

# COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDITS UNIT

**INTERNAL AUDIT REPORT**  
**CHANGE OF CUSTODY REPORT**  
**DEPARTMENT OF HEALTH SERVICES**



**Audit Committee Submittal Date: 11/16/2018**

## **SUMMARY**

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### **Background**

The County of Sacramento Department of Health Services (DHS) appointed a Director on August 12, 2018. The Department of Finance performed a change of custody agreed-upon procedures to inspect their cash and assets and to prepare a schedule of accountability of cash and assets, at the time of the Director's appointment.

### **Audit Objective**

Inspect DHS' cash and assets. Identify any issues with DHS' cash and assets. Prepare an accountability schedule of DHS' cash and assets.

### **Summary**

We noted issues related to DHS' capital assets, gift cards, and pharmaceutical inventory.



County of Sacramento

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*Inter-Office Memorandum*

September 21, 2018

To: Dr. Peter Beilenson  
Director of Health Services

From: Ben Lamera  
Director of Finance

By: Alan A. Matré, C.P.A.  
Chief of Audits

A handwritten signature in black ink, appearing to read "Alan A. Matré", is written over the typed name.

Subject: **REPORT OF AGREED-UPON PROCEDURES FOR THE COUNTY OF SACRAMENTO DEPARTMENT OF HEALTH SERVICES (DHS) CHANGE OF CUSTODY ON AUGUST 12, 2018**

We have performed the procedures enumerated below, which were requested and agreed to by you, solely to assist DHS with its change of custody on August 12, 2018. We performed our procedures at DHS' offices located throughout Sacramento, California. DHS' management is responsible for maintaining sufficient controls for its accounting operations and assets. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of DHS' management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the procedures referred to below and next page and is not intended to pertain to any of DHS' other operations, procedures or compliance with laws and regulations. Our procedures and findings are summarized as follows:

- We obtained a listing of DHS' capital assets reported in the Sacramento County Financial System (a.k.a. COMPASS) and physically inspected their existence at DHS' offices.

Finding: We noted concerns that require your attention as a result of our procedures. See Attachment I, *Schedule of Accountability* and Attachment III, *Comments and Recommendations*.

- We counted DHS' imprest cash and compared it to the amount authorized in COMPASS.

Finding: We did not note any exceptions that require your attention as a result of our procedures. See Attachment I, *Schedule of Accountability*.

- We counted DHS' outstanding cash receipts as of August 12, 2018. We traced the outstanding receipts to the amounts posted by the County Treasury.

Finding: We did not note any exceptions that require your attention as a result of our procedures. See Attachment I, *Schedule of Accountability*.

- We inspected DHS' trust fund accounts and reconciliations.

Finding: DHS did not possess any trust fund accounts during our engagement.

- We inspected DHS' bus pass and gift card inventories and compared them to DHS' records.

Finding: We noted an exception that requires your attention as a result of our procedures. See Attachment I, *Schedule of Accountability* and Attachment III, *Comments and Recommendations*.

- We inspected DHS' pharmaceutical inventory and compared it to DHS' records.

Finding: We noted an exception that requires your attention as a result of our procedures. See Attachment I, *Schedule of Accountability* and Attachment III, *Comments and Recommendations*.

- We determined the current status of prior findings and recommendations reported on DHS' previous change of custody agreed-upon procedures on April 27, 2018, dated July 30, 2018.

Finding: The current status of the prior findings and recommendations for DHS is at Attachment II, *Current Status of Prior Findings and Recommendations*.

Because the preceding procedures do not constitute an examination made in accordance with attestation standards established by the American Institute of Certified Public Accountants, we do not express an opinion on any of the accounts, financial statements, compliance, or items referred to above and on the previous page. Had we made an examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, other matters may have come to our attention that would have been reported to you. This report relates only to DHS' change of custody on August 12, 2018, and does not extend to DHS as a whole.

DHS' responses to the findings identified during our procedures are described in Attachment III, *Comments and Recommendations*. We did not perform procedures to validate DHS' responses to the comments and, accordingly, we do not express an opinion on the responses to the comments.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and DHS' management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

#### Attachments

Attachment I, *Schedule of Accountability*

Attachment II, *Current Status of Prior Findings and Recommendations*

Attachment III, *Comments and Recommendations*

**COUNTY OF SACRAMENTO  
DEPARTMENT OF HEALTH SERVICES  
CHANGE OF CUSTODY  
SCHEDULE OF ACCOUNTABILITY**

AUGUST 12, 2018

**Capital Assets**

<b>Department of Health Services (DHS) Capital Assets</b>	<b>Total Population</b> <sup>(I)</sup>	<b>Amount Sampled</b> <sup>(II)</sup>	<b>Identified Non-Compliances</b> <sup>(III)</sup>
<b>Total</b>	<b>\$ 11,449,588</b>	<b>2,261,223</b>	<b>51,645</b>

**Pharmaceutical Inventory**

<b>Pharmacy Location</b>	<b>Total Population</b> <sup>(IV)</sup>	<b>Sample Amount Counted</b> <sup>(V)</sup>	<b>Identified Non-Compliances</b>
RCCC Pharmacy	\$ 326,347	1,077	
Main Jail Pharmacy	329,307	692	
Primary Health Pharmacy	123,945	340	
MHTC Pharmacy	Unknown <sup>(VI)</sup>	1,647	
<b>Total</b>	<b>Unknown</b>	<b>3,756</b>	

**Imprest Cash**

<b>Imprest Cash Location</b>	<b>Amount Per COMPASS</b> <sup>(VII)</sup>	<b>Amount Counted</b> <sup>(VIII)</sup>	<b>Identified Variances</b>
Mental Health Treatment Center	\$ 400	400	
Vital Records	400	400	
Correctional Health	200	200	
Fiscal	850	850	
Other Imprest Cash	1,219	1,219	
<b>Total</b>	<b>\$ 3,069</b>	<b>3,069</b>	

**Cash Receipts**

<b>08/10/2018 Undeposited Cash Receipts</b> <sup>(IX)</sup>	<b>Amount Posted by Treasury</b> <sup>(X)</sup>	<b>Amount Counted</b> <sup>(XI)</sup>	<b>Identified Variances</b>
<b>Total</b>	<b>\$ 6,731</b>	<b>6,731</b>	

**Cash Equivalents**

<b>Cash Equivalents on Hand</b>	<b>Amount Per DHS Records</b> <sup>(XII)</sup>	<b>Amount Counted</b> <sup>(XIII)</sup>	<b>Identified Variances</b> <sup>(XIV)</sup>
Bus Passes	\$ 11,304	11,304	
Gift Cards	17,986	17,761	(225)
<b>Total</b>	<b>\$ 29,290</b>	<b>29,065</b>	<b>(225)</b>

Number superscripts are described on the next page.

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- (I) Amount consists of the acquisition value of DHS' capital assets reported in the Sacramento County Financial System (a.k.a. COMPASS).
- (II) Amount represents the acquisition value of DHS' capital assets reported in COMPASS selected for inspection.
- (III) Of the \$2,261,223 selected for testing, we could not confirm compliance for \$51,645 of DHS' capital assets. See Attachment III, *Comments and Recommendations* for details.
- (IV) Amounts represent the total values of pharmaceutical physical inventories completed by DHS. Inventories for RCCC, Main Jail, and Primary Health Pharmacies were completed as of 03/15/2018, 03/16/2018, and 06/21/2018, respectively.
- (V) Amount represents the sample of pharmaceutical controlled substances selected for testing. Amounts counted were agreed to DHS' records.
- (VI) DHS has not completed a physical inventory of its Mental Health Treatment Center (MHTC) pharmacy's controlled and uncontrolled substances. See Attachment III, *Comments and Recommendations* for details.
- (VII) The total amount represents DHS' imprest cash authorized in COMPASS.
- (VIII) Amounts represent the imprest cash and reconciling item amounts counted and inspected.
- (IX) The Change of Custody date occurred on Sunday, August 12<sup>th</sup>, 2018. As such, we inspected DHS' daily receipts from Friday, August 10<sup>th</sup>, 2018, the prior business day.
- (X) Amount represents DHS' daily receipts posted by the County Treasury.
- (XI) Amount represents DHS' daily receipts counted and inspected.
- (XII) Amounts represent DHS' bus passes and gift cards on hand per their logs and records.
- (XIII) Amounts represent DHS' bus passes and gift cards counted and inspected.
- (XIV) Amount represents the difference between the amount we counted and inspected and what was listed on DHS' logs and records. See Attachment III, *Comments and Recommendations* for details.

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CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS**

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**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report Date July 30, 2018 for the change of custody date April 27, 2018)**

**1. Capital Assets**

Prior Comment

During our inspection of the Department of Health Services' (DHS) capital assets reported in the Sacramento County Financial System (a.k.a. COMPASS), we noted the following issues:

- I. Asset number 63550, "Motorized Wireless Computer Lab," with an acquisition value of \$10,770, could not be located by DHS. Per our inquiry with DHS, this asset was sent to surplus in the year 2015; however, an Equipment Movement Report (EMR) form was not completed until after our fieldwork in June 2018. As such, we could not confirm whether the asset was sent to surplus.
  
- II. On March 18, 2018, the Sacramento County Sheriff's Department Correctional Health Services Division was transferred to DHS. Under a previous change of custody review, report dated May 7, 2018, we noted the assets listed below consisted of several individual assets with different manufacturers, models, serial numbers, functions, purchase dates, and acquisition values that were combined into single asset numbers in COMPASS. In addition, we noted these assets did not have County of Sacramento inventory tags assigned. Furthermore, an itemized list of the individual assets that comprised these asset groups was not available during our engagement.

Per our inquiry during our current review, we noted that these issues have not been resolved by DHS.

<u>Asset Number</u>	<u>Description in COMPASS</u>	<u>Acquisition Amount</u>
73058	AUTOMATED PHARMACY - MCKESSON	\$ 3,618,541
82380	Midmark Elevance LR Dental Chair w/Delivery System	39,658
82381	Midmark Exam Table	13,497
	<b>Total</b>	<b><u>\$ 3,671,696</u></b>

- III. Asset number 83594, "46 HP M426fdn Printer," with an acquisition value of \$15,642, consisted of 46 individual printers that were located in various DHS offices throughout the County of Sacramento. The individual printers were each valued at under \$5,000. County of Sacramento policies and procedures mandate that only individual assets



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exceeding \$5,000 are to be recorded as capital assets. As such, these printers should not have been reported as a capital asset in COMPASS.

- IV. Asset number 70491, "Motorola P2P600," with an acquisition value of \$20,904, had been replaced by a new unit and a new inventory tag and number were affixed. However, no EMR was completed to dispose of the old unit and no updates were recorded in COMPASS to indicate this asset had been replaced. As such, we could not determine As such, we could not determine whether the reported acquisition value is accurate.
- V. Asset number 82054, "Carpet Cleaner," with an acquisition value of \$8,936, did not have an inventory tag affixed.
- VI. Before we started our procedures, we were provided with a capital asset listing. However, the list did not include the respective capital asset custodians or locations. Locations and custodians were provided during our procedures, however, some of the information provided appeared to be inaccurate. As such, it was difficult to track down DHS' capital assets and it was not easy to determine the locations or custodians of our selected samples. It appeared there was a lack of communication between DHS' divisions, programs, and fiscal about the locations and custodians of their capital assets.

All capital assets should be adequately tracked and monitored by DHS. Capital assets in the possession of DHS should agree to the capital assets reported in COMPASS, and any differences should be researched and resolved in a timely manner. Capital assets and capital asset activities should be properly reported in COMPASS by DHS. Capital assets should be individually reported and should not be combined into a single line item.

In addition, individual capital assets valued under \$5,000 should not be reported as a capital asset in COMPASS. Capital assets that need to be replaced or retired should be reported to the Department of General Services through an EMR, and the respective assets should be updated in COMPASS.

Furthermore, all capital assets should be affixed with an inventory tag and assigned a unique inventory number. Proper internal controls indicate DHS maintain proper oversight over its capital assets. A capital asset listing should be regularly reviewed to ensure each capital asset location, amount, contact information, and whether it is still in use, is adequately documented. Capital assets should be regularly monitored, and any discrepancies should be researched and resolved in a timely manner.

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Improper tracking and reporting of capital assets can lead to theft or misappropriation that cannot be detected in a timely manner. Accordingly, we could not verify \$3,727,948 (\$10,770 + \$3,671,696 + \$15,642 + \$20,904 + \$8,936) of DHS' capital assets. See Attachment I, *Schedule of Accountability*.

Prior Recommendation

We recommend DHS:

- Ensure EMR's are completed for assets sent to surplus in a timely manner.
- Ensure all of its capital assets and capital asset activities are reported in COMPASS.
- Ensure capital assets are individually recorded in COMPASS.
- Remove assets combined into a single line item in COMPASS and individually record each individual asset.
- Ensure individual assets less than \$5,000 are not reported in COMPASS as a capital asset.
- Ensure that an EMR is completed for assets that are no longer functioning and need to be replaced, and ensure capital asset replacements are properly reported in COMPASS.
- Ensure that all capital assets are affixed with an inventory tag and a unique inventory number.
- Maintain proper internal controls and oversight over its capital assets. Capital assets should be monitored and reconciled by DHS Fiscal on a regular basis, at least once per month. Any discrepancies identified by DHS Fiscal should be resolved in a timely manner

DHS' Prior Management Response

DHS disagrees with the recommendation to "ensure individual assets less than \$5,000 are not reported in COMPASS as a capital asset." State and Federal guidelines require that we tag and

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conduct inventories of assets funded by grants regardless of asset value. The County's Asset Capitalization policy 1.3(b)(ii) states:

*".....grant-funded equipment costing less than \$5,000 will be inventoried for control purposes only and not capitalized."*

When the asset is recorded in COMPASS, it is assigned a fixed asset number and automatically capitalized. [Department of Finance (DOF)] has not been able to provide direction on how to record the item in COMPASS without capitalization.

In addition, it is not feasible to monitor and reconcile capital assets for a department our size on a monthly basis. DHS follows State, Federal, and local laws and regulations to conduct physical and book inventories on a rotational basis annually. DOF provides this direction annually to all County departments.

Due to the short time between the prior Change of Custody review for Correctional Health under the Sheriff's Department, and the DHS review, it was not possible to implement the recommendation to remove assets combined into a single item in COMPASS and individually record each individual asset prior to the completion of the DHS review. Staff is currently working on identifying the individual assets that comprise the Automated Pharmacy System in COMPASS. Fixed asset tags have been provided to Correctional Health staff to tag the individual items.

DHS, and previously DHHS, has historically followed the County policy to submit EMR's to DGS as assets were sent to surplus. Once EMRs are submitted to DGS, DHS does not have control over retiring the asset in COMPASS. DGS provides to DOF a copy of the EMR with the log number to retire assets in COMPASS. There appears to be a disconnect between DGS and DOF. In addition, there was a period of time when DGS informed DHHS that EMRs were no longer required, as it is likely that the Motorized Wireless Computer Lab was sent to surplus during that period. DHS will continue to complete EMRs as we have been.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response.

Current Status

During our current engagement, we noted issues related to not completing an EMR for a replaced asset and assets under \$5,000 being capitalized. See Attachment III, *Comments and Recommendations*. All other recommendations appear to have been implemented.

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**2. Imprest Cash**

Prior Comment

During our engagement, we noted the following issues on the next page related to DHS' imprest cash:

- I. Per DHS' records, \$400 in petty cash is kept at 2150 Stockton Boulevard, however, we counted a total of \$126, a \$274 shortage. Based on our inquiry, this shortage consisted of numerous cash losses identified by DHS between 1993 and 2003.
- II. DHS' authorized imprest cash reported in COMPASS totals \$4,100. Of this amount, we identified a total of \$1,900 in petty cash that includes the authorized amount identified at item I of this finding. The remaining \$2,200 (\$4,100 - \$1,900) in imprest cash could not be located by DHS. However, we identified a \$554 disbursement from 2016 that was never reimbursed to DHS from their imprest cash fund. Accordingly, we noted a shortage of \$1,646 (\$554 - \$2,200). Of this shortage, \$584 consisted of cash losses that were identified by DHS dating as far back as 1998 and \$1,062 that could not be identified or reconciled by DHS.
- III. A deposit was recorded in COMPASS under a revenue general ledger account in the amount of \$531. After notifying DHS of the shortages described at item II of this finding, DHS recorded a journal voucher (JV) to move the deposited funds from the revenue account to DHS' imprest cash account in COMPASS.
- IV. DHS provided an imprest cash reconciliation, however, it did not appear to be complete. In addition, based on the issues described in items I, II, and III of this finding, it appears that DHS does not monitor or properly reconcile its imprest cash.
- V. The fiscal year 2017-18 cash questionnaires completed by DHS and provided to DOF did not report all of DHS' imprest cash balances and identified cash losses. Accordingly, the cash questionnaires appeared to be incomplete and did not agree to the amounts authorized COMPASS.
- VI. It appears that COMPASS has not been updated to reflect DHS' current imprest cash custodians.

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The amounts identified in items I, II, and III of this finding total a net shortage of \$1,389 (\$531 - \$1,646 - \$274). See Table 1 on the next page:

**Table 1**

<u>Imprest Cash Reconciliation</u>		<u>Imprest Cash Differences</u>	
<u>Per COMPASS</u>		<u>Identified During Engagement</u>	
Amount Authorized in COMPASS	<u>\$ 4,100</u>	Identified Cash Losses	
		Since 1993	\$ (274)
<u>Per DHS</u>		Identified Cash Losses	
7001 East Parkway	1,250	Since 1998	(584)
2150 Stockton Blvd	400	Unidentified Differences	(1,062)
Less: Shortage Identified	(274)	Corrected Deposit	<u>531</u>
4600 Broadway	50	<b>Total Cash Differences</b>	<b><u>\$ (1,389)</u></b>
711 G Street	200		
Unreimbursed Disbursement	554		
Add: Corrected Deposit	<u>531</u>		
Total Per DHS	<u><u>2,711</u></u>		
<b>Difference</b>	<b><u><u>\$ (1,389)</u></u></b>		

Proper internal controls indicate DHS regularly and adequately reconcile, audit, and monitor its imprest cash to ensure proper oversight. All imprest cash should agree to the authorized amount reported in COMPASS, and any differences should be researched and resolved in a timely manner. Cash losses that cannot be identified by DHS should be investigated, and a ROA should be completed and filed with DOF if the cash losses cannot be recovered. In addition, disbursements made through imprest cash should be replenished in a timely manner to ensure all imprest cash related expenses are properly reported in COMPASS. Furthermore, any deposits intended to credit the imprest cash general ledger account should be properly recorded in COMPASS in a timely manner.

Inadequate handling of imprest cash has led to material shortages that should have been resolved as some dated back 25 years ago. By not monitoring and reconciling imprest cash, theft and misappropriation of funds could occur and not be detected in a timely manner.

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Prior Recommendation

We recommend DHS:

- Develop a resolution to resolve the \$274 cash shortage identified in 2150 Stockton Boulevard's petty cash. If the shortage cannot be resolved, an ROA should be filed with DOF; a reduction in imprest cash should be made in COMPASS or a replenishment of imprest cash should be reflected in DHS' cash on hand.
- Develop a resolution to resolve the \$1,115 (\$531 - \$584 - \$1,062) in irreconcilable differences between DHS' imprest cash reported in COMPASS and amounts on hand. If the difference cannot be resolved, an ROA should be filed with DOF; a reduction in imprest cash should be made in COMPASS or a replenishment of imprest cash should be reflected in DHS' cash on hand.
- Replenish the \$554 disbursement to ensure that all imprest cash expenses are reported in COMPASS in a timely manner.
- Ensure that all imprest cash on hand agrees to the amount authorized in COMPASS.
- Ensure that imprest cash is properly tracked, monitored, audited, and reconciled once a month at a minimum.
- Ensure that cash questionnaires are complete and include all imprest cash reported in COMPASS prior to submitting to DOF.
- Ensure that all imprest cash custodians are accurately reflected in COMPASS.

DHS' Prior Management Response

DHS agrees with updating the imprest fund custodians in COMPASS. The changes were due to staff turnover at various sites.

The \$531 described as a cash shortage was identified by Fiscal to the Auditors as a deposit in transit, petty cash funds being returned by DCFAS to DHS during the DHHS re-organization. DOF Treasurer staff changed the imprest account general ledger on the deposit to a revenue account; once the change was discovered, Fiscal disclosed this to the Auditors. A correcting JV has been posted.

DHS submits cash questionnaires annually to DOF and attaches reconciliations for all petty cash. ROAs have been submitted in the past to DOF, but not processed. There was a long

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period where DOF did not process ROAs received, but accumulated them for a number of years prior to processing as this type of work was not recoverable from departments. During this review, we were told DOF has processed the ROAs they had on hand up to a specific fiscal year. It appears they did not process the ROAs submitted by DHHS from prior years. To resolve this issue, ROAs will be submitted again by DHS.

Future ROAs will be filed with the DOF and follow up with them will be done as needed, imprest cash reconciled, and future cash questionnaires will continue to include all imprest cash.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response. During our engagement, DHS did not provide records of prior ROA's that were sent to DOF. The \$531 referenced in DHS' response is not identified as a cash shortage in this finding.

Current Status

It appears that our recommendation has been implemented.

**3. Issues Related to Bus Passes**

Prior Comment

During our engagement, we counted a total of \$2,723 of daily bus passes with an assessed value of \$7 per ticket held by several DHS programs. We noted the following issues:

- I. Some of the programs' bus passes counted could not be reconciled to either a log or any type of internal documentation. As such, we could not identify the total balance of bus passes and could not determine whether the amounts counted were over or short.
- II. Some of the programs did not maintain any detailed logs to track the amount of bus passes on hand. Out of the programs that had logs, only one of these logs maintained a running balance that could easily be tracked.
- III. We had difficulty tracking the bus pass locations, custodians, and balances. DHS Fiscal could not provide any documentation that lists the total number of bus passes on hand for each program, the location, and respective custodian(s), and could not provide any evidence of regular audits or reconciliations of bus passes.

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Accordingly, we could not determine whether the bus passes counted appeared to be reasonable.

Proper internal controls indicate bus pass custodians maintain detailed logs of bus pass activities. Bus pass logs should include, but not limited to, purchases, distributions, and a running balance that would allow the programs and DHS to easily monitor, track and reconcile bus pass inventories. In addition, DHS Fiscal should regularly track the balances, locations, custodians, and activities of bus passes on a monthly basis at minimum.

Inadequate tracking of bus passes by the programs and DHS Fiscal can lead to theft and misappropriation.

Prior Recommendation

We recommend DHS ensure that it adequately monitors the programs' bus passes. Bus pass amounts, locations, custodians, and activities should be regularly reported to and monitored by DHS. We further recommend DHS ensure that the programs maintain detailed logs that track bus pass activities and running balances.

DHS' Prior Management Response

DHS will ensure that programs maintain detailed logs to track bus pass activities.

During the change of custody review, DHS Programs provided supporting documentation related to purchasing and distributing bus passes. The review was a challenge for DHS staff and the Auditors due to the short turnaround time for the review, limited availability of Program Managers, request for transportation of all materials to the E. Parkway location, and the length of time it took the Auditor to reconcile the multiple programs that issues passes. The review was not complete when the Auditor left DHS, took all paperwork back to DOF to complete, and did not have DHS staff to explain or answer questions. We did not receive any communication requesting clarification. A more appropriate procedure would be for the Auditor to review documentation at each site where the items are held. Appropriate staff would then be available to answer questions and provide clarification as needed.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response. At the beginning of our engagement, DOF was informed by DHS that all bus passes were held at their East Parkway location. DOF never requested transportation of bus passes to their East Parkway location from their original respective locations. Near the end of our engagement, DOF provided DHS an additional opportunity to provide substantiating documentation for their bus pass



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inventories that could not be reconciled by DOF. DHS did not provide DOF any substantiating documentation.

Current Status

It appears that our recommendation has been implemented.

**4. Issues Related to Gift Cards**

Prior Comment

During our engagement, we counted a total of \$17,475 in gift cards. The gift cards consisted of various merchants and denominations, and were in the custody of several DHS programs. These gift cards are used as incentives for program participation.

We noted the following issues:

- I. Some of the programs' gift cards we counted could not be agreed to either their logs and/or supporting documentation. As such, we could not identify the total balance of gift cards and could not determine whether the amounts counted were over or short.
- II. Some of the programs distributing gift cards did not have any logs. The programs that did have logs did not keep a running balance of gift cards on hand, making them very difficult to track.
- III. During our engagement, we had difficulty tracking the gift card locations, custodians, and balances. DHS Fiscal could not provide any documentation that lists the total number of gift cards on hand for each program, the location, and respective custodian(s), and could not provide any evidence of regular audits or reconciliations of gift cards.

Accordingly, we could not determine whether the gift cards counted appeared to be reasonable.

Proper internal controls indicate gift card custodians maintain detailed logs of gift card activities. Gift card logs should include, but not limited to, purchases, distributions, and a running balance that would allow the programs and DHS to easily monitor, track and reconcile gift card inventories. In addition, DHS Fiscal should regularly track the balances, locations, custodians, and activities of gift cards on a monthly basis at minimum.

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Inadequate tracking of gift cards by the programs and DHS can lead to theft and misappropriation.

Prior Recommendation

We recommend DHS ensure that it adequately monitors the programs' gift cards. Gift card amounts, locations, custodians, and activities should be regularly reported to and monitored by DHS. We further recommend DHS ensure that the programs maintain detailed logs that track gift card activities and running balances.

DHS' Prior Management Response

DHS will strengthen the internal controls over gift cards. Similar to response #3, documents were requested to be delivered to E. Parkway, rather than the Auditor visiting each site where gift cards, bus passes, and petty cash are held. Confusion resulted as certain staff, custodians of the items, were not available on the specific day of the review, which we were told could not be changed; therefore, the responsible staff were not available to answer any questions. These items were transported to E. Parkway, and risked being lost or stolen.

Future reviews should occur at the sites where the items are located, so the responsible staff and Auditor can speak directly. DHS has many programs that use incentives, therefore there are many different program managers involved, as well as different sites.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response. At the beginning of our engagement, DOF was informed by DHS that all gift cards were held at their East Parkway location. DOF never requested the delivery of gift cards to their East Parkway location from their original respective locations. Near the end of our engagement, DOF provided DHS an additional opportunity to provide substantiating documentation for their gift card inventories that could not be reconciled by DOF. With the exception of one division, DHS did not provide DOF any substantiating documentation.

Current Status

It appears that our recommendation has been implemented; however, during our current engagement, we noted a difference between the gift cards we counted and the amount documented in DHS' gift card logs and records. See Attachment III, *Comments and Recommendations*.

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**5. Electronic Signature Destruction**

Prior Comment

Prior to DHS being formed on March 18, 2018, the former Department of Health and Human Services (DHHS) had external bank accounts with the retiring DHS Director as an authorized signor. On March 18, 2018, these bank accounts were moved to the custody of the Department of Child, Family and Adult Services (DCFAS). During our engagement, we witnessed the destruction of DHS' retiring Director's electronic signature that was used for check printing on DCFAS' external bank accounts on April 30, 2018. We further noted that DHS does not have any external bank accounts. Accordingly, the retiring DHS Director's signatures should have been destroyed on March 19, 2018.

Proper internal controls indicate electronic signatures of account signors who no longer work for DHHS, DCFAS, or the County of Sacramento be immediately destroyed upon separation. In addition, the destruction of electronic signatures should be witnessed by staff.

Failure to ensure the destruction of electronic signatures in a timely manner can lead to their theft, misappropriation, or fraudulent use.

Prior Recommendation

We recommend DHS ensure that the electronic signatures of any DHS personnel whom are no longer authorized signors be immediately destroyed, and ensure other staff are present to witness the destruction.

DHS' Prior Management Response

This recommendation is not applicable to DHS, as the department does not have any external bank accounts, electronic signature plates, or check printing capabilities.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response.

Current Status

DHS no longer possesses external bank accounts that require a signor.

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**6. Untimely Deposit**

Prior Comment

On April 27, 2018, we counted a total of \$4,515 in cash receipts received by DHS and traced them to the respective deposit permit numbers posted in COMPASS. Per our inquiry with DHS, we noted that \$30 of the receipts counted was not deposited to the County Treasury until May 16, 2018.

Sacramento County Code, Section 39, mandates “*every county or township officer, board or commission, authorized to collect fees or money must pay into the county treasury all such fees or moneys collected by him or them, as the case may be, not later than seven (7) days following receipt thereof...*” As such, all cash receipts received by DHS should be deposited to the County Treasury within seven days. Accordingly, we consider these receipts to be untimely.

Untimely deposits can lead to theft or misappropriation without being detected in a timely manner.

Prior Recommendation

We recommend DHS ensures all cash received is deposited to the County Treasury within seven days to be in compliance with the Sacramento County Code.

DHS’ Prior Management Response

DHS Fiscal has an armored truck pick-up and delivery of cash and check deposits to the County Treasurer twice a week. The average deposits range from \$3 million to \$5 million.

The \$30 check noted in the finding was at one of the DHS locations away from Fiscal, and to be efficient and save on time and mileage costs, staff at the site was waiting for more receipts prior to making the delivery to Fiscal. Per the Auditor, there was a 3 day delay in the deposit. DHS will remind staff who handle cash and checks at all sites to deliver the funds to Fiscal regardless of the amount within a week of receipt to ensure compliance with County code.

DOF’s Prior Comment Regarding DHS’ Management Response

We express no assertion regarding DHS’ Management Response.

Current Status

It appears that our recommendation has been implemented.

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**7. Concerns Over Financial Practices**

Prior Comment

Based on the concerns described at Finding Numbers 1 through 6 of this attachment, it appears that DHS is not operating as efficiently and effectively as it should be; we noted \$3,727,948 in irreconcilable capital assets, \$858 (\$274 + \$584) in identified yet unresolved cash losses dating as far back as 1993, \$531 (\$1,062 - \$531) in irreconcilable cash losses and overages, \$2,723 in irreconcilable bus passes, \$17,475 in irreconcilable gift cards, failure to adequately destroy negotiable electronic signatures, and untimely deposits of fees collected.

DHS Management is responsible for establishing and maintaining sufficient internal controls for its financial reporting, assets, cash handling processes, and for ensuring the accuracy and compliance of its financial transactions and assets. DHS Management should hold its staff accountable in regards to fiscal processing errors and omissions. In addition, DHS Management should hold its staff accountable for oversight over the serious deficiencies described in this attachment. Lack of sufficient internal controls, cash handling controls, and management oversight can lead to significant financial issues, errors, omissions, theft, misappropriation, and non-compliance with Local, State, and Federal laws, regulations, and statutes.

Prior Recommendation

We recommend DHS Management provide training to its staff and establish and implement sufficient preventative internal controls over its financial reporting, cash handling, and assets to ensure effective fiscal practices are in place. We also recommend DHS Management ensure that its staff is held accountable when significant deficiencies occur in its fiscal practices. We further recommend DHS implement the recommendations described in this attachment within 90 days.

DHS' Prior Management Response

Although DHS believes it has strong internal controls over financial operations, there is always room for improvement. Corrective action will be taken as needed.

To implement all recommendations within 90 days is not reasonable, as DHS was provided the draft report on July 18, 2018, 82 days from the date from the date of the draft report, April 27, 2018.

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Another Change of Custody review when the new DHS Director begins on August 13, 2018, is not recommended. There is insufficient time to implement recommendations. DHS would be able to provide a status update at a later date if this agreeable.

DOF's Prior Comment Regarding DHS' Management Response

We express no assertion regarding DHS' Management Response. The deadline is intended to commence ninety (90) days following the date of the final issuance of this report rather than the date of the draft report. The findings in this report were proactively discussed with DHS staff during DOF's fieldwork. Change of Custody engagements are required when a new director assumes responsibility of his or her department to ensure that he or she has an understanding of what assets they are accountable for, regardless of the timing.

Current Status

The deadline to implement this recommendation was 90 days from the date of the previous change of custody report, issued July 30, 2018. As such, the deadline for DHS to implement the prior recommendations in this attachment is October 29, 2018. Due to this change of custody engagement being performed prior to this deadline, we are unable to determine the current status. Based on the results of our current agreed-upon procedures, it appears that most of our recommendations have been implemented.

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**1. Capital Asset Issues**

Comment

During our inspection of the County of Sacramento (County) Department of Health Services' (DHS) capital assets reported in the Sacramento County Financial System (a.k.a. COMPASS), we noted the following issues:

- I. Asset Number 54686, "TOSHIBA – PHONE SYS," with an acquisition value of \$6,493, was in the custody of a contracted provider. In 2017, the contracted provider replaced the asset with a new asset using County funding. An Equipment Movement Report (EMR) was never completed by DHS and the asset was never retired in COMPASS. In addition, the new asset was never recorded in COMPASS.
- II. Asset Numbers 74086, 74087, and 74090, "CISCO Corp/Network Switch," with acquisition values of \$5,314, \$5,314, and \$5,314, respectively, are used by and are in the sole custody of the Department of Child, Family, and Adult Services (DCFAS). However, these assets were recorded under one of DHS' cost centers.
- III. Asset Number 83865, "20-Dell OptiPlex 7050 with 40-Dell 24" Monitor," with an acquisition value of \$29,210, consists of sixty (60) individual assets each valued less than \$5,000. We noted that these assets were combined into a single asset in COMPASS that was capitalized and being depreciated. Per our inquiry, these assets were purchased with grant funding, and are required to be tracked per the grant agreement between DHS and the awarding agency.

Capital assets that are retired, replaced, lost, stolen, or sent to surplus should be updated in COMPASS using an EMR; new assets that are purchased should also be recorded in COMPASS. Capital assets should be recorded in COMPASS using the correct cost centers; non-DHS assets should not be recorded under DHS cost centers. In addition, per the County Fixed Asset Policy, assets valued less than \$5,000 should not be capitalized.

As such, we consider the capital assets noted above totaling \$51,645 (\$6,493 + \$5,314 + \$5,314 + \$5,314 + \$29,210) to be non-compliant.

Improper reporting and recording of capital assets can lead to theft or misappropriation that cannot be detected in a timely manner and has caused DHS to not be in compliance with the County Fixed Asset Policy.

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Recommendation

We recommend DHS ensure COMPASS is updated when capital assets are added, retired, lost, stolen, or sent to surplus. We also recommend DHS ensure that all assets belonging to DCFAS are transferred to their respective cost centers and are no longer under DHS cost centers. In addition, we recommend DHS ensure that assets valued under \$5,000 are not combined into a single asset in COMPASS and are not capitalized. We further recommend DHS contact the Department of Finance, General Accounting Unit to develop a resolution to resolve the issue noted regarding Asset Number 83865, "20-Dell OptiPlex 7050 with 40-Dell 24" Monitor," as described in this finding.

DHS' Management Response

DHS management responses are as follows:

- I. DHS agrees that capital assets retired, replaced, lost, stolen, or sent to surplus should be updated in COMPASS using an EMR. Asset Number 54686, "TOSHIBA-PHONE SYS," with an acquisition value of \$6,492, was in the custody of a contracted provider, Bridges Professional Treatment Services, for over sixteen years. In 2017, the contracted provider replaced the asset without notifying the County. The Toshiba-Phone system was disposed and replaced with a new phone system by the contracted provider using their own funding. The new system is not a County asset; therefore, should not be recorded in COMPASS. ADS [(Alcohol and Drug Services)] staff discovered that this asset (54686) was disposed by the contracted provider during the countywide annual asset inventory count for FY 2017-18, and during the custody change audit for the Department of Health Services, which happened to be at the same time. Following the County policy, upon discovery of the asset replacement during an annual inventory count, an EMR has been completed and submitted to the Department of Finance.
- II. Asset numbers 74086, 74087, and 74090 (switches) were purchased in 2012, were located at 3701 Branch Center and used for the Department of Health and Human Services before the department re-organization. During the Department re-organization, the switches were removed and stored at 799 G Street. The recommendation will not be implemented until further analysis is done by Department of Technology.
- III. DHS will not be able to implement the recommendation to ensure [assets] valued under \$5,000 are not capitalized in COMPASS until Department of Finance provides direction as to how to record grant funded assets in COMPASS without capitalization.



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As we stated in our prior response, State and Federal guidelines, and County's asset policy states that grant-funded equipment costing less than \$5,000 must be inventoried and tagged for control purposes. We reached out again to Department of Finance (General Accounting Unit) for guidance and were informed that Department of Finance is still looking into how to resolve this COMPASS issue in order for us to comply with the Fed, State, and County Asset policy.

**2. Gift Card Issues**

Comment

During our engagement, we noted that two (2) out of eleven (11) of DHS programs' gift card inventories we counted and inspected did not agree to their respective logs and records. The amounts we counted for these two programs in the amounts of \$5,525 and \$1,680 did not agree to their logs and records in the amounts of \$5,675 and \$1,755, respectively. Accordingly, we noted differences in the amounts of \$150 (\$5,525 - \$5,675) and \$75 (\$1,680 - \$1,755). Per our inquiry with DHS, the \$150 difference consisted of gift cards that were issued to program staff for future distribution but not documented. The \$75 difference could not be identified.

Proper internal controls indicate the amount of gift cards on hand should agree to DHS' logs and records. Gift cards that are issued to program staff for future distribution should be indicated in DHS' records. Any other differences should be researched and resolved in a timely manner.

Unresolved differences between gift cards and their logs can lead to their theft or misappropriation that cannot be detected in a timely manner.

Recommendation

We recommend DHS ensure that all gift card activities are properly documented and ensure that gift cards on hand agree to their logs and records. We further recommend DHS develop a resolution to resolve the \$150 and \$75 differences identified in this finding.

DHS' Management Response

The discrepancy observed by the auditor related to \$150 of gift cards for the MHSA [(Mental Health Services Act)] Speakers Bureau Program was not due to missing cards, but because the gift cards were signed out to an employee for distribution at a community event the day of the audit. The employee's name and signature were noted on the post-it note attached to the log when the auditor counted the cards on hand. The cards disseminated at the event where

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signed for by the recipients on the program's Gift Card Distribution Log and the undistributed cards were returned by the employee and were logged by into the inventory by the custodian manager. In order to resolve this issue in the future, the PH [(Public Health)] Division is creating a Gift Card Sign Out/Sign-in log that will be signed by the manager dispensing the cards to the employees and will also include the name and signature of the employee who receives the cards/passes for distribution. This will ensure there is documentation accounting for the whereabouts of the cards that are logged out. Any undistributed gift cards will be returned and signed back in by the employee and will added back to the inventory by the managers.

As for the \$75 discrepancy noted for the Tobacco Education Programs gift cards, the programs believes that the gift cards were given out to volunteer community members during a large volunteer event, but the logs documenting which volunteers received the missing cards were unable to be located. All of the other cards distributed that day were documented with a log and signature sheets. Unfortunately, this discrepancy was not discovered until a new manager was assigned to the Tobacco Education Program. Various internal controls have been/will be put into place to ensure that this will not occur in the future including:

As stated in our prior management response, DHS will strengthen the internal controls over gift cards. The following measures will be implemented to insure stronger internal control:

- Managers will continue to be the sole custodians of gift cards/bus passes, which will remain in locked cabinets at all times until they are given to employees for distribution. When the employee requests the gift cards, the manager and employee will sign the Gift Card Sign Out/Sign-In log indicating which cards are signed out to the employee.
- The current Master Gift Card/Gas Card/Bus Pass Distribution Log will no longer be taken out to events/activities by the employees. Instead, one sheet Gift Card Distribution Forms will be taken out to the events/interventions and each gift car/bus pass recipient will sign one of these forms. All forms collected will be compiled with the Master Gift Card/Gas Card/Bus Pass Distribution Log.
- A new electronic Master Gift Card/ Gas Card/Bus Pass Distribution Log has been created for the PH Division. This log will be managed by the managers who are the custodians of the incentives and notes the date of distribution, the serial or ID number of the card/passes distributed, the card/pass recipients' name/client id number, the reason for the card/pass distribution, the name of the issuing manager, and the name of the employee the cards/passes were given out to for distribution. This electronic form

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is self-calculating and shows a running total of the remaining cards/passes at any given time.

- The [Public Health] Division has already held two employee/manager trainings in preparation of implementing these procedures. Additional trainings will be held in the near future to train any employees who were not able to attend the previously held trainings.
- Managers of each program will be required to internally audit all cards and accompanying documentation monthly. On a quarterly basis, the managers will submit a gift card/gas card/bus pass audit report to the PH Division Health Program Mangers and assigned program ASOs [(Administrative Services Officers)]. This will allow for any potential discrepancies to be discovered in a timely mananer and addressed.

**3. Pharmaceutical Inventory Issue**

Comment

DHS operates four (4) pharmacies throughout the County: Public Health Pharmacy, Mental Health Treatment Center (MHTC) Pharmacy, Main Jail Pharmacy, and Rio Cosumnes Correctional Center Pharmacy. During our engagement, we noted that although MHTC Pharmacy tracks its controlled substance inventory, it has not had a physical inventory completed for all of its controlled and non-controlled substances and we could not determine when the last inventory was completed. We further noted MHTC's pharmaceutical inventory activities are not tracked in COMPASS. Accordingly, we could not determine the total amount of MHTC's pharmaceutical inventory.

Proper internal controls indicate all pharmacies have a complete physical inventory conducted on all pharmaceuticals at least annually. The pharmaceutical inventories should be tracked in COMPASS.

By not completing an inventory and by not tracking pharmaceutical activities in COMPASS, theft or misappropriation could occur and not be detected in a timely manner.

Recommendation

We recommend DHS ensure all of its pharmacies complete a physical inventory of all controlled and non-controlled substances at least annually. We further recommend all pharmaceutical activities are tracked in COMPASS.

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DHS' Management Response

DHS agrees with the finding and recommendation, and will revise the current MHTC inventory process. An annual physical inventory count procedure will be implemented to verify all controlled and non-controlled substances, and will be tracked in COMPASS.