

# County of San Bernardino

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

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## **District Financial Services: Payment Auditing Process Audit**



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

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# Auditor-Controller/Treasurer/Tax Collector

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*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.*

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## **District Financial Services: Payment Auditing Process Audit**

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**May 6, 2019**

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

**SUBJECT: PAYMENT AUDITING PROCESS FY18**

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, 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, 2017 through June 30, 2018. The primary objective of the audit was to determine the effectiveness of the audit process over 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 DFS on March 4, 2019 and discussed our observations with management on March 13, 2019. DFS's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the 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: \_\_\_\_\_

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## Summary of Audit Results

The table below summarizes the audit findings and recommendations for this audit engagement. None of the exceptions were audited by District Financial Services. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

No.	Findings and Recommendations	Page No.
1	Supporting documentation for transactions could not be found at a school district.	7
	We recommend that DFS ensure the districts are aware that a warrant package must be complete and available for audit. In addition, DFS should recommend districts establish and enforce written policies and procedures regarding the filing and safeguarding of documentation to provide an audit trail.	
2	Payments were made without indication of receipt of goods.	8
	We recommend DFS ensure the districts understand the requirements of documenting both a signature and a date for the receipt of goods and services as part of a complete warrant package as this documents the receipt of goods and services and approval for payment.	
3	Internal controls over vendor information changes could be improved at the district level.	9
	We recommend DFS ensure the districts separate duties to ensure that no single employee is both able to modify vendor information and authorize payments. Furthermore, we recommend that all vendor changes be reviewed on a regular basis by an employee that is not involved in the payment authorization process.	
4	There was no board policy authorizing tuition and other reimbursable expenses at the district level.	10
	We recommend that DFS ensure the districts are aware of the required district-level policies. We further recommend DFS ensure the district adopts a Board policy regarding tuition and other reimbursable expenses.	



No.	Findings and Recommendations	Page No.
5	Payments were made without authorized signatures on purchase orders.	11
	We recommend DFS ensure the District is aware that the requirements outlined in the DFS Audit Manual apply to all payments, whether or not they have been pulled for audit by DFS. Districts should ensure that all purchase orders contain an authorized signature.	
6	Invoice amount did not agree to the prelist.	12
	We recommend that DFS ensure the districts are aware that payments should be made for actual amounts only. Districts should ensure that they have a review process in place to ensure that accurate amounts are submitted for payment.	
7	Invoices could not be compared to purchase orders.	12
	We recommend that DFS ensure the districts are aware that invoices must agree to 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 responsible for the processing of the financial transactions of 33 K-12 school districts, five Community College districts, three Regional Occupational Programs (ROP) districts, two 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 has created an audit manual to document the objectives and general audit procedures to be performed on warrant packages submitted to DFS by districts. DFS has also drafted public works audit guidelines to document standardized procedures for construction related transactions and bidding procedures.



## Scope and Objective

We audited school district transactions for the period of July 1, 2017 through June 30, 2018. 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 District Financial Services (DFS) staff directly involved in the payment auditing process to gain an overall understanding of the operation.
- 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 districts were visited during our fieldwork:

1. Adelanto Elementary School District
2. Alta Loma School District
3. Apple Valley Unified School District
4. Chino Valley Unified School District
5. Fontana Unified School District
6. Hesperia Unified School District
7. Ontario-Montclair School District
8. Rialto Unified School District
9. Trona Joint Unified School District
10. Upland Unified School District
11. Yucaipa-Calimesa Joint Unified School District
12. Barstow Community College
13. Copper Mountain Community College District
14. Colton-Redlands-Yucaipa Regional Occupational Program (CRYROP)



### **Finding 1: Supporting documentation for transactions could not be found at a school location.**

The District Financial Services (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 2 instances at Trona Joint Unified School District where District personnel could not locate any supporting documentation for the expenditure.

The District does not have an effective record keeping system in place. Without supporting documentation, expenditures cannot be verified as authorized and there is an increased likelihood of inaccurate expenditures.

### **Recommendation:**

We recommend that DFS ensure the districts are aware that a warrant package must be complete and available for audit. In addition, DFS should recommend districts establish and enforce written policies and procedures regarding the filing and safeguarding of documentation to provide an audit trail.

### **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. 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:**

DFS' response addresses planned action to prevent reoccurrence of this finding.



### **Finding 2: 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 10 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 10 instances were identified at the following districts:

- Chino Valley Unified School District (6)
- Trona Joint Unified School District (4)

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 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 ensure the districts understand the requirements of documenting both a signature and a date for the receipt of goods and services as part of a complete warrant package as this documents the receipt of goods and services and approval for payment.

### **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.

### **Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.



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

According to *Accounts Payable: A Guide to Running an Efficient Department* by Mary S. Schaeffer, proper maintenance and control over a company's master vendor file will greatly decrease the chances for duplicate and erroneous payments and fraud.

Upon inquiries of the districts selected in our sample, it was noted that there was not a segregation of the duties of making changes to vendor information and processing payments at the following 5 school districts and 1 ROP:

- Adelanto Elementary School District
- Apple Valley Unified School District
- Fontana Unified School District
- Trona Joint Unified School District
- Hesperia Unified School District
- Colton-Redlands-Yucaipa (CRY) ROP

The following conditions were noted at the districts listed above:

- There were several employees in Accounts Payable divisions who are able to enter new vendors or change other vendor information, in addition to processing payments. Also, changes to vendor information were not periodically reviewed by an employee not involved in the payment process.
- Our sample of 15 transactions at Hesperia Unified School District identified an instance where the vendor's name was not in agreement with the invoice or the Vendor History transaction report obtained from DFS.

Several districts noted that they were not able to restrict access to vendor information in their Financial 2000 system. 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 separate duties to ensure that no single employee is both able to modify vendor information and authorize payments.



Furthermore, we recommend that all vendor changes be reviewed on a regular basis by an employee that is not involved in the payment authorization process.

### **Management's Response:**

DFS concurs with this finding in large part; however, 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 current countywide financial system, which does not allow for tracking of vendor changes. The new AP module, which is being implemented on July 3, 2019, does include timestamped notes and history by user, allowing districts to review vendor changes.

### **Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.

### **Finding 4: There was no board policy authorizing tuition and other reimbursable expenses at the district level.**

The DFS Audit Manual requires the District to have a board policy authorizing tuition and other reimbursable expenses.

Our sample of 160 transactions identified an instance at Trona Joint Unified School District where an employee expense was reimbursed, but the District did not have a board policy authorizing tuition and other reimbursable expenses.

The District was not aware of the requirement outlined in the DFS Audit Manual to have a board approved policy authorizing such reimbursements. Without a board policy to allow reimbursable expenses, claims may not be properly authorized or allowable.

### **Recommendation:**

We recommend that DFS ensure the districts are aware of the required district-level policies. We further recommend DFS ensure the district adopts a Board policy regarding tuition and other reimbursable expenses.



### **Management's Response:**

DFS will continue to reiterate the importance of establishing board policies in the areas of travel, tuition, reimbursement, etc.; however, each school district has its own governing board, over which DFS has no authority.

### **Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.

### **Finding 5: Payments were made without authorized signatures on purchase orders.**

The DFS Audit Manual states that purchase orders must be signed by a duly authorized agent of the district governing board.

Our sample of 160 transactions identified 3 instances at Trona Joint Unified School District where purchase orders were not signed by authorized agents.

The District was unaware of the requirement to maintain complete packets of supporting documentation for transactions that were not pulled for audit by DFS. Without proper authorized signatures on purchase orders and invoices, the expenditures cannot be verified as authorized and there is an increased likelihood that payments will be made for goods or services not allowable.

### **Recommendation:**

We recommend DFS ensure the District is aware that the requirements outlined in the DFS Audit Manual apply to all payments, whether or not they have been pulled for audit by DFS. Districts should ensure that all purchase orders contain an authorized signature.

### **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 necessary signatures – whether or not a payment was selected for audit.



## **Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.

## **Finding 6: Invoice amount did not agree to the prelist.**

The DFS Audit Manual requires the invoice amount to agree to the prelist. Our sample of 160 transactions identified an instance at Chino Valley Unified School District in which the payment amount per the invoice provided did not agree to the prelist.

Without a careful review of all amounts paid, there is a higher risk of discrepancies that may not be discovered, including incorrect vendor payments made.

## **Recommendation:**

We recommend that DFS ensure the districts are aware that payments should be made for actual amounts only. Districts should ensure that they have a review process in place to ensure that accurate amounts are submitted for payment.

## **Management's Response:**

DFS concurs with this finding and will continue to reiterate the necessity for payments to be made for the exact amount due.

## **Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.

## **Finding 7: Invoices could not be compared to purchase orders.**

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



Our sample of 160 transactions identified an instance where unit prices and payment terms listed on the invoice did not agree to the purchase order at Chino Valley Unified School District.

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

**Recommendation:**

We recommend that DFS ensure the districts are aware that invoices must agree to purchase order details and include the purchase order number when applicable.

**Management's Response:**

DFS concurs with this finding and will continue to reiterate the need for purchase orders and invoices to agree.

**Auditor's Response:**

DFS' response addresses planned action to prevent reoccurrence of this finding.