

Office of the State Controller

Self-Assessment of Internal Controls

Purchasing/Accounts Payable Cycle

Objectives and Risks

Agency _____

Year-End _____

<u>Objectives</u>	<u>Risks</u>
All requests for goods and services are initiated and approved by authorized individuals, and are in accordance with budget and appropriation guidelines.	<ul style="list-style-type: none"> • Purchases from unauthorized vendors. • Purchases are in violation of a conflict of interest policy. • Purchases are not timely. • Purchases not in accordance with budget and/or appropriations provisions.
All purchase orders are based on valid, approved requests and are properly executed as to price, quantity and vendor.	<ul style="list-style-type: none"> • Payment in excess of optimum price. • Quantities not adequate or in excess of need.
All materials and services received agree with the original orders.	<ul style="list-style-type: none"> • Payment for materials or services not received. • Damaged or missing goods not reported.
All invoices processed for payment represent goods and services received and are accurate as to terms, quantities, prices and extensions; account distributions are accurate and agree with established account classifications.	<ul style="list-style-type: none"> • Payment based on improper price or terms. • Accounting distribution of cost is inaccurate.
All checks are prepared on the basis of adequate and approved documentation, compared with supporting data and properly approved, signed and mailed.	<ul style="list-style-type: none"> • Incorrect or duplicate payments. • Alteration of checks. • Disbursement for materials or services not properly documented or approved.
All disbursement, accounts payable, encumbrance transactions are promptly and accurately recorded as to payee and amount.	<ul style="list-style-type: none"> • Improper cash, accounts payable, and encumbrance balances.
All entries to accounts payable, reserve for encumbrances, asset and expense accounts and cash disbursements are properly accumulated, classified and summarized in the accounts.	<ul style="list-style-type: none"> • Misstated financial statements. • Misstated internal financial data.

Office of the State Controller

Self-Assessment of Internal Controls

Purchasing/Accounts Payable Cycle

Control Policies and Procedures:

Agency _____

Year-End _____

Bolded questions identify critical controls. A critical control is a control that will prevent or detect an error in the event that all other controls fail.

A. Control Activities / Information and Communication:

Yes No N/A

- | | | |
|-------------|----|---|
| ___ ___ ___ | 1. | Is there a formal organizational chart defining the responsibilities of preparing, recording, approving and following up on all purchases and accounts payable functions? |
| ___ ___ ___ | 2. | Do procedures exist for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)? |
| ___ ___ ___ | 3. | Do procedures exist ensuring accurate account distribution of all entries resulting from invoice processing? |
| ___ ___ ___ | 4. | Do procedures exist for disbursement approval and check-signing? |
| ___ ___ ___ | 5. | Has the agency established procedures to ensure that all voided checks are properly accounted for and effectively canceled? |
| ___ ___ ___ | 6. | Is a written policy established to ensure that the best possible price is obtained for purchases not made from state contract or subject to competitive bidding requirements? |
| ___ ___ ___ | 7. | If construction contracts are awarded, are bid and performance bonds as well as retainage required to assure performance? |
| ___ ___ ___ | 8. | Do invoice processing procedures provide for: |
| ___ ___ ___ | | a. Obtaining copies of requisitions, purchase orders and receiving reports? |
| ___ ___ ___ | | b. Comparison of invoice quantities, prices, and terms with those indicated on the purchase order? |
| ___ ___ ___ | | c. Comparison of invoice quantities with those indicated on the receiving reports? |
| ___ ___ ___ | | d. As appropriate, checking accuracy of calculations? |

- ___ ___ ___ e. Alteration/mutilation of extra copies of invoices to prevent duplicate payments?
- ___ ___ ___ f. All file copies of invoices are stamped paid to prevent duplicate payments?
- ___ ___ ___ 9. Are purchase orders prenumbered and issued in sequence?
- ___ ___ ___ **10. Are purchase orders or contracts required to be approved by appropriately designated officials before issuance?**
- ___ ___ ___ **11. Are changes to contracts or purchase orders subject to the same controls and approvals as the original agreement?**
- ___ ___ ___ 12. Is an adequate record of open purchase orders and agreements maintained?
- ___ ___ ___ 13. Are payments made as close to the discount date as possible, and if applicable, that exemptions from sales, federal excise, and other taxes are claimed?
- ___ ___ ___ 14. Is splitting orders to avoid higher levels of approval prohibited?
- ___ ___ ___ 15. If a receiving department is not used, do adequate procedures exist to ensure that goods for which payment is to be made have been verified and inspected by someone other than the individual approving payment?
- ___ ___ ___ 16. Are goods received accurately counted and examined to see that they meet quality standards?
- ___ ___ ___ 17. Are copies of receiving reports sent directly to purchasing or accounting?
- ___ ___ ___ 18. Are all invoices received from vendors in a central location, such as the accounting department?
- ___ ___ ___ 19. Are there steps in the processing procedures to prevent or detect duplicate payments?
- ___ ___ ___ 20. Are payments made only on the basis of original invoices and to suppliers identified on supporting documentation?
- ___ ___ ___ 21. Are the accounting and purchasing departments promptly notified of returned purchases, and are such purchases correlated with vendor credit advices?
- ___ ___ ___ 22. Is proper control maintained over vendor credit memos?
- ___ ___ ___ 23. Are signed checks delivered directly to the mail room, making them inaccessible to persons who requested, prepared, authorized or recorded them?

24. Are the following duties performed by different people:

- ___ ___ ___ a. Requisitioning, purchasing, and receiving functions and the invoice processing, accounts payable, and general ledger functions?
- ___ ___ ___ b. Purchasing, requisitioning and receiving?
- ___ ___ ___ c. Invoice processing and making entries to the general ledger?
- ___ ___ ___ d. Preparation of cash disbursements, approval, and entries to the general ledger?
- ___ ___ ___ e. Making detail cash disbursement entries and entries to the general ledger?

25. **Are disbursements approved for payment only by properly designated officials?**

26. Are travel expenses for out-of-state, out-of-country, and excess allowances approved in advance?

27. Are invoices (vouchers) reviewed for accuracy and completeness of supporting documents and properly approved?

28. **Is the individual responsible for approval or check-signing furnished with invoices and supporting data to be reviewed prior to approval or check-signing?**

29. **Are adjustments of recorded accounts payable or other liabilities properly approved?**

30. Is check signing limited to only authorized personnel?

31. Are unused checks adequately controlled and safeguarded?

32. Is it prohibited to sign blank checks in advance?

33. Is it prohibited to make checks out to the order of "cash"?

34. If facsimile signatures are used, are the signature plates adequately controlled and separated physically from blank checks?

35. Are signature plates only under the signer's control used and does that person or an appropriate designee record machine readings to ascertain that all checks signed are properly accounted for?

B. Monitoring:

- ___ ___ ___ 36. Are transfers between funds approved by management?
- ___ ___ ___ 37. Before commitment, are funds not obligated, but remaining in the budget verified by the accounting or budget department as sufficient to meet the proposed expenditure?
- ___ ___ ___ 38. Is a government representative or architect required to inspect construction projects before approval of payment?
- ___ ___ ___ 39. **Are requests for progress payments under long-term contracts related to contractors' efforts and are they formally approved by a designated contract administrator/officer with formal approval authority?**
- ___ ___ ___ 40. Are debit balances in accounts payable and other liabilities reviewed and researched?
- ___ ___ ___ 41. Are reasonable limits set on amounts that can be paid by facsimile signatures?
- ___ ___ ___ 42. Are all records, checks and supporting documents retained according to the applicable (state or federal) record retention policy?
- ___ ___ ___ 43. Does the accounting department record and follow up on partial deliveries?
- ___ ___ ___ 44. **Are P-card purchases reconciled monthly by someone other than the card holder?**
- ___ ___ ___ 45. Are all prescribed statewide policies and procedures regarding the use of P-cards followed?
- ___ ___ ___ 46. Are P-card transactions audited on a periodic basis?