

**SAN BERNARDINO COUNTY  
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
INTERNAL AUDITS DIVISION**

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**DISTRICT FINANCIAL SERVICES:  
PAYMENT AUDITING PROCESS AUDIT**

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## ***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.*

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## **Audit Team**

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

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## San Bernardino County



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June 11, 2024

Lena Young-Gallardo, Director  
District Financial Services  
760 East Brier Drive  
San Bernardino, CA 92408

RE: Payment Auditing Process Audit

We have completed an audit of the San Bernardino County Superintendent of Schools District Financial Services' payment auditing process for the period of July 1, 2021 – June 30, 2022. The primary objective of the audit was to determine the operating 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 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 May 9, 2024, and discussed our observations with management on May 30, 2024. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Department 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, CFE  
Chief Deputy Auditor

Distribution of Audit Report:

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San Bernardino County Audit Committee

Date Report Distributed: 6/11/2024

EM:DLM:RA:EM:jm

## 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           | <b>Internal controls over vendor information changes could be improved at the district level.</b>  | 6        |
|             | We recommend that District Financial Services (DFS) advise the districts to 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 advise the districts to maintain evidence of their review of changes to the master vendor files. |          |
| 2           | <b>Supporting documentation for transactions could not be located at the district.</b>   | 7        |
|             | We recommend that DFS continue to provide training to ensure the district develops a process to prepare support packages for each transaction and ensure those packages are reviewed and approved by an appropriate level of management. In addition, DFS should recommend the district enforce written policies and procedures regarding the retention and safeguarding of documentation to properly support all purchases of goods and services.   |          |

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

#### **The Department**

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, three 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, inter-fund 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 that 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

Our audit examined the transactions of 14 school districts from July 1, 2021, through June 30, 2022. The objective of our audit was to test and evaluate a statistically selected sample of transactions to determine the operating effectiveness of the audit process in place over the processing of school districts' claims.

### Methodology

In achieving the audit objective, the following audit procedures were performed, including but not limited to:

- Interviews of DFS staff directly involved in the payment auditing process
- Reviews of DFS policies and procedures
- Performance of walk-throughs of activity
- Examination of system-generated reports
- Substantive testing of a statistically selected sample of school districts' transactions
- Examination of source documents maintained at DFS and school districts.

The following 14 Districts were tested during our fieldwork:

- Adelanto Elementary School District
- Colton Joint Unified School District
- Copper Mountain Community College District
- Morongo Unified School District
- Needles Unified School District
- Ontario-Montclair School District
- Redlands Unified School District
- Rialto Unified School District
- San Bernardino County Superintendent of Schools
- Trona Joint Unified School District
- Upland Unified School District
- Victor Elementary School District
- Victor Valley Community College
- Victor Valley Union High School District



**Finding 1: 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.

All 14 districts tested did not have policies and procedures in place to review changes to the master vendor file on a periodic and routine basis. Additionally, the following 3 districts did not have a process to ensure the functions of making changes to the vendor file and processing payments are segregated:

- Copper Mountain Community College District
- Needles Unified School District
- Trona Joint Unified School District

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

**Recommendation:**

We recommend that DFS advise the districts to 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 advise the districts to maintain evidence of their review of changes to the master vendor.

**Management's Response:**

DFS concurs with this finding; however, a complete segregation of duties may not be possible for some smaller school districts with limited staff, as well as those districts who are experiencing staffing issues. There are some safeguards built-in to the financial system which includes timestamped notes and history by user. This allows districts to see when and who performed the change. Vendor changes cannot be made once the district's authorized agent reviews the accounts payable

transmittal and releases it for payment. Vendor changes cannot be made to vendors on the audit exclusion list. DFS will encourage districts to develop their own internal processes to review changes regularly.

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

The Department's planned actions will correct the deficiencies noted in the finding and the districts who cannot segregate duties due to limited staffing should ensure there are compensating control to minimize their risks. Districts will assume the risk when there is not proper segregation of duties and/or compensating controls.

### **Finding 2: Supporting documentation for transactions could not be located at the 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.

We tested \$97,634 worth of transactions out of \$87,422,598 for Colton Joint Unified School District. Of the transactions tested, we identified two instances totaling \$90.72 where the required district personnel receiving signature was missing.

The district moved locations and the documentation was lost in transit. Without supporting documentation, expenditures cannot be verified as authorized and there is an increased likelihood of purchasing inappropriate goods, as well as inaccurate record keeping.

### **Recommendation:**

We recommend that DFS continue to provide training to ensure the district develops a process to prepare support packages for each transaction and ensure those packages are reviewed and approved by an appropriate level of management. In addition, DFS should recommend the district 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 continues to remind districts that all payment transmittals must be processed in the same manner regardless of whether the payment is held for audit. The DFS Audit Manual also states this requirement and training is provided to each district-authorized agent prior to granting them access to approve and release payments in the financial system.

The district is responsible for ensuring the support documentation for all payments is kept for the minimum retention time as it is subject to review at any time including those requested as a public records request. DFS will continue to recommend districts establish and enforce written policies that speaks to this.

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

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