

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

District Financial Services: Payment Auditing Process Audit



**Ensen Mason CPA, CFA
Auditor-Controller/Treasurer/Tax Collector**

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-3183

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

Mission Statement

This office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

Audit Team

Denise Mejico
Chief Deputy Auditor

Menaka Burkitt
Internal Audits Manager

Rachel Ayala
Supervising Internal Auditor III

Maressa Nuñez, CPA
Accountant III

John Niggemeyer
Internal Auditor II



District Financial Services Payment Auditing Process Audit

Audit Report Letter	1
Executive Summary	3
Audit Background	4
Scope, Objective and Methodology	5
Audit Findings and Recommendations	6



County of San Bernardino



Auditor-Controller/Treasurer/Tax Collector

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector

Douglas R. Boyd Sr., ESQ.

Assistant Auditor-Controller/Treasurer/Tax Collector

Tori Roberts CPA

Assistant Auditor-Controller/Treasurer/Tax Collector

June 29, 2020

Melissa Anderson, Chief
District Financial Services
760 E. Brier Drive
San Bernardino, CA 92408

SUBJECT: PAYMENT AUDITING PROCESS FY19

In compliance with Article V, Section 6, of the San Bernardino County Charter, we have completed an audit of the San Bernardino County Superintendent of Schools District Financial Services' (DFS) payment auditing process for the period of July 1, 2018 through June 30, 2019. The primary objective of the audit was to determine the effectiveness of the audit process in place over the processing of school districts' claims. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on June 4, 2020 and discussed our observations with management on June 12, 2020. DFS's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at District Financial Services who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:

Denise Mejico

Chief Deputy Auditor

Distribution of Audit Report:

Robert Lovingood, Chair, 1st District Supervisor
Janice Rutherford, 2nd District Supervisor
Dawn Rowe, 3rd District Supervisor
Curt Hagman, Chairman, 4th District Supervisor
Josie Gonzales, Vice Chair, 5th District Supervisor
Gary McBride, Chief Executive Officer
Grand Jury
Auditor-Controller Audit Committee

Date Report Distributed: June 29, 2020

EM:DLM:MN:oac



Summary of Audit Results

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Payments were made without indication of receipt of goods.	6
	We recommend DFS provide training to the districts on developing a monitoring process to ensure that documentation of receipt is created and maintained.	
2	Supporting documentation for transactions could not be found at school locations.	7
	We recommend that DFS provide training to ensure the districts develop a process to prepare support packages for each transaction, ensure those packages are reviewed and approved by an appropriate level of management, and train their staff as to what appropriate support is. In addition, DFS should recommend districts establish and enforce written policies and procedures regarding the retention and safeguarding of documentation to properly support all purchases of goods and services.	
3	Internal controls over vendor information changes could be improved at the district level.	8
	We recommend DFS ensure the districts establish appropriate segregation of duties to prevent any single employee from modifying master vendor data, and authorizing payments. We further recommend that all changes to the master vendor file be reviewed on a periodic and routine basis by an employee that is not involved in the payment authorization process. DFS should ensure that districts maintain evidence of their review of changes to the master vendor files.	
4	Invoices did not agree to purchase orders.	9
	We recommend that DFS provide training to the districts on developing a monitoring process to ensure invoices match purchase order details and include the purchase order number when applicable.	



PAYMENT AUDITING PROCESS AUDIT

The Department

District Financial Services (DFS) is an external services department of the San Bernardino County Superintendent of Schools. DFS is responsible for the processing of the financial transactions of thirty-three K-12 school districts, five Community College districts, three Regional Occupational Programs (ROP) districts, four Joint Powers Authorities (JPA), the County Schools' office, and numerous charter schools. DFS audits and processes commercial vendor payments, payroll, garnishments, taxes, CalPERS and CalSTRS retirement reporting, interfund transfers, journal entries, cash journal vouchers, deposits, public works payments, reconciliation of cash and other various transactions. Approximately 750,000 payroll warrants and 300,000 commercial warrants are generated annually.

DFS sets audit guidelines or levels for Local Educational Agencies (LEA) in the County and performs audits of selected payments and contracts. DFS maintains an audit manual which documents the objectives and general audit procedures to be performed during the review of warrant packages submitted to DFS by districts. DFS has also drafted public works audit guidelines to document standardized procedures for the payment of construction related transactions as well as bidding procedures.



Scope and Objective

We audited the transactions of 16 school districts for the period of July 1, 2018 through June 30, 2019. The objective of our audit was to test and evaluate a statistically selected sample of transactions to determine operating effectiveness of the audit process over school districts' claims.

Methodology

In achieving the audit objective, the following evidence gathering and analysis techniques were used, including but not limited to:

- Interviewing DFS staff directly involved in the payment auditing process.
- Reviewing DFS' policies and procedures.
- Performing walk-through of activity.
- Examining system generated reports.
- Generating and substantively testing a statistically selected sample of school districts' transactions.
- Examining original source documents maintained at DFS and school districts.

The following 16 districts were visited during our fieldwork:

- Cucamonga School District
- Etiwanda School District
- Lucerne Valley Unified School District
- Morongo Unified School District
- Mountain View School District
- Mt. Baldy Joint School District
- Needles Unified School District
- Oro Grande School District
- Redlands Unified School District
- San Bernardino Community College District
- San Bernardino City Unified School District
- Silver Valley Unified School District
- Snowline Joint Unified School District
- Victor Valley Union High School District
- Southern California Schools Employee Benefits Association (S.C.S.E.B.A.)
- Southern California Schools Risk Management (S.C.S.R.M.)



Finding 1: Payments were made without indication of receipt of goods.

The DFS Audit Manual requires that districts approve payments by confirming the receipt of goods and services with the date received, first initial and last name on the invoice, purchase order or packing slip.

Our sample of 160 transactions identified 17 instances where either a signature, a date, or both, indicating receipt of good or service, was not evident on the invoice, purchase order or packing slip.

The 17 instances were identified at the following districts:

- Lucerne Valley Unified School District (2)
- Mt. Baldy Joint School District (7)
- Redlands Unified School District (5)
- San Bernardino Community College District (3)

The districts were not aware that all expenditures (including transactions not pulled for audit) need to have supporting documentation according to requirements outlined in the DFS Audit Manual. Without proper receiving documentation which evidences that goods or services were received, there is increased likelihood that payments will be made for goods or services not authorized or received.

Recommendation:

We recommend DFS provide training to the districts on developing a monitoring process to ensure that documentation of receipt is created and maintained.

Management's Response:

DFS concurs with this finding and will continue to reiterate to school districts the importance of retaining a complete copy of each warrant package – including any receiving documentation – whether or not a payment was selected for audit. This requirement is included in the DFS Audit Manual and in the training DFS provides to each district-authorized agent prior to granting them access to approve and release payments.

Auditor's Response:

The Department's planned actions will correct the deficiencies identified in the finding.



Finding 2: Supporting documentation for transactions could not be located at school locations.

The DFS Audit Manual requires that a complete warrant package be available for audit. Warrant packages generally include an invoice, purchase order, receiving documentation and any other pertinent documentation to support the expenditures.

Our sample of 160 transactions identified 6 instances where required supporting documentation for revolving cash fund, bid documentation, travel, conference and mileage, Cal-Card and credit card expenditures were not maintained.

The 6 instances were identified at the following districts:

- We tested \$161,890 worth of transactions out of \$383,809 for Mt. Baldy Joint School District. Of the transactions tested, we identified one instance, totaling \$187 where supporting documentation for transactions could not be located at Mt. Baldy Joint School District.
- We tested \$570,699 worth of transactions out of \$92,135,049 for San Bernardino Community College. Of the transactions tested, we identified five instances, totaling \$2,345 where supporting documentation for transactions could not be located at San Bernardino Community College.

The districts did not have an effective process for obtaining supporting documentation. Without supporting documentation, expenditures cannot be verified as authorized and there is an increased likelihood of purchasing inappropriate goods, and inaccurate record keeping.

Recommendation:

We recommend that DFS provide training to ensure the districts develop a process to prepare support packages for each transaction, ensure those packages are reviewed and approved by an appropriate level of management, and train their staff as to what appropriate support is. In addition, DFS should recommend districts establish and enforce written policies and procedures regarding the retention and safeguarding of documentation to properly support all purchases of goods and services.

Management's Response:

DFS concurs with this finding and will continue to make the districts aware that each warrant package must be complete and available for audit. This requirement is included in the DFS Audit Manual and in the training DFS provides to each district-authorized agent prior to granting them access to approve and release payments.

Audit Findings and Recommendations



DFS will continue to recommend districts establish and enforce written policies and procedures regarding the filing and safeguarding of documentation, in order to ensure standardization and provide a locatable audit trail.

Auditor's Response:

The Department's planned actions will correct the deficiencies identified in the finding.

Finding 3: Internal controls over vendor information changes could be improved at the district level.

Accounts payable best practices include proper maintenance and control over changes to a company's master vendor file, which will greatly decrease the chances for duplicate and erroneous payments and fraud.

Two of the sixteen districts tested, Mt. Baldy School District and Oro Grande School District, did not have a process to ensure proper segregation of duties. The following functions of managing the master vendor file should be segregated: making changes to vendor information and processing payments.

The districts have employees who can both make changes to vendor information and process payments. This lack of segregation is caused by limitations in the number of staff among which appropriate segregation could be accomplished. Without an internal control to separate the duties of changing vendor information and processing payments, the risk of possible payments made to fictitious and/or unapproved vendors is increased.

Recommendation:

We recommend DFS ensure the districts establish appropriate segregation of duties to prevent any single employee from modifying master vendor data, and authorizing payments. We further recommend that all changes to the master vendor file be reviewed on a periodic and routine basis by an employee that is not involved in the payment authorization process. DFS should ensure that districts maintain evidence of their review of changes to the master vendor files.

Management's Response:

DFS concurs with this finding in large part; however, a complete segregation of duties is simply not possible in very small districts with limited staffing, and there are some safeguards built-in to the financial system. Vendor changes cannot be made once the district's authorized agent reviews the AP prelist and releases the payment, nor can vendor changes be made to vendors on the audit exclusion list. DFS recognizes the limitations of the former countywide financial system, which



does not allow for tracking of vendor changes. The new AP module, which was implemented on July 3, 2019, does include timestamped notes and history by user, allowing districts to review vendor changes going forward.

Auditor's Response:

The Department's planned actions will correct the deficiencies identified in the findings.

Finding 4: Invoices did not agree to purchase orders.

The DFS Audit Manual requires that districts ensure invoices agree to purchase order details (e.g. vendor name, amount, quantity, item description, unit price, etc.).

Our sample of 160 transactions identified one instance at Redlands Unified School District where unit prices and payment terms listed on the invoice did not agree to the purchase order. The District approved a purchase order amount of \$237 and paid an invoice amount of \$212. Although the amount paid was lower than the approved purchase order, individual item unit prices differed, with some being higher than the approved unit price.

A purchase order serves as an authorization for expenditures, the likelihood of unauthorized expenditures increases when invoices cannot be compared to purchase orders.

Recommendation:

We recommend that DFS provide training to the districts on developing a monitoring process to ensure invoices match purchase order details and include the purchase order number when applicable.

Management's Response:

DFS concurs with this finding and will continue to reiterate to districts the need for a change order when a payment exceeds the purchase order amount and/or individual unit price by 10%, even when the total payment is less than the purchase order amount.

Auditor's Response:

The Department's planned actions will correct the deficiencies identified in the findings.