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Assignment 10124

March 24, 2006

To: Distribution List

Subject: Internal Audit Report – Digitized signature for warrant printing

We have completed an audit of the digitized signature for the printing of Immediate Needs warrants in the Social Services Agency. We conducted the audit from November 2005 through January 2006.

We thank management and staff in various departments and district offices in the Social Services Agency for their cooperation. Their assistance contributed to the success of the audit.

Respectfully submitted,

Signatures on file

David G. Elledge  
Controller-Treasurer

Bill Perrone, CIA  
Supervising Internal Auditor

Distribution List:

Will Lightbourne, Director, Social Services Agency  
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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

## **INTERNAL AUDIT REPORT**

Digitized Signature for the printing of  
Immediate Needs Warrants, Social  
Services Agency



Assignment 10124  
March 24, 2006

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## Executive Summary

**Conclusion** In our opinion, the internal controls over the digitized signature used in the printing of Immediate Needs warrants are working and provide adequate safeguards. There is a need to evaluate the opportunities of alternative payment methods and consolidating locations. (See Finding 1)

**Audit Background** The audit is part of a continuous countywide program to evaluate all systems and processes printing warrants outside the Controller-Treasurer's office, particularly in the use and safeguard of the digitized signature. We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

**Audit Objective** The audit was to evaluate the controls over the digitized signature and warrant printing process.

**Audit Scope** While the audit focused on the digitized signature used to print Immediate Needs warrants in the district offices, we also reviewed the Immediate Needs warrant printing process, the safeguards of check stocks, hardware, the printing program, physical security and the segregation of duties of personnel. We visited all locations with Immediate Needs warrant printers, analyzed check logs, reviewed the volume on the daily check registers for November and December 2005, observed actual operations and interviewed personnel in district offices, warrant control and the Help Desk.

Details about the finding and recommendation are provided below.

Signatures on File

David G. Elledge  
Controller-Treasurer

Bill Perrone, CIA  
Supervising Internal Auditor

## Findings and Recommendations

### **Finding 1                      Current procedures should be evaluated to reduce risk and cost with alternative payment methods and location consolidation.**

Since system inception in July 2005 and on a monthly basis, several of the locations indicated that the number of Immediate Need checks printed has been and remains low. Based on the November and December 2005 statistics from CALWIN (see **Attachment A**), no warrant was issued in the 1919 Senter Road office. Only 3 were issued at the 591 North King office. Eleven were issued in the Mountain View office and 14 in the Gilroy office. At the 373 West Julian office 16 were issued and 1670 Las Plumas office issued 31. At the 1870 Senter Road office 52 were issued. These were warrants net of void and cancelled ones extracted from the Daily CALWIN Warrants Register covering the two months that correspond with fieldwork.

Some district offices are located near other district offices. In particular, 1670 Las Plumas and 591 North King is less than 0.1 miles apart. The same is true for 1870 and 1919 Senter Road. Four district offices are within four miles (see **Attachment A**) from the West Julian Office, which is the head office of Social Services Agency.

As locations printing warrant increase, the associated risks increase. The chance of human errors correspondingly increases. More locations mean more warrant stock and hardware must be secured. Naturally, the cost to the County increases accordingly. The fixed costs for district offices to print warrants include the dedicated computer, the monitor, the printer and their maintenance. Recurring costs are the warrant stock and the printer ink cartridges (see **Attachment B**). Soft costs are the procedures and labor cost to safeguard and account for the use of the warrant stock and the actual warrants printed. Part of the costs for supporting functions such as Warrant Control and the Help Desk is attributable to the warrant printing process. The imputed rent for the cubicle housing the printer set up belongs to this category. Ongoing training for the staff is another cost item.

While soft costs are hard to estimate and recoup, fixed and recurring costs can be fairly estimated. Based just on these estimates, Internal Audit has calculated the cost of a warrant issued for all offices is \$10.35 (see **Attachment B**). Since print volume dictates the cost per warrant, 591 North King office has the highest per warrant cost of \$62.60. Just around the corner, 1670 Las Plumas has a cost of \$6.06. The 1919 Senter Road location would be the most costly, but we could not compute the cost because they did not issue any warrant for the two months reviewed. Down the road, 1870 Senter Road has a cost of \$3.61.

The calculation is based on a three years average. This time frame is used because it is the normal economic life of high tech hardware. It is also used for depreciation and replacement planning.

If all the soft costs mentioned above were included, the per warrant cost would have been much higher, conservatively by 200 to 300 per cent. Please see **Attachment A** for details.

**Recommendation 1.1** SSA should evaluate alternative payment methods and location consolidation. [Priority 3]

One alternative is the use of “cash card” or “debit card”. Currently, the Controller’s office is evaluating banking services. SSA can work with them to pursue this alternative.

Another alternative may be promoting the use of EBT cards. For Immediate Needs benefits, the client may not be forced to accept an EBT card, but there may be situations where it is in the client’s best interest. An EBT card may be easier for the client to obtain cash or not have to pay check-cashing fees. Since EBT cards are already in use, there is minimal increase in cost to the County.

A third alternative may be using petty cash. This would again solve the client’s situation of having to convert a warrant to cash.

In consolidating locations, serious consideration should be given to those offices that are less than 0.1 mile apart. For San Jose locations, the warrant printing could be consolidated to chosen location or locations. Clients can be transported to the issuing locations. A round trip taxi fare of \$25 (except for the North and South County offices) would get a client to and from the Julian office.



## Attachment B

### Estimated costs for Immediate Needs warrant printing by district offices

Fixed and recurring cost items	Estimated Unit cost	Total for all locations over 3 years	Notes
Desktop Computer, Mid-level Standard configuration	\$800	\$7200	The unit cost is the average of mid-level standard desktop computers as described in Appendix A5 contract from Procurement, 3 years economic life assumed.
Warrant Printer	\$1000	\$9000	Estimate figure may be conservative as these are special printers, 3 years economic life assumed.
Monitor (CRT) 19"	\$176	\$1584	Estimates are for CRT monitors that are being phased out. Current LCD monitors cost twice, 3 years economic life assumed.
Warrant Stock for 3 years of usage	\$2100	\$2100	SSA ordered similar warrant stock for their Trust Funds on May 17, 2005 at a cost of \$2098.70 for 16,500. We use \$2100 for the calculation even though Immediate Needs warrant stocks are ordered in smaller quantity. The cost is much higher. We could not obtain the actual cost.
Ink Cartridge for all locations for 3 years	\$60	\$3780	We estimate 3 cartridges per printer per year. \$1260 for all 7 offices. 2 offices do not print warrants. Estimate is for 3 years to maintain consistency.
<b>Grant Total costs in \$</b>		<b>\$23,664</b>	Only fixed and recurring costs used
<b>Actual Total checks issued in 2 months</b>		127	Based on November, December 2005 statistics from Attachment A.
<b>Estimated Total number of checks in 3 years</b>		<b>2286</b>	3 years is the usual and customary planning horizon, yielding a better average estimated figure
<b><u>Averaged Cost of a check issued for all offices</u></b>		<b><u>\$10.35</u></b>	<b>Excluding soft costs not estimated, based on a 3 years average of fixed and recurring costs only. \$23,664 / 2286</b>
<b>See Notes 1</b>			

**Notes :**

1. For recurring costs, we use 3 years worth of data. This provides a better estimated figure of cost per check. For high technology hardware, three years is the normal economic cycle. It is used for asset depreciation and replacement planning.



**County of Santa Clara**

Social Services Agency

333 West Julian Street  
San Jose, California 95110-2335



March 16, 2006

**MEMORANDUM**

**TO:** David G. Elledge, Controller-Treasurer  
Bill Perrone, CIA, Supervising Internal Auditor

**FROM:** Will Lightbourne, Social Services Agency Director *Will Lightbourne*

**SUBJECT:** SOCIAL SERVICES AGENCY RESPONSE – INTERNAL AUDIT REPORT DIGITIZED SIGNATURE FOR THE PRINTING OF IMMEDIATE NEED WARRANTS

SSA is in receipt of the completed internal audit report of digitized signature for printing immediate need warrants. This memorandum is the Agency response to Finding 1:

**Finding 1:** Current procedures should be evaluated to reduce risk and cost with alternative payment methods and location consolidation.

**Recommendation 1.1** SSA should evaluate alternative payment methods and location consolidation. [Priority 3]

**Response:**

The Social Services Agency has evaluated the alternative payment and location consolidation recommendations in the report. The alternative payment methods recommended are not feasible for the County recipients of public assistance. The Agency does support the report's location consolidation recommendation. Each recommendation is addressed below in more detail.

**Cash Card or Petty Cash** – A cash card or petty cash payment method would introduce a separate system outside of the CalWIN application for public assistance issuance and would require manual account reconciliation. This would not be cost effective. Creating another system to issue and track public assistance benefits, would be extremely difficult to maintain as well as costly. In addition, the Agency would be responsible for adding the outside issuance to the existing automated CalWIN system, to ensure the total aid paid to the client is recorded. Several other systems such as Child Support, Tax Intercept, and the

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SUBJECT: SOCIAL SERVICES AGENCY RESPONSE – INTERNAL AUDIT  
REPORT DIGITIZED SIGNATURE FOR THE PRINTING OF  
IMMEDIATE NED WARRANTS

Ventura Automated Collection System (VACS) interface with CalWIN and use the payment information. There is a fairly significant amount of information required for each issuance that would be difficult to recoup through an outside payment system. These include person's count, federal or state eligibility of persons included in the benefits issued, and the effective month. This data is required for both fiscal and statistical state mandated monthly reports. All public assistance benefits need to be issued within the existing CalWIN application to insure integrity of data and to comply with federal and state program requirements.

Promote Electronic Benefit Transfer (EBT) – The Agency already uses EBT to the fullest extent that it can and is feasible. Additional use of the statewide EBT program to issue benefits is not feasible because the EBT system is designed for individual recipients of public assistance. The immediate need warrants issued at the district offices are primarily to providers/vendors and not recipients. For example the CalWORKs Homeless Program assistance benefit is a one-time benefit payable to a provider of shelter for the homeless client. It is not a benefit payable to the CalWORKs recipient. Foster Care program payments receiving immediate need warrants are similar. The payments are made to providers, not the children who are the Agency's clients.

Consolidation of locations – The Agency is committed to the efficient and effective delivery of benefits to recipients and supports the recommendation of consolidation of locations. The Agency is currently evaluating this recommendation for its Las Plumas and Senter Road locations. It will also continue to consider this concept for future opportunities of location consolidation in an effort to ensure recipients access to immediate need warrants while reducing the cost of delivering the benefits.

As always, Chief Financial Officer Onita Spake is available to respond to any questions you may have regarding SSA's response to the internal audit report.

c: Onita Spake, Chief Financial Officer  
Katherine Sanchez, Deputy Financial Officer  
Diane Aldrich, CalWIN Fiscal Officer

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