



Monterey County Office of Education

Leadership, Support, and Service to Prepare All Students for Success

*Dr. Nancy Kotowski
County Superintendent of Schools*

Auditing and Accounting Services

Finance and Business Services

Bulletin No. 12-007

TO: Chief Business Officials, Fiscal & Business Managers, and Business Office Staff

FROM: Ashraf Demian, Director of Auditing and Accounting Services

AD

DATE: October 26, 2011

RE: Audit of Districts' Commercial Warrants

Effective October 31, 2011, Monterey County Office of Education ("MCOE") will be reinstating a random examination of Districts' commercial warrants. The objectives, scope, methodology, and procedures of the audit are presented in Exhibit (A). The process of submitting supporting documentation is presented in Exhibit (B).

MCOE will be conducting a random examination of the Districts' commercial warrants to the best of its knowledge. The purpose of the audit process is to provide reasonable assurance about the validity of the requested payment. Due to our inability to evaluate the design and effectiveness of internal controls maintained at districts and agencies level, it is the districts sole and ultimate responsibility to the public to design and maintain effective internal controls over their operations to achieve their objectives, and to ensure the legitimacy, legality, and validity of all requested payments. The MCOE audit process is a limited examination of the submitted payment orders and must not be considered a substitute for districts' own and sole responsibility for these payments. Finally, all districts and agencies must perform the necessary due diligence and must rely only on their internal operations in safeguarding assets and preventing and detecting errors and fraud.

If you have additional questions regarding this bulletin please contact me at (831)755-0304.

❖ **Objectives of Auditing Districts’ Commercial Warrants**

The objectives of auditing payment orders for vendors’ warrants are as follows:

- Enhance effective stewardship of public resources and provide monitoring over these funds.
- Strengthen and improve preventive controls over accounts payable process at the districts level.
- Promote the effectiveness of internal control over the purchasing and accounts payable processes at the districts level.
- Manage and mitigate the inherent risk associated with processing the accounts payables at the districts level.
- Establish detective controls that reduce misappropriation of funds and fraudulent activities at the districts level.

❖ **Scope of Auditing Districts’ Commercial Warrants**

The auditing of payment orders for vendors’ warrants will be conducted upon the issuance of the warrants. Release of the actual commercial warrants will be contingent to approving the pertinent payment orders. This audit will be an ongoing process for the payment orders selected for auditing purposes. The population of the audit will contain all payment orders for districts’ commercial warrants of expenditures from the following object codes:

- Object codes 4000 – 4999Instructional Materials and Supplies
- Object codes 5000 – 5999Other Operating Expenses
- Object codes 6000 – 6999Capital Outlay

❖ **Methodology of Auditing Districts’ Commercial Warrants**

At the time of processing the Accounts Payable, the MCOE, through its Financial Management System (“FMS”) will be selecting a representative sample to be audited prior to the release of warrants. In the morning following to the warrants run date, all districts and agencies will be running the random warrant audit file in FMS to generate a list of warrants that will be subject to audit. Audit methodology will contain some procedures that include, and not limited to:

- Districts and agencies must furnish MCOE with a copy of all supporting documents relevant to any order of payment selected for audit. Supporting documentation will consist of, and not limited to, purchase orders, contracts, invoices/receipts, receiving reports, quotes, bidding

documentation, board policies and resolutions, etc. Originals must be retained at the districts locations as mandated by California Code of Education.

- Releasing the warrants is contingent to receiving and examining all supporting documentation requested from districts.

❖ **Procedures of Auditing Districts' Commercial Warrants**

Examples of audit procedures will include, and not limited to, the following:

- Verify the legality of expenditures.
- Check the completeness of required supporting documentation.
- Match and agree all supporting documentation submitted with each other & with requested payment.
- Verify whether invoices have been approved for payment by the designated approver.
- Check the mathematical accuracy of the vouchers submitted for payment, including and not limited to, sales and use taxes.
- Obtain an understanding of the level of control activities (i.e. one of internal control components/standards) maintained over the purchasing and accounts payable processes at the districts level. Examples of control activities are segregation of duties (e.g.: acquisition, custody, record keeping, and approval should be segregated), authorization and approval, matching of documents, reconciliations, etc.
- Obtain an understanding whether districts have made the purchase to their best benefit by soliciting quotes from different sources.
- Check whether districts have complied with state requirements of competitive bidding, currently at \$78,900.
- Check whether all requested payments are submitted to pay for services and/or materials that received by and/or rendered to the designated district.

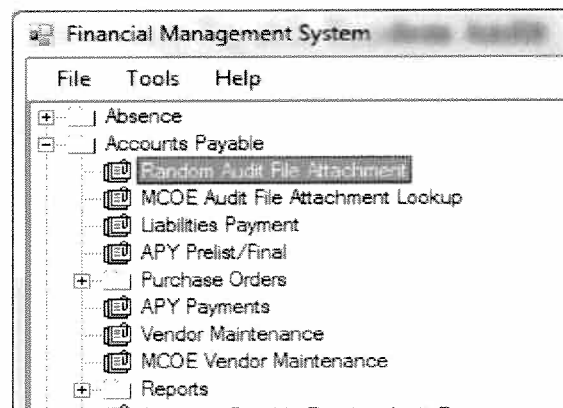
Process of Submitting Supporting Documentation to MCOE

All districts and agencies will submit the supporting documentation of all warrants selected for audit through FMS. In case of any district and/or agency does not have the tools needed to scan and upload the documentation will submit these documentation by email or fax.

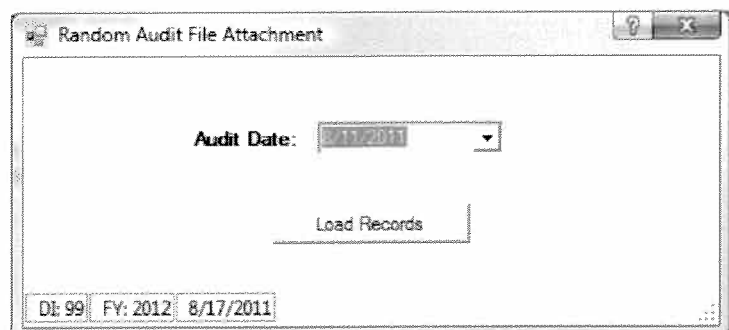
The process of submitting these documents is as follows:

- Districts will scan all supporting documentation of each relevant warrant. Districts will save these documents in PDF format and save each file after the warrants number and the word WarrantBackup. As an example, if the warrant number selected for an audit is 125678, the supporting PDF file uploaded to FMS should be **1203456WarrantBackup**.

- Log in FMS. From the FMS menu, expand the Accounts Payable folder and double-click the application **Random Audit File Attachments**.



- The first screen will display a list of dates in which your district has audit records. Select the date that you would like to work with from the dropdown list. Then Click the Load Records button to proceed to the next screen.



- At the detail screen **Click on the Warrant # link** to display the attached files and add new file attachments.

Random Audit File Attachment

Reports

Audit Records For 8/11/2011

Audit Warrants

Warrant #	Name	Vendor #	Amount
12878819			\$86.00
12878822			\$84.24
12878823			\$49.18
12878830			\$1,000.00
12878833			\$74.00
12878843			\$29.53
12878844			\$2,039.71
			\$300.00

- In the Attached Files panel you can **Preview** existing file attachments, **Delete** existing file attachments, and **Add New Files**.
- Clicking on the **Add New File** button will enable the New File Attachment Screen.

Attached Files

Warrant # 12878817

	File Name	File Desc
Preview File Delete File	PO_CodeOnTime.PDF	Test p
Preview File Delete File	FMS - Estimate of Current FMS System and Estimate of FMS System Replacement Costs 2011-12.pdf	Anoth

Add New File

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- On the File attachment screen, click the **Browse** button to display the standard Windows file dialog screen to search for your file in your local computer. Please enter a Description to help identify your attached file.

Random Audit File Attachment

File: _____ Browse

Description: _____

Save Cancel

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- Finally, **click the Save** button to upload your file to the FMS server. Clicking the Cancel button will cancel your transaction without uploading to the server.

Audited Warrants and Attachments

- MCOE will conduct the audit procedures of the attached documentation.
- Upon conclusion of the audit process, MCOE will mark the records as “Audited.”
- Once MCOE marks any record as “Audited,” **FMS will restrict removing any existing file or attaching new files.**
- Districts will still have the ability to preview any existing files in FMS attached to warrants.

Attached files

Warrant # 12878817
This record has been audited. No Changes can be made.

	File Name	File Description
▶ Preview File	PO_CodeOnTime.PDF	Test pdf file
Preview File	FMS - Estimate of Current FMS System and Estimate of FMS System Replacement Costs 2011-12.pdf	Another File

[Add New File](#)

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