

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



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

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District Financial Services: Payment Auditing Process Audit

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June 18, 2025

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RE: Payment Auditing Process Audit

We have completed an audit of the District Financial Services' (DFS) payment auditing process for the period of July 1, 2022, through June 30, 2024. 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 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 June 3, 2025, and discussed our observations with management on June 3, 2025. DFS's responses to our recommendations are included in this report.

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

Respectfully submitted,

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By: [REDACTED]
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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving DFS' payment auditing process.

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	Controls over the Authorized Signature Listing could be improved.	8
	We suggest that DFS review its procedures for county forms and the ASL, ensuring that staff receive proper training on the related requirements. Additionally, we recommend that DFS follow up with district contacts if county forms are not completed and signed. Lastly, we recommend that DFS revise the wording on its forms to clearly indicate the authorization dates moving forward.	
2	Controls over the Revolving Cash Fund could be improved.	9
	We recommend that DFS provide training on the requirements and intended uses of revolving cash funds to districts to help ensure transactions are properly supported. We further recommend that DFS follow up with districts that do not have a County Form 6 on file and request that they complete one if the district has revolving cash fund transactions.	
3	Invoices and purchase orders were not properly reviewed and approved.	10
	We recommend that DFS continue to provide training to districts to help ensure invoices state, "okay to pay" or "approved for payment", and are signed by district personnel when used for receiving documentation. We further recommend that training be provided to districts to help ensure reviews of invoices include a comparison to the purchase order for description, quantity, unit price, hours, rate of labor, and sales tax to confirm expenditures agree to the authorized purchase. Lastly, we recommend that DFS ensure that the districts understand the importance of the requirement to authorize all purchase orders and change orders prior to the purchase of goods and services.	

Finding No.	Findings and Recommendations	Page No.
4	Controls over vendor information changes could be improved at the district level.	11
	We recommend that DFS advise the districts to establish appropriate segregation of duties or establish compensating controls to prevent any single employee from modifying 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 develop their own internal processes to review changes to the master vendor file and to maintain written evidence of their review of changes to the master vendor file.	

Payment Auditing Process Audit

District Financial Services

District Financial Services (DFS) is an external services department of the San Bernardino County Superintendent of Schools. DFS is responsible for processing the financial transactions of 33 K-12 school districts, 5 Community College districts, 3 Regional Occupational Programs (ROP) districts, 2 Joint Powers Authorities (JPA), numerous charter schools, and the San Bernardino County Superintendent of Schools. The department 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 250,000 commercial warrants are generated annually. DFS also maintains the County Auditor-Controller and Treasurer databases for the school districts and performs statutory examination and approval functions on behalf of both the County Superintendent and the Auditor-Controller. The Director of District Financial Services is jointly responsible to both elected officials.

The Audit Services section of DFS performs the audit and approval functions as required of both the Auditor-Controller and County Superintendent. Its primary function is to audit for legality, accuracy, and proper authorization of commercial vendor payments, public works payments, journal entries, cash journal vouchers, and interfund transfers submitted by the school districts. Audit Services also maintains contracts, policies, public work projects, vendor exclusion databases, and serves as a resource to school districts for any number of related issues.

DFS sets audit guidelines 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, including the procedures for public works transactions submitted to DFS by districts.

Scope and Objective

Our audit examined the transactions of 16 school districts, 2 Regional Occupational Programs (ROP), and 1 Joint Powers Authority (JPA) from July 1, 2022, through June 30, 2024.

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 19 locations were tested during our fieldwork:

- Adelanto Elementary School District
- Alta Loma School District
- Apple Valley Unified School District (USD)
- Baker Valley USD
- Baldy View ROP
- Bear Valley USD
- Chaffey Joint Union High School District
- Chino Valley USD
- Colton Redlands Yucaipa (CRY) ROP
- Etiwanda School District
- Fontana USD
- Lucerne Valley USD
- Mount Baldy Joint School District
- Mountain View School District

- Rim of the World USD
- San Bernardino City USD
- Snowline Joint USD
- Trona Joint USD
- California Schools Risk Management (JPA)

Finding 1: Controls over the Authorized Signature Listing could be improved.

DFS maintains an Authorized Signature Listing (ASL) to compile the authorizations received from the districts for county forms granting district staff certification, purchasing, and payment certification authority. The ASL is relied upon during the audit process to verify signature authorizations. The DFS audit procedures for the ASL require county forms to agree to the ASL and to be properly authorized.

The following conditions were identified during ASL testing:

- There were 29 instances where information documented on county forms did not agree to the ASL.
- There were 2 instances where county forms were not properly authorized.
- There were 2 instances where county forms to support the ASL could not be located.

DFS noted that the forms had caused confusion among districts regarding the applicable dates. Reliance on incorrect information on the ASL during the DFS audit process could lead to unauthorized commitments and payments.

Recommendation:

We suggest that DFS review its procedures for county forms and the ASL, ensuring that staff receive proper training on the related requirements. Additionally, we recommend that DFS follow up with district contacts if county forms are not completed and signed. Lastly, we recommend that DFS revise the wording on its forms to clearly indicate the authorization dates moving forward.

Management's Response:

DFS concurs with this finding and have already begun updating all county forms to eliminate any confusion with authorization dates versus effective dates. Staff have been reminded of the importance of following up with districts when they are unsure of specific delegations noted on the County Forms. Additionally, there will be a yearly audit done to ensure county forms are in line with what is reflected in the ASL.

Auditor's Response:

DFS' actions and planned actions will correct the deficiencies noted in the finding.

Finding 2: Controls over the Revolving Cash Fund could be improved.

The DFS Audit Manual requires that revolving cash fund documentation include the following:

- A receipt consisting of the following for each item included in request.
 - Itemized bill, receipt, or invoice indicating the following:
 - Amount
 - Date
 - Purpose of expenditure
 - Signature of person furnishing service or a receipt indicated 'paid', or a receipt with a -0- balance, or a copy of a cancelled check, or a cancelled check document provided by a bank
- Completed County Form 6 on file with District Financial Services.

The following conditions were identified out of our sample of 286 transactions:

- There was 1 instance for Mount Baldy Joint School District where an itemized bill, receipt, or invoice was not provided for a revolving cash fund expenditure. This instance was not audited by DFS.
- There were 2 instances for Etiwanda School District where the revolving cash fund was used, but the district did not have a County Form 6 on file with DFS. Out of the 2 instances, 1 instance was audited by DFS and 1 was not audited by DFS.

When required documentation is not obtained and reviewed, revolving cash fund expenditures cannot be verified as authorized, and there is an increased likelihood of misuse of the revolving cash fund, as well as a risk of inaccurate record keeping. Without a County Form 6 on file, there is no documentation of assigned responsibility and control over the revolving cash fund.

Recommendation:

We recommend that DFS provide training on the requirements and intended uses of revolving cash funds to districts to help ensure transactions are properly supported. We further recommend that DFS follow up with districts that do not have a County Form 6 on file and request that they complete one if the district has revolving cash fund transactions.

Management's Response:

DFS concurs with this finding and will continue to remind districts about the proper uses for revolving cash. Once the omission of County Form 6 was discovered, it was immediately remedied. Additionally, in our yearly audit of the ASL we will ensure all districts have a County Form 6 on file.

Auditor's Response:

DFS' actions and planned actions will correct the deficiencies noted in the finding.

Finding 3: Invoices and purchase orders were not properly reviewed and approved.

The DFS Audit Manual requires that invoices agree to the purchase order in description, quantity, unit price, hours, rate of labor, and sales tax. The manual also requires that an invoice state, "okay to pay" or "approved for payment," and be signed by district personnel if no receiving documentation is received. The DFS Audit Manual further requires that purchase orders have authorized signatures.

The following conditions were identified out of our sample of 286 transactions:

- There were 5 instances for Etiwanda School District (4) and Alta Loma School District (1) where the unit price or description on the invoice did not agree with the information on the purchase order. Out of the 5 instances, 1 instance was audited by DFS and 4 were not audited by DFS.
- There were 6 instances across Baker Valley USD (2), CRY ROP (2), Mount Baldy Joint School District (1), and San Bernardino City USD (1) where the receiving documentation was missing, and the invoice either lacked the statement 'okay to pay' or 'approved for payment,' was not signed by district personnel, or both. Out of the 6 instances, 1 instance was audited by DFS and 5 were not audited by DFS.
- There were 2 instances for Etiwanda School District, where an authorized signature was missing on the purchase order or change order. The 2 instances were not audited by DFS.

When descriptions or unit prices on invoices are not compared and agreed to the purchase order, there is an increased likelihood of paying for unauthorized goods or services. Also, when the invoice does not state, "okay to pay" or "approved for payment", payments can be made for goods and services that have not been performed or received. Lastly, when proper approvals are not documented on

purchase orders, there is an increased likelihood of purchasing unauthorized goods and services.

Recommendation:

We recommend that DFS continue to provide training to districts to help ensure invoices state, “okay to pay” or “approved for payment”, and are signed by district personnel when used for receiving documentation. We further recommend that training be provided to districts to help ensure reviews of invoices include a comparison to the purchase order for description, quantity, unit price, hours, rate of labor, and sales tax to confirm expenditures agree to the authorized purchase. Lastly, we recommend that DFS ensure that the districts understand the importance of the requirement to authorize all purchase orders and change orders prior to the purchase of goods and services.

Management’s Response:

DFS concurs with this finding and will continue to remind districts of the importance of ensuring payments are processed not only by prior approval but with the correct documentation. We will also remind them that an internal review of the backup documentation should be done to ensure purchase orders match with the billing invoice specifically as it relates to description, quantity, unit price, etc.

Auditor’s Response:

DFS’ actions and planned actions will correct the deficiencies noted in the finding.

Finding 4: 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 decrease the chances for duplicate and erroneous payments and fraud.

All 19 districts tested did not have written policies and procedures in place to review changes to the master vendor file on a periodic and routine basis. Additionally, the following 8 districts did not have a process to ensure the functions of making changes to the vendor file and processing payments are segregated:

- Apple Valley USD

- Adelanto Elementary School District
- Baker Valley USD
- Etiwanda School District
- Lucerne Valley USD
- Mt. Baldy Joint School District
- Mountain View School District
- Rim of the World USD

The districts have employees who can make both 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 or establish compensating controls to prevent any single employee from modifying 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 develop their own internal processes to review changes to the master vendor file and to maintain written evidence of their review of changes to the master vendor file.

Management's Response:

DFS concurs with this finding; however, a complete segregation of duties may not be possible for 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 users. 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. While auditing districts' internal controls is out of our purview, DFS will continue to encourage districts to develop their own internal processes and review changes regularly.

Auditor's Response:

DFS' 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 controls to minimize their risks. Districts will assume the risk when there is not proper segregation of duties and/or compensating controls.