



## Department of Youth Services Gift Card Process Audit

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**Audit Period: January 1, 2013 to July 31, 2013**

### Results Summary:

Objective	Conclusion
Issuance and Usage of Gift Cards	Well-Controlled with Improvement Needed
Monitoring of Gift Cards	Improvement Needed



## **Executive Summary**

### **Background**

The Department of Youth Services (DYS) has four juvenile correctional facilities (JCFs) throughout the State of Ohio. Gift cards are used in all four of the JCFs: Circleville, Cuyahoga, Indian River, and Scioto. DHS also has five regional offices; however, the gift card program for these offices was not included in the scope of our engagement since these are monitored by DHS Central Office.

The use of gift cards started when funding was received through the "Juvenile Justice Program Block Grant" from DHS in 2010. This was the last time funding was designated specifically for this program. The gift cards are now part of the Strength Based Behavior Management System (SBBMS) which is a rewards program for the youth to encourage good behavior. The youth earn points for good behavior and have the opportunity to purchase items with their points earned.

All gift cards are purchased with state payment cards. The youths do not physically receive the gift cards, the gift cards are typically secured by the JCF business manager. The youth specialists or unit managers purchase the food and other goods with the gift cards for the youths.

During the audit, OIA identified opportunities for Department of Youth Services to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Department of Youth Services' staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the controls over the agency's gift card process. This work was completed July through September 2013. The following detailed audit objectives included:

- Evaluate the design and effectiveness of the controls around the issuance and usage of gift cards.
- Evaluate the design and effectiveness of controls around the monitoring of gift cards.



## Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### Observation 1 – Policies and Procedures

Policies and procedures help ensure the actions initiated by management to address risks are achieved and the entity's objectives are effectively carried out. Procedures should define roles, designate responsibilities, and detail actions necessary to achieve management's objectives and help ensure compliance with applicable laws, regulations, and program requirements, as well as what can be purchased with the gift cards. In addition, detailed procedures help ensure the continuity of the process in the event of personnel turnover.

During our review of the gift card process, we noted the following:

- Policies and procedures governing the purchase and use of gift cards are not formally documented in three of the four Juvenile Correctional Facilities (JCFs).
- DYS Central Office did not consistently communicate to the JCFs how to code the gift card transactions in OAKS and what is allowable and unallowable to be purchased with the gift cards.
- DYS Central Office also did not communicate to the JCFs how they should be tracking and maintaining records and supporting documentation for the transaction activity of the gift cards.
- At the Circleville JCF, for three out of the 20 (15%) gift card transactions reviewed, the user kept the gift cards in their personal possession for three to six days during the week and/or over the weekend before making purchases and returning the gift cards to the Business Office.
- At the Circleville JCF, for one out of the 20 (5%) gift card transactions reviewed, cleaning products were purchased and no youth participation form was attached.

The lack of complete and formally documented policies and procedures may lead to:

- Misuse and abuse,
- Purchases not complying with program requirements,
- Lack of oversight, accountability and review, or
- Gift cards not spent for the youths benefit.



**Recommendation**

Management should develop and implement agency-wide policies and procedures for the purchase and use of gift cards to promote consistency and uniformity at all of the JCFs. These policies and procedures should define individuals' roles and responsibilities of the tasks performed. The tasks should be sufficient that individuals not familiar with the process can assist and perform the tasks effectively and efficiently.

The policies and procedures should state what is allowable and unallowable to be purchased with the gift cards, as well as any restrictions on purchasing gift cards from specific vendors. Uniform and standardized account coding in OAKS should also be communicated in the policies and procedures to assist DYS Central Office in identifying and reviewing all gift cards that are purchased.

Consider requiring the JCFs to adhere to dollar amount thresholds for each incentive party type to assist in validating that purchases were spent on the youth. In addition, require the Program Administrator to provide a list of all youth participants for each incentive party. For purchases greater than a certain threshold, consider the requirement of a youth signature for receipt of the item. These policies and procedures should be formally documented, approved by management, and periodically reviewed for updates.

**Management Response**

DYS will be discontinuing the practice of purchasing gift cards for use for the SBBMS program. The gift cards were initially utilized to purchase items normally restricted by the state payment card program. Since there was a determination based upon the audit regarding the allowable use of the state payment cards to purchase food type items from traditionally restricted vendors, DYS will transition to this method of payment for future SBBMS purchases.

In the meantime, there are currently gift cards in the possession of each of the facilities. The agency does not want to forgo these funds; therefore, the gift cards will be exhausted and phased out. The agency will adopt the current written procedures developed by Cuyahoga Hills for use at all facilities until the gift cards are spent. Additional gift cards will not be purchased by DYS facilities. The current DYS payment card manual will be updated to include a section regarding SBBMS purchases and consideration will be given regarding dollar amount thresholds and/or any restrictions. The manual will be updated no later than November 2013 to include the SBBMS payment card purchasing procedures.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Deputy Director of Finance & Planning	November 2013



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee