

COUNTY OF SAN BERNARDINO  
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR  
INTERNAL AUDITS SECTION

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DISTRICT FINANCIAL SERVICES:  
PAYMENT AUDITING PROCESS AUDIT

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**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](http://WWW.SBCOUNTY.GOV/ATC)  
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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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## **Audit Team**

**Denise Mejico, CFE**

Chief Deputy Auditor

**Menaka Burkitt, CFE**

Internal Audits Manager

**Steven Ems, CIA**

Supervising Internal Auditor III

**Karina Galindo-Salazar**

Internal Auditor III

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

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**Auditor–Controller/Treasurer/Tax Collector**

August 19, 2021

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

**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*

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, 2019, through June 30, 2020. 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 15, 2021, and discussed our observations with management on June 16, 2021. The Department’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 office 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

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San Bernardino County Audit Committee

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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	<b>Payments were made without indication of receipt of goods.</b>	6
	We recommend District Financial Services (DFS) provide training to the districts on developing a monitoring process to ensure that documentation of receipt is created and maintained.	
2	<b>Internal controls over vendor information changes could be improved at the district level.</b>	7
	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.	
3	<b>Supporting documentation for transactions could not be located at school locations.</b>	8
	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 written policies and procedures regarding the retention and safeguarding of documentation to properly support all purchases of goods and 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

We audited the transactions of 13 school districts from July 1, 2019, through June 30, 2020. 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 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 source documents maintained at DFS and school districts.

The following 13 districts were tested during our fieldwork:

- Baker Valley Unified School District
- Baldy View R.O.P.
- Barstow Unified School District
- Bear Valley Unified School District
- California Educational Computer Consortium JPA
- Central School District
- Chaffey Joint Union High School District
- Colton Joint Unified School District
- Helendale School District
- Rim of the World Unified School District
- San Bernardino County Superintendent of Schools
- Victor Elementary School District
- Victor Valley Community College

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

The DFS Audit Manual requires that receiving documentation include a signature indicating receipt of goods and the date received. Signatures must be legible and include the first initial and last name unless received by centralized receiving personnel, whose initials will suffice.

Our sample of 155 transactions identified 23 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 23 instances were identified at the following districts:

- Baker Valley Unified School District (1)
- Barstow Unified School District (2)
- Chaffey Joint Union High School District (6)
- Colton Joint Unified School District (12)
- Victor Elementary School District (2)

The districts were not aware that all expenditures (including transactions not pulled for audit) need to have documentation of receipt according to requirements outlined in the DFS Audit Manual. Without proper receiving documentation which evidences that goods or services were received, there is an increased risk 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. We continually stress to districts the importance of retaining a complete copy of each warrant package – including receiving documentation – whether or not a payment is selected for audit. The DFS Audit Manual also states this requirement and training is provided to each district-authorized agent before granting them access to approve and release payments in the financial system.

## **Auditor's Response:**

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

## **Finding 2: 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.

We found 3 of the 13 districts tested, Bear Valley Unified School District, Helendale School District, and Victor Valley Community College did not have a process to ensure the functions of managing the master vendor file and payment processing are segregated.

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 segregate the duties of managing the master vendor file and payment processing, the risk of 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, 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. The AP module does include timestamped notes and history by the user, which allows districts to review vendor changes.

## 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 are assuming the risk.

### **Finding 3: 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 155 transactions identified two instances where required supporting documentation for travel, conference, and mileage expenditures was not maintained. The two instances were identified in relationship to the following districts:

- We tested \$2,581,718 worth of transactions out of \$364,486,133 for Colton Joint Union School District. Of the transactions tested, we identified one instance, in the amount of \$467 where supporting documentation for the transaction could not be located at Colton Joint Union School District.
- We tested \$459,037 worth of transactions out of \$239,502,102 for Victor Elementary Unified. Of the transactions tested, we identified one instance, in the amount of \$1,063 where supporting documentation for the transaction could not be located at Victor Elementary School District.

The districts did not have an effective process for maintaining supporting documentation. 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 provide training to ensure the districts develop processes to prepare support packages for each transaction, ensure those packages are reviewed and approved by an appropriate level of management and train staff to prepare appropriate support for transactions, as well as identify when



support packages are missing or incomplete. In addition, DFS should recommend districts establish 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, whether or not a payment was selected for audit. The DFS Audit Manual also states this requirement and training are provided to each district-authorized agent before granting them access to approve and release payments in the financial system.

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

**Auditor's Response:**

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