

County of San Bernardino

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

District Financial Services: Payment Auditing Process Audit



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March 29, 2018

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SUBJECT: District Financial Services (Payment Auditing Process) FY16 & FY17

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, 2015 through June 30, 2017. 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 February 1, 2018 and discussed our observations with management on February 8, 2018. The Department'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,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By

Denise Mejico

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District Financial Services: Payment Auditing Process Audit

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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	<p>Payments were made without an original or certified copy of an original invoice.</p> <p>We recommend that school districts follow the DFS Audit manual and ensure payment is made from an original or certified copy of an invoice, signed by district personnel. In addition, DFS should provide a copy of the DFS Audit Manual to all districts to ensure the districts are aware of required items and that all warrant packages are complete.</p>	3
2	<p>Payments were made without indication of receipt of goods.</p> <p>We recommend DFS ensure the districts are aware of 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.</p>	4
3	<p>School district name was not indicated on the invoice.</p> <p>We recommend DFS ensure the districts understand the required procedure regarding invoices which states the school or school district name must appear on the invoice as part of a complete warrant package as this helps provide verification that the expenditure is for the district.</p>	5
4	<p>Supporting documentation for transactions could not be found at a district.</p> <p>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.</p>	5
5	<p>An incorrect amount was paid for a conference registration.</p> <p>We recommend that DFS ensure that all districts are aware that payments should be made for only actual and necessary amounts. When creating a purchase order, districts should verify the amounts included and compare them to the supporting documentation to ensure that they are the actual amounts.</p>	6



Background

District Financial Services (DFS) is an external services department of the San Bernardino County Superintendent of Schools responsible for the processing of financial transactions of K-12 school districts, community college districts, dependent charter schools, regional occupational program districts, joint powers authorities and the County Schools' office. DFS audits and processes commercial vendor payment and other various transactions. DFS also performs statutory examination and approval functions on behalf of both the County Superintendent of Schools and the County Auditor-Controller.

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, 2015 through June 30, 2017. The objective of our audit was to test and evaluate transactions to determine the operating effectiveness of DFS' audit process over the processing of 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 to gain an overall understanding of the operation.
- Reviewing DFS' policies and procedures.
- Examining system generated reports.
- Generating a statistically selected sample of school districts' transactions.
- Examining original source documents maintained at DFS and the school districts.



Finding 1: Payments were made without an original or certified copy of an original invoice.

The DFS Audit Manual states that invoices must be original or have a certification of original on copy, signed by district personnel.

Our sample of 320 transactions identified 2 instances in which payment was made on a copy of an invoice that did not have certification from district personnel as original. The 2 instances were identified at the following districts:

- Chaffey Joint Union High School (1)
- San Bernardino City USD (1)

If original or certified copies of original invoices are not obtained prior to payment, unauthorized expenditures may be made or duplicate copies of invoices may be submitted for payment. Certifying an invoice as original helps to prevent the District from duplicating payments or paying for unauthorized goods or services.

Recommendation:

We recommend that school districts follow the DFS Audit manual and ensure payment is made from an original or certified copy of an invoice, signed by district personnel. In addition, DFS should provide a copy of the DFS Audit Manual to all districts to ensure the districts are aware of required items and that all warrant packages are complete.

Management's Response:

DFS concurs with this finding and will continue to disseminate the DFS Audit Manual and reiterate its required documentation to school districts.

Auditor's Response:

District Financial Services' 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 320 transactions identified 15 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 15 instances were identified at the following districts:

- Chino Valley USD (1)
- Colton JUSD (3)
- Redlands USD (1)
- Upland USD (1)
- Baldy View ROP (1)
- San Bernardino City USD (7)
- Baker Valley USD (1)

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 having complete receiving documentation.

Auditor's Response:

District Financial Services' response addresses planned action to prevent reoccurrence of this finding.



Finding 3: School district name was not indicated on the invoice.

The DFS audit manual requires that the school district's name or the school's name appear on each invoice.

Our sample of 320 transactions identified 2 instances at Victor Elementary School District where the school or school district name was not on the invoice.

Unauthorized expenditures may be made if the school or school district's name does not appear on the invoice as they cannot be verified as expenditures of the district.

Recommendation:

We recommend DFS ensure the districts understand the required procedure regarding invoices which states the school or school district name must appear on the invoice as part of a complete warrant package as this helps provide verification that the expenditure is for the district.

Management's Response:

DFS concurs with this finding and will continue to reiterate to school districts the need for inclusion of school/district name on vendor invoices.

Auditor's Response:

District Financial Services' response addresses planned action to prevent reoccurrence of this finding.

Finding 4: Supporting documentation for transactions could not be found at a district.

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 320 transactions identified 4 instances at San Bernardino County Services where they could not locate any supporting documentation for the payment.



Without supporting documentation, expenditures cannot be verified as authorized.

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. In this case, we understand the district experienced some staff turnover and utilized temporary employees to file payments. DFS will 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:

District Financial Services' response addresses planned action to prevent reoccurrence of this finding.

Finding 5: An incorrect amount was paid for a conference registration.

Education Code 44032 states that the governing board of any school district shall provide for the payment of the actual and necessary expenses, including traveling expenses, of any employee of the district incurred in the course of performing services for the district.

Our sample of 320 transactions identified an instance at Colton JUSD in which an incorrect amount was paid to the San Bernardino County Superintendent of Schools (SBCSS) for a conference registration.

The purchase order was mistakenly made by the district for the amount of registration, meals and lodging instead of registration fees only. SBCSS then created an invoice based off of the purchase order they received from the district. The invoice stated that it was for registration only, but listed the amount from the purchase order which included registration, meals and lodging charges. This resulted in an overpayment of \$1,000.



Recommendation:

We recommend that DFS ensure that all districts are aware that payments should be made for only actual and necessary amounts. When creating a purchase order, districts should verify the amounts included and compare them to the supporting documentation to ensure that they are the actual amounts.

Management's Response:

DFS concurs with this finding and will continue to make districts aware that travel and conference payments should be made for only actual and necessary expenses. DFS will also reiterate the need for districts to verify purchase order amounts and compare them with supporting documentation to ensure they match and reflect actual expenses.

Auditor's Response:

District Financial Services' response addresses planned action to prevent reoccurrence of this finding.