications.  <b>Anticipated Date of Completion:</b> TBD <b>Accountable Individual:</b> Colleen Kehoe

<u>Business Process</u>	<u>Control</u>	<u>Control Gaps:</u>	<u>Recommendation</u>	<u>Management Responses</u>
Asset Management Continued	Inventory System	Lack of an automated perpetual inventory system over the entire gift card inventory for efficient inventory reporting capabilities. Although the eVetAssist automated system is being used to keep a perpetual inventory of cards assigned to the Office Support Specialists, this does not include the inventory of cards kept in the small and large safes. Rather, the inventory in the safes is tracked manually in a spreadsheet by the gift card custodian. The spreadsheet lacks a table to sum the running balances for efficient inventory reporting capabilities. Also, the inventory is only tracked by quantity and not dollar value.	Consider maintaining a full inventory of gift cards in an automated perpetual inventory system. Until a full inventory is available in an automated software, the inventory spreadsheet should be updated to include a table with a summation of inventory in the safes and eVetAssist reported in quantity and dollar value. This is necessary for reporting an accurate inventory for the Fiscal Office each year.	The CCVSC has requested modification from our current software vendor and began researching alternative software for the inventory of gift cards.  <b>Anticipated Date of Completion:</b> TBD <b>Accountable Individual:</b> Executive Director
	Reconciliation, Random Inventory Counts	Lack of process to perform routine periodic physical inventory counts and reconciliations of the large safe, small safe, and lockboxes at all locations. <ul style="list-style-type: none"> <li>Although the gift card custodian has performed counts and reconciliations over the lockboxes at the VSC main office, this has not included gift cards located at the satellite location(s).</li> <li>Also, there is not a set schedule or formal process on how to perform/document the physical inventory and reconciliation. A physical inventory and reconciliation of the safes has not been performed since October 2022.</li> </ul>	Implement a process to perform physical inventory counts and reconciliations of the large safe, small safe, and lockboxes at all locations on a routine basis (e.g., monthly). Inventory counts should be verified by a second person for accuracy, and documented on worksheets that are retained. VSC's existing "Reconciliation/Audit Report" worksheet is appropriate for this purpose. <ul style="list-style-type: none"> <li>For the lockboxes, assign the verification role to the gift card custodian (or someone independent from the distribution process). Using the reports in eVetAssist system, verify that the physical count in each of the Office Support Specialists' lockboxes match the balance reported out of the system.</li> </ul>	The CCVSC will modify policy to provide more specific timelines for inventories and reconciliations.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director



<u>Business Process</u>	<u>Control</u>	<u>Control Gaps:</u>	<u>Recommendation</u>	<u>Management Responses</u>
			<ul style="list-style-type: none"> <li>• For the large and small safes, assign the verification role to an independent person who does not have access to the safe. Using the "Safe Register Audit" spreadsheet, verify that the physical count in the safe matches the balance tracked in the spreadsheet. Further, verify that the activity in the spreadsheet agrees to the supporting documentation for the number of gift cards purchased and received and transferred to other safes/lockboxes for disbursement.</li> </ul>	
Asset Management Continued	Monitoring for Appropriate Usage	Lack of process to perform documented quality assurance reviews (on a sample basis) of gift card disbursements.	Implement a quality assurance review process (on a sample basis) of gift card disbursements. The review should consist of verifying disbursements are in accordance with VSC's Financial Assistance Procedures manual and for amounts that adhere to the Limits of Assistance schedule. The reviews should be performed by a supervisor on a consistent basis (e.g., monthly) and documented on worksheets that are retained (dual sign-off and verification).	<p>The CCVSC already has a quality review process for verifying application approvals are accurate to policy and within limits. The CCVSC will review the execution of the policy and adjust accordingly.</p> <p><b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director</p>
		Lack of process to report loss or theft to Protective Services when appropriate.	Add a requirement in the Safe Asset Procedures that the Executive Director will report loss or theft to Protective Services when appropriate and retain a copy of the incident report, as is the requirement specified in the County Fiscal Office's Inventory Policy.	<p>The CCVSC will update policy to ensure appropriate notification.</p> <p><b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director</p>

<b>Business Process</b>	<b>Control</b>	<b>Control Gaps:</b>	<b>Recommendation</b>	<b>Management Responses</b>
Program Services	Eligibility Verification	Control is adequate. VSC has a Financial Assistance Procedures and Training Manual with established criteria for determining eligibility for assistance to veterans under Ohio Revised Code Chapter 5901.	N/A – Control is adequate.	N/A – Control is adequate.
	Acknowledgement of Receipt	Control is adequate. Veterans receiving assistance through gift cards sign an Acceptable Expenditures List form acknowledging receipt of the gift cards and acceptance of VSC's policies.	N/A – Control is adequate.	N/A – Control is adequate.
	Allowability	The Safe Asset Procedures lack a requirement that Disbursements of gift cards may only be issued to clients for eligible program services (e.g., financial assistance to eligible clients, outreach events) in accordance with the Financial Assistance Procedures manual and for amounts that adhere to the Limits of Assistance schedule.	Add requirements in the Safe Asset Procedure that:  Restricts the uses of gift cards to allowable program services (e.g., financial assistance to eligible clients, outreach events) in accordance with VSC's Financial Assistance Procedures manual and for amounts that adhere to the Limits of Assistance schedule.	The CCVSC will update policy to reflect appropriate utilization.  <b>Anticipated Date of Completion:</b> 90 days <b>Accountable Individual:</b> Executive Director