

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



**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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District Financial Services: Payment Auditing Process Audit

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August 4, 2022

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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, 2020, through June 30, 2021. 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 21, 2022 and discussed our observations with management on June 23, 2022. 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,

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By:

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Date Report Distributed: August 5, 2022

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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>Internal controls over the Authorized Signature Listing could be improved.</p> <p>We recommend that DFS enforce policies and procedures regarding the filing, recording, and updating of all signature authorization forms and the corresponding Authorized Signature Listing.</p>	6
2	<p>Supporting documentation for transactions could not be located at school locations.</p> <p>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.</p>	7
3	<p>Internal controls over vendor information changes could be improved at the district level.</p> <p>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 files.</p>	8

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 14 school districts from July 1, 2020, through June 30, 2021. 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:

- 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
- Alta Loma School District
- Apple Valley Unified School District
- Barstow Community College District
- Chino Valley Unified School District
- Colton-Redlands-Yucaipa Regional Occupational Program
- Copper Mountain Community College District
- Fontana Unified School District
- Hesperia Unified School District
- Ontario-Montclair School District
- Rialto Unified School District
- Trona Joint Unified School District
- Upland Unified School District
- Yucaipa-Calimesa Joint Unified School District

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

The DFS Authorized Signature Listing Manual requires school districts with a designated Revolving Cash Fund have a County Form 6, Revolving Cash Fund - Establishment or Change form, on file. County Form 6 must be signed by the Revolving Cash Fund Custodian and must be certified by an authorized agent who has a valid County Form 1 on file. The DFS Authorized Signature Listing Manual also requires school districts have a County Form No.2 Board Delegation – Authorized Agent Status form on file. A copy of the signed form must be stored with DFS.

Our sample of 14 districts identified the following conditions at Adelanto Elementary School District:

- The Authorized Signature Listing included authorization for one employee to sign Notices of Employment for Students and Temporary Employees, although the corresponding Form 2 did not include this authorization.
- The Form 6 was not in the DFS's file for the district for the fund custodian.

DFS did not have an effective process for maintaining the Authorized Signature Listing and updating required forms for the district. The Authorized Signature Listing and required forms are used by DFS during their audit process. Reliance on incorrect information in the Authorized Signature Listing and required forms during DFS' audit process could lead to an unauthorized payment.

Recommendation:

We recommend that DFS enforce policies and procedures regarding the filing, recording, and updating of all signature authorization forms and the corresponding Authorized Signature Listing.

Management's Response:

DFS concurs with this finding and will continue to remind districts of the importance of keeping their signature authorization forms up to date when there are changes in staffing; including completing the county forms necessary to remove authorized agents who are no longer at their district. DFS staff will be more diligent in ensuring the correct authorization(s) are reflected on both the county form(s) and Authorized Signature List.

Auditor's Response:

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

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 \$25,301 worth of transactions out of \$156,283,579 for Hesperia Unified School District. Of the transactions tested, we identified one instance, in the amount of \$1,875 where required supporting documentation was not maintained.

The district 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 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 will continue 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.

Finding 3: 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 written policies and procedures in place to review changes to the master vendor file on a periodic and routine basis. Additionally, the following 5 districts did not have a process in place to ensure the functions of modifying vendor information in the master vendor file and the processing of payments are segregated:

- Apple Valley Unified School District
- Fontana Unified School District
- Chino Valley Unified School District
- Barstow Community College District
- Copper Mountain Community College District

The districts have employees who can modify vendor information in the master vendor file 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 modifications 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 files.

Management's Response:

DFS concurs with this finding; however, a complete segregation of duties may not be possible for some of the smaller districts with limited staff, as well as those districts still experiencing staffing issues because of COVID. 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 prelist and releases the payment, nor can vendor changes be made to vendors on the audit exclusion list.



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.