COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 29, 2002

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FOOD STAMP BULK STORAGE AGENTS REVIEW**

We have completed our annual review of the Department of Public Social Services' (DPSS) Food Stamp Bulk Storage Agents: Dunbar Armored, Inc. (Dunbar), Loomis and Fargo Armored, Inc. (Loomis) and Sectran Security, Inc. (Sectran). DPSS contracts with the Bulk Storage Agents for the consolidated storage and distribution of food stamp coupons to the various food stamp Issuance Agents located throughout the County.

Our review included conducting a physical inventory of food stamps stored at the BSAs' facilities, reconciling the inventory counts to the inventory records maintained by the BSAs and the Issuance Agents, and reviewing other internal controls in place to safeguard the food stamp inventory. We also interviewed DPSS, BSA and Issuance Agents management and staff. Finally, we conducted a follow-up of the findings from our prior year's review to determine if the recommendations contained in the report had been implemented.

Summary of Results

Overall, the Bulk Storage Agents are adequately safeguarding and accounting for food stamps. We did not note any discrepancies when comparing our physical inventory counts to the inventory records maintained by the Bulk Storage Agents and the Issuance Agents. However, we did note that three of the twelve audit findings noted in our prior report continue to exist. For example, Sectran did not require the Auditor-Controller employees to show identification prior to allowing them access to the facility. Also, the monthly accountability reports generated by the Issuance Agents used to track food stamp inventory continue to contain a significant number of omissions and mathematical errors.

The following are the details of our findings and recommendations for corrective action.

Food Stamp Security

Security over food stamp inventory includes storing the inventory in a secured location in which only authorized individuals have access. It is also critical that BSA staff always remain in attendance whenever authorized visitors are in the secured area.

During our visit to Sectran to conduct a physical count of the food stamp inventory, we were not asked to show picture identification before entering a secured location used to store food stamps. Sectran staff also began to leave Auditor-Controller employees unattended in the vault until Auditor-Controller staff reminded them that it was essential that they remain present during the inventory.

Recommendation

1. **BIS management reemphasize to Sectran the need to review the identification of all individuals requesting access to its secured facilities and ensure that visitors entering secured areas are not left unattended.**

Accountability Report Accuracy

Monthly, each of the 13 Issuance Agents and three BSAs are required to submit a Food Coupon Accountability Report (FNS-250) to the County that documents food stamp issuances, as well as the perpetual inventory balances and book value of the food coupons stored at each outlet (98 total outlets). According to the contract between the County and the Issuance Agents, the Issuance Agents must pay the County liquidated damages in the amount of $70 for each calendar day the reports are late.

In our March 15, 2001 Food Stamp Bulk Storage report, we noted numerous errors in the FNS-250s and recommended that DPSS' Benefits Issuance Section (BIS) management reemphasize to the Issuance Agents/BSAs the importance of submitting complete and accurate FNS-250s. Although BIS management did reemphasize to the Agents the importance of ensuring the accuracy of the FNS-250s, a large percent of the FNS-250s still contain errors and must be returned to the BSAs or Issuance Agents for correction. In FY 2000-01, 17% of the forms submitted by the BSAs and Issuance Agents had to be returned due to errors, which in some instances resulted in the revised FNS-250s being submitted past the due date. Corrections were required primarily due to miscalculations, missing information, or procedural errors such as failure to void receipts or receipts that were voided in error.

BIS management needs to again reemphasize to the Issuance Agents and BSAs the importance of submitting complete and accurate FNS-250s. In addition, BIS managements needs to determine if the frequent need to revise FNS-250s due to incomplete or inaccurate reports on the part of the contractors should be considered late and, if so, impose liquidated damages as specified in the contracts with Issuance

Agents. If the Department determines that incomplete or inaccurate reports are not considered late, then BIS management needs to determine if the contracts can be amended to enable them to assess penalties for incorrect FNS-250s.

Recommendations

BIS management:

2. **Again reemphasize to the Issuance Agents and BSAs the importance of submitting complete and accurate FNS-250s**

3. **Determine if the frequent need to revise FNS-250s due to incomplete or inaccurate reports on the part of the contractors without due cause should be considered late and, if so, impose liquidated damage as specified in the contracts with Issuance Agents.**

4. **Consider amending contracts with the BSAs to place stronger emphasis on timely and accurate reporting and to include penalties that can be assessed when Issuance Agents/BSAs continually submit inaccurate or incomplete FNS-250s.**

Insurance Coverage

Deficiencies in insurance coverage reported in last year's report have been adequately addressed to meet County contract requirements. However, the Standard Insurance Requirements issued by the Chief Administrative Office (CAO) require the BSAs to carry policies giving Los Angeles County a 30 day written notice of any termination or modification to a policy. The insurance policies for Loomis and Sectran do not provide a 30 day written notification to the County for modifications in BSAs' insurance coverage. As a result, changes in current policy limits, resulting in insufficient insurance coverage, can go undetected.

Recommendation

5. **BIS management ensure the BSAs comply with County requirements of a 30-day notification for any modifications to existing insurance polices.**

Using Updated Handbooks

The County's contract with the BSAs states that the "County shall furnish instructions to BSAs on the disposition of coupons stored, records to be kept, and reports to be made." DPSS' *Benefits Issuance Agents Operations Handbook* (Handbook) is the basis for those instructions. In February 2001, DPSS issued updated handbooks to the BSAs that included revised values for series C through F coupon books.

During our review, we noted that the BSAs were not using the updated handbooks containing the most current food stamp coupon valuation information. The BSAs were using outdated versions of the handbook. As a result, many of the errors contained in the BSAs' monthly FNS-250s could have been caused by using incorrect coupon values contained in the outdated copies of the handbook. DPSS needs to ensure the BSAs are using the most updated version of the handbook containing the most current coupon valuations.

Recommendation

6. **The Department ensure the BSAs are using the most updated version of the handbook containing the most current coupon valuations.**

Acknowledgements

We would like to thank the DPSS Benefits Issuance Section staff for their cooperation during our review. The results of our physical inventory and our internal control and compliance findings, along with our recommendations for corrective action were discussed with representatives of DPSS. The Department's response, attached, reflects DPSS' overall concurrence with our findings and recommendations for corrective action and indicates that, in many instances, corrective action measures have already been initiated.

If you have any questions, please call me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:DC

Attachments

c: David E. Janssen, Chief Administrative Officer
Department of Public Social Services
Bryce Yokomizo, Director
Gail Dershewitz, HSA III, Management Information and Evaluation Section
Peggy Dobson, ASM III, Benefits Issuance Section
Violet Varona-Lukens, Executive Office, Board of Supervisors
Audit Committee (6)
Eloise McCoy, Dunbar Armored, Inc.
Nolan Tate, Loomis and Fargo, Inc.
Vaho Ohanian, Sectran Security, Inc.

County of Los Angeles
Department of Public Social Services

Bryce Yokomizo
Director

March 28, 2002

J. Tyler McCauley, Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012-2766

Dear Mr. McCauley:

RE: RESPONSE TO THE FOOD STAMP BULK STORAGE AGENTS REVIEW

Attached is my Department's Corrective Action response to the six recommendations contained in the Auditor-Controller's final report on the Food Stamp Bulk Storage Agents Review conducted from August through December 2001. Five of the six recommendations have been implemented. The fourth recommendation is targeted for implementation by July 31, 2002.

Very truly yours,

Bryce Yokomizo/wb

Bryce Yokomizo
Director

BY:wb

Attachment

12860 Crossroads Parkway South, City of Industry, California 91746 • Tel (562) 908-8400 • Fax (562) 908-0459

Attachment

DPSS RESPONSE TO FOOD STAMP BULK STORAGE AGENTS REVIEW RECOMMENDATIONS

Food Stamp Security

1. **BIS management reemphasize to Sectran the need to review the identification of all individuals requesting access to its secured facilities and ensure that visitors entering secured areas are not left unattended.**

   DPSS Response:

   We agree. Benefit Issuance Section (BIS) sent a letter to Sectran Security, Inc. reminding them of previously issued instructions to follow security procedures as written in the DPSS Benefits Issuance Agents Handbook. The Bulk Storage Agents are to review picture identification (usually California Driver's License) of the person who seeks entrance to their facility and ensure that visitors are not to be left unattended.

   Target Date: Implemented. A letter was sent on March 5, 2002, to Sectran Security, Inc. See Attachment A.

Accountability Report Accuracy

2. **BIS management again reemphasize to the Issuance Agents and BSAs the importance of submitting complete and accurate FNS 250s.**

   DPSS Response:

   We agree. BIS reinforced the policy by issuing another letter to the Issuance Agents and BSAs on the importance of submitting accurate and complete reports. BIS previously issued All Agent Letter #01-04 on February 22, 2001. See Attachment B. instructing the Bulk and Issuance agents to review reports for accuracy and completeness before submission. BIS will review the FNS-250s monthly and when necessary BIS will provide reinforcement training for agents.

   Target Date: Implemented. All Agent Letter #02-04 was sent on March 5, 2002. See Attachment C.

3. **BIS management determine if the frequent need to revise FNS-250s due to incomplete or inaccurate reports on the part of the contractors without due cause should be considered late and, if so, impose liquidated damage as specified in the contracts with Issuance Agents.**

DPSS Response:

We agree. Effective immediately BIS will review all FNS-250s submitted by the Issuance Agents to determine which agent or agents submit incomplete or inaccurate reports that will be considered late to be assessed liquidated damages as specified in the contracts with Issuance Agents. BIS will assess liquidated damages effective March 15, 2002. All agents who submit reports that are not received on due dates will be assessed $70 per calendar day penalty.

Target Date: Implemented. An All Agent Letter #02-07 was sent on March 19, 2002, regarding the assessment of liquidated damages. See Attachment D.

4. **BIS management consider amending contracts with the BSAs to place stronger emphasis on timely and accurate reporting and to include penalties that can be assessed when Issuance Agents/BSAs continually submit inaccurate or incomplete FNS-250s.**

DPSS Response:

We agree. BIS will review the FNS-250s submitted by the BSAs and if warranted will consider amending their contracts to include assessment of penalties for continually submitting inaccurate or incomplete FNS-250s.

Target Date: July 31, 2002

Insurance Coverage

5. **BIS management ensure the BSAs comply with County requirements of a 30 day notification for any modifications to existing insurance policies.**

DPSS Response:

We agree. BIS issued instructions to the BSAs to obtain modifications to their insurance coverage to comply with the Auditor-Controller's recommendation. A letter was sent on March 5, 2002, to both the Sectran and Loomis BSAs. See Attachment E.

Target Date: Implemented.

Using Updated Handbooks

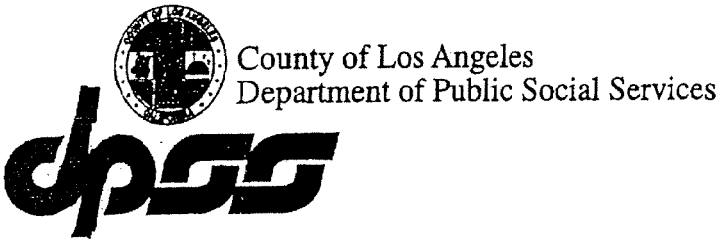
6. **The Department ensure BSAs are using the most updated version of the handbook containing the most current coupon valuations.**

DPSS Response:

We agree. On February 1, 2001, BIS staff delivered the updated handbook to the BSAs. However, we also sent out letters to BSAs reminding them to use the current handbook and to discard any previously issued versions of the handbook. During BIS's semi-annual monitoring of BSA's, we will ensure that they have the latest instructional materials available for their staff.

Target Date: Implemented. A letter was sent on March 5, 2002, to the three BSAs. See Attachment F.

Attachment A



County of Los Angeles
Department of Public Social Services

Bryce Yokomizo
Director

March 05, 2002

ADDRESS REPLY:
DPSS-Benefits Issuance Section
P.O. Box 761219
Los Angeles, CA 90076-1219

Vaho Ohanian, Vice President
Sectran Security, Inc.
7633 Industry Avenue
Pico Rivera, CA 90660

Dear Mr. Ohanian:

Last year on February 27, 2001 we sent you a letter requesting you to take corrective action on the Auditor Controller's finding of security weaknesses which needed to be corrected.

Recently, the Auditor Controller's staff conducted their annual review and noted the same security weaknesses. In addition, the insurance certification dated February 7, 2002 does not indicate that Los Angeles County will be notified of modifications to insurance coverage within 30 days. We are **again** reminding you to take corrective action on the following:

1. Require proper picture identification (usually California Driver's License) from all individuals requesting access to the food stamps vault and to make certain that all visitors entering the secured areas are NOT left unattended.

2. Insurance coverage should include a 30-day notice to the County not only of any termination but also any modifications within the policy.

3. Ascertain that the current Benefits Issuance handbook is being used and the previously issued handbook is discarded. The revised Benefits Issuance Handbook was hand delivered to you on February 1, 2001. Your staff was unable to provide the current Benefits Issuance Operation Handbook to Auditor's staff.

On the change in the insurance coverage, please forward your amended certificate by **April 05, 2002** to:

Benefits Issuance Section
Attn: Minerva Gestuvo
P. O. Box 761219
Lost Angeles, CA 90076-1219

Thank you for your immediate action to correct these concerns. If you have any questions, please call me at (213) 639-5863 or Minerva Gestuvo at (213) 639-5862.

Sincerely,

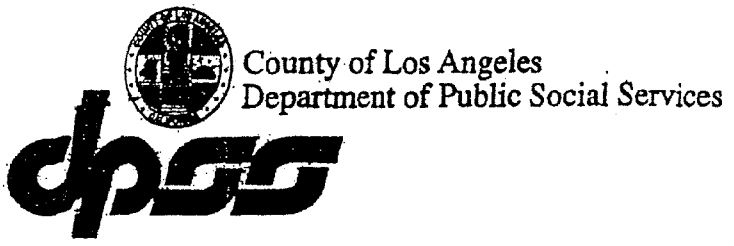
Peggy Dobson

Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:DS:MG:mg

I:\Mimi wpd \letter to sectran on audit 030502.wpd

Attachment B



Lynn W. Bayer
Director

February 22, 2001

ALL AGENT LETTER 01- 04

DISTRIBUTE TO HEAD OFFICES - BULK STORAGE & OUTLETS

SUBJECT: ACCURATE COMPLETION OF FNS-250 and FCS-300

In a recent review conducted by the Los Angeles County Auditor-Controller, various errors and omissions were found on FNS-250, Food Coupon Accountability Report, and FCS-300, Advise of Transfer, submitted by Issuance Agents and Bulk Storage Agents. Similar errors and omissions were cited on last year's audit.

On June 8, 2000 we issued All Agent Letter 00-15 (see attached) advising you of the error findings and instructing you to review reports for accuracy and consistency before submission. You are **again** being reminded that you have an obligation to submit accurate reports.

Should there be any questions regarding this all agent letter or the requirements of reporting accuracy, they may be directed to Minerva Gestuvo at (213) 639-5862.

Sincerely,

Peggy Dobson

Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:MG:mg

Enclosure

I:\Mimi wpd\all agent letter01-03 020601.wpd

County of Los Angeles
Department of Public Social Services

Bryce Yokomizo
Director

Attachment C

March 05, 2002

ALL AGENT LETTER 02- 04

DISTRIBUTE TO HEAD OFFICES - BULK STORAGE & OUTLETS

SUBJECT: ACCURATE COMPLETION OF FNS-250

Los Angeles County Auditor-Controller's most recent review again cite numerous errors and omissions on FNS-250, Food Coupon Accountability Report, submitted by Issuance Agents and Bulk Storage Agents. Last year's audit noted the same type of errors and omissions.

On February 22, 2001 we issued All Agent Letter 01-04 (see attached) instructing you to **again** review reports for accuracy and consistency prior to submission. **IT IS YOUR RESPONSIBILITY TO ENSURE THE REPORTS YOU SUBMIT TO THIS DEPARTMENT ARE ACCURATE.**

Should there be any questions regarding this all agent letter or the requirements of reporting accuracy, they may be directed to Minerva Gestuvo at (213) 639-5862.

Sincerely,

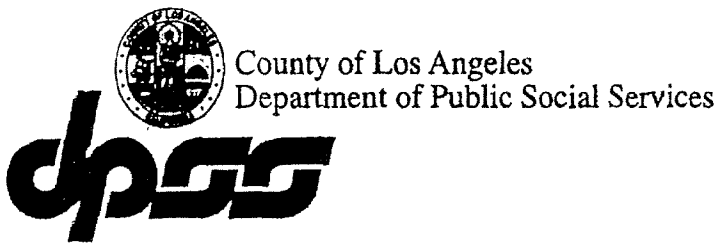
Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:DS:MG:mg

Enclosure

I:\Mini wpd\all agent letter02 04 022802.wpd

Attachment D



Bryce Yokomizo
Director

March 19, 2002

ALL AGENT LETTER 02- 07

DISTRIBUTE TO HEAD OFFICES
ISSUANCE AGENTS/ BULK STORAGE

SUBJECT: $70 PENALTY FOR LATE OR INACCURATE REPORTS

In the past, we had given you numerous reminders regarding the importance of submitting accurate and timely reports. The latest audit disclosed a notable trend in the habitual submission of late and inaccurate reports. To prevent inaccurate reports, you are to follow and adhere to the detailed instructions found in the Benefits Issuance Agents' Operations Handbook.

It is your responsibility to submit **accurate and timely** reports. All reports are due the 15th of each month following the report month. However, if the 15th of the month falls on a Sunday or a County holiday, then the reports will be due by 5:00 p.m. of the following business day.

The Benefits Issuance Agent Agreements provide for liquidated damages in the amount of $70 to be assessed to agents for **each calendar day** that reports are **late**; that is, received after the 15th of the month. If it is necessary for us to return any report to you for correction, the due date does **not** change. For example, if we return the FNS 250 to you for correction and the corrected FNS 250 does not reach us by the 15th of the month, a $70 per calendar day penalty will be assessed for each calendar day after the 15th until we receive a correct and accurate FNS 250.

If you have any questions regarding this All Agent Letter, please contact Minerva Gestuvo at (213) 639-5862.

Sincerely,

Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:DS:MG:mg

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County of Los Angeles
Department of Public Social Services

Attachment E

Bryce Yokomizo
Director

March 05, 2002

ADDRESS REPLY:
DPSS-Benefits Issuance Section
P.O. Box 761219
Los Angeles, CA 90076-1219

Jim Dutz, General Manager
Loomis Fargo & Co., Inc
1929 E. Pico Blvd.
Los Angeles, CA 90006

Dear Mr. Dutz:

On February 27, 2001 we sent you a letter requesting you to take corrective action on the Auditor Controller's exceptions on insurance coverage. Your compliance with your contract requirement on insurance coverage is highly appreciated.

Recently, the Auditor Controller's staff conducted their annual review . The audit disclosed that the insurance certification dated February 15, 2002 does not indicate that Los Angeles County will be notified of modifications to insurance coverage within 30 days. Likewise during the review, your staff was unable to provide the current Benefits Issuance Operations handbook to Auditor's staff. We are reminding you to take corrective action on the following:

1. Insurance coverage should include a 30-day notice to the County not only of any termination but also any modifications within the policy.

2. Ascertain that the current Benefits Issuance Operations handbook (hand delivered to you on February 1, 2001) is being used and the previously issued handbook is discarded.

On the change in the insurance coverage, please forward your amended certificate by **April 05, 2002** to:

Benefits Issuance Section
Attn: Minerva Gestuvo
P. O. Box 761219
Lost Angeles, CA 90076-1219

Thank you for your immediate action to correct these concerns. If you have any questions, please call me at (213) 639-5863 or Minerva Gestuvo at (213) 639-5862.

Sincerely,

Peggy Dobson

Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:DS:MG:mg

I:\Mimi wpd \letter to loomis on audit 030502.wpd

Attachment F

County of Los Angeles
Department of Public Social Services

dpss

Bryce Yokomizo
Director

March 05, 2002

ADDRESS REPLY:
DPSS-Benefits Issuance Section
P.O. Box 761219
Los Angeles, CA 90076-1219

Cynthia Berumen, Vault Manager
Dunbar Armored, Inc.
4201 Ross Street
Vernon, CA 90058

Dear Ms. Berumen:

On February 27, 2001 we sent you a letter requesting you to take corrective action on the Auditor Controller's exceptions on certain weaknesses which need to be corrected. Your compliance on those concerns is highly appreciated.

Recently, the Auditor Controller's staff conducted their annual review and noted the need for a reminder to use the current Benefits Issuance Operations handbook. During the review, your staff was unable to provide the current Benefits Issuance Operation handbook to Auditor's staff. Please ascertain that the current Benefits Issuance Operations handbook (hand delivered to you on February 1, 2001) is being used and the previously issued handbook is discarded.

Thank you for your immediate action. If you have any questions, please call me at (213) 639-5863 or Minerva Gestuvo at (213) 639-5862.

Sincerely,

Peggy Dobson

Peggy Dobson, Administrator
Benefits Issuance Section

PD:KS:DS:MG:mg

I:\Mimi wpd \letter to dunbar on audit 0030502.wpd