



OFFICE OF INSPECTOR GENERAL

**Thomas J. Dagley**  
*Inspector General*

**MEMORANDUM**

August 1, 2007

TO: Uma Ahluwalia, Director  
Department of Health and Human Services

FROM: /s/ Christopher Giusti  
Deputy Inspector General

SUBJECT: Investigation of Gift Cards Purchased by Child Welfare Services,  
Department of Health and Human Services

The basis for this investigation was an anonymous telephone call received by the Office of Inspector General (OIG) Fraud Hotline on January 18, 2007, alleging government money used to purchase gift cards for foster children was being converted for personal use. We notified Tim Firestine, Chief Administrative Officer, and you of this matter in a memorandum dated April 20, 2007.

**Background**

The State Department of Human Resources (DHR) completed an audit of DHHS for the period January 1, 2005 through December 31, 2006. The DHR audit included a review of the gift card program which disclosed several weaknesses in internal controls. These weaknesses included: inadequate or lack of perpetual inventory logs for gift cards; receipts and/or customer signatures documenting the receipt of gift cards were not available; gift cards were loaned between gift card custodians and not repaid to custodian accounts with no sign-offs to document the loaned cards; there was no evidence of independent physical counts and no card balances for reconciliations; and gift cards for three programs were kept in the same safe that was accessible to approximately nine different gift card custodians with an additional three employees having access to the contents of the safe. As a result of the weaknesses with the internal controls, DHR reported they could not determine that all the gift cards were accounted for.

As a result of the DHR audit, beginning in the March/April 2007 timeframe, the Resource Section reduced the number of gift card custodians; changed the combination on the safe where gift cards are maintained; eliminated the practice of loaning gift cards; and implemented new policies and procedures to enhance internal controls and accountability for gift cards.

## OIG Investigative Results

Our investigation in May and June 2007 disclosed that although corrective action was initiated regarding certain internal controls weaknesses identified by the DHR audit, a lack of management oversight and other deficiencies remained.

The following conditions and recommendations were discussed with the: Chief, Children, Youth and Family Services; Director, Child Welfare Services; and Administrator, Resource Section on June 19, 2007. Included with the conditions and recommendations described below are the responses from Child Welfare Services (CWS) to assist you with follow-up attention that we believe is needed to ensure corrective action is taken and to reduce the potential for fraud, waste and abuse in the future.

1. The individual gift cards are not tracked from the time of purchase through disbursement. When the gift cards are received from the vendors by the Resource Section, the serial number on each gift card should be recorded with the store name and the dollar value of the gift card. When the gift cards are disbursed, the serial numbers should be recorded on the Food and Clothing Voucher Tracking Form to maintain an audit trail for each gift card.

*Corrective Action reported by CWS: CWS has updated all of its gift card procedures for disbursement, reconciliation, and replenishment. The updated procedures will be distributed during the first week of July. Beginning July 1, 2007, recording of gift card serial numbers will begin to coincide with replenishment of depleted gift card supplies. Serial numbers for any gift cards on hand at July 1 will also be documented for the record. Gift card serial numbers will be recorded on the Voucher Tracking Form and on the Commodity Log that tracks disbursements and inventory for each store/vendor. These procedures will be applied and enforced across all CWS programs managing gift cards.*

2. Independent physical counts of the gift card inventories should be performed periodically by a supervisor/manager or designee. These counts should be unannounced and documented to reduce the potential for loss or abuse.

*Corrective Action reported by CWS: Independent counts will be conducted, at least once a year, as recommended, for every fund and/or gift card custodian. During CWS' first year of increased gift card oversight (i.e., FY08), CWS plans to conduct two independent counts, one in October 2007 and one in March 2008. The Administrative Coordinator for Children, Youth & Family Services and/or a representative of the HHS Office of Budget & Finance will be asked to come in to perform the random, unannounced counts.*

3. There have not been any summary reports for management on the gift card expenditures and there have not been any measurements developed to determine the effectiveness of the program. Increased management oversight of the gift card program should be considered. This could include a variety of management practices that would include, but not be limited to, monthly reports summarizing the disbursements and

inventory balances; an analysis of the gift card disbursements to determine any trends in growth; a measurement system to evaluate the effectiveness of the program; and a year-end report to document the activity of the program for the fiscal year.

*Corrective Action reported by CWS: Monthly reconciliations have already started and will continue. If discrepancies are found during monthly reconciliation in the future, CWS will require the gift card custodian and their supervisor to review gift card records (request forms, inventory logs, math calculations, etc.) for a second time. If the discrepancy still cannot be resolved or explained, the discrepancy will be reported to the CWS Resource Administrator within 5 business days of discovery, for further investigation or other appropriate action.*

*CWS updated gift card procedures require that gift card custodians complete a monthly reconciliation, by store/vendor, no later than the 10<sup>th</sup> calendar day of each month. The gift card custodian's supervisor must review and sign off on the reconciliation data. Beginning with the CWS Annual Report for FY08, CWS will include statistical and analytical data regarding the gift card program (e.g., numbers served, participating vendors, dollar value of gift cards issued, information describing types of client needs addressed, etc.). In addition, record keeping requirements and management oversight of gift cards will be incorporated into and assessed as a part of the annual performance planning process for relevant staff.*

4. The dollar values of the gift cards in inventory ranged from \$5 to \$25. A review of the gift card denominations should be conducted to determine if the dollar values of any of the gift cards could be increased in order to reduce the number of gift cards in inventory.

*Corrective Action reported by CWS: CWS gift card procedures have been revised to reflect plans to implement the OIG's recommendation. When gift card replenishments resume in July 2007, the denominations of individual cards purchased will be increased. In addition, CWS has already begun to reduce the number of participating stores in its gift card program. Through attrition, some stores will be eliminated.*

5. The gift card inventory included returned gift cards with minimal value. A review of the policies and procedures for returning gift cards with minimal value should be performed to determine the benefits of maintaining these gift cards in inventory.

*Corrective Action reported by CWS: CWS has updated its procedures to clarify that partially used gift cards should not be returned to the agency. The majority of participating stores no longer give change back on gift card purchases. Any balance left after a purchase, remains on the card for future usage.*

6. The policies and procedures for returning the white copy of the Food and Clothing Voucher Tracking Form with receipts should be evaluated due to the large number of yellow copies being maintained and non-compliance with the existing policy.

*Corrective Action reported by CWS: CWS will no longer require the return of receipts, after gift cards are used – this language has been eliminated from the gift card procedures. It is very difficult and nearly impossible to obtain client receipts, in a timely manner, if at all. CWS believes that the most critical verification, in the gift card process, is evidence that the intended client/caretaker received the gift card(s). In that vein, CWS will strictly enforce the requirement that clients or adult caretakers sign the Voucher Tracking Form, acknowledging receipt of gift cards. The social worker or case aide delivering the cards is charged with the responsibility of obtaining the client signature and subsequently returning the signed Voucher Tracking Form to the gift card custodian.*

7. The combination on the safe where the gift cards are stored should be changed annually.

*Corrective Action reported by CWS: The combination to the CWS Fiscal Unit safe was changed in March 2007. The number of persons with knowledge of the safe combination has been reduced to three people – the two staff persons responsible for centralized gift card distribution for the Fiscal Unit and the Resource Administrator. The safe combination will be changed annually in July, at the beginning of each new fiscal year.*

#### Fraud Hotline Allegations

With regard to the validity of the Fraud Hotline allegations, the allegations could not be substantiated.

We wish to acknowledge the cooperation and assistance extended to us by the Director of Child Welfare Services and staff. If you have any questions concerning this investigation, please contact me at 240.777.8242.

Ref: #07-19

Cc: Tim Firestine, Chief Administrative Officer  
Tom Dagley, Inspector General  
George L. Leventhal, Chair, Health & Human Services Committee  
Duchy Trachtenberg, Chair, Management & Fiscal Policy Committee  
Steve Farber, Director, Council Staff