

Office of the State Controller

Self-Assessment of Internal Controls

Purchasing/Accounts Payable Cycle

Objectives and Risks

Agency _____

Year-End _____

Objectives

All requests for goods and services are initiated and approved by authorized individuals, and are in accordance with budget and appropriation guidelines.

All purchase orders are based on valid, approved requests and are properly executed as to price, quantity and vendor.

All materials and services received agree with the original orders.

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.

All checks are prepared on the basis of adequate and approved documentation, compared with supporting data and properly approved, signed and mailed.

All disbursement, accounts payable, encumbrance transactions are promptly and accurately recorded as to payee and amount.

All entries to accounts payable, reserve for encumbrances, asset and expense accounts and cash disbursements are properly accumulated, classified and summarized in the accounts.

Risks

- 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.

- Payment in excess of optimum price.
- Quantities not adequate or in excess of need.
- Quality of materials or services received or substandard.

- Payment for materials or services not received.
- Damaged or missing goods not reported.
- Inferior quality of materials or services received.

- Payment based on improper price or terms.
- Accounting distribution of cost is inaccurate.

- Incorrect or duplicate payments.
- Alteration of checks.
- Disbursement for materials or services not properly documented or approved.

- Improper cash, accounts payable, and encumbrance balances.

- Misstated financial statements.
- Misstated internal financial data.
- Inoperable budgetary control.

Office of the State Controller

Self-Assessment of Internal Controls

Purchasing/Accounts Payable Cycle

Control Policies and Procedures:

Agency _____

Year-End _____

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 follow up of all purchases and accounts payable functions?
- ___ ___ ___ 2. Is a written policy established to ensure that the best possible price is obtained for purchases not made from state contract?
- ___ ___ ___ 3. If construction contracts are awarded, are bid and performance bonds as well as retainage required to assure performance?
- ___ ___ ___ 4. Are procedures established to identify, before purchase orders are issued, cost and expenditures not allowable under grant (federal/state) programs?
- ___ ___ ___ 5. 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?
- ___ ___ ___ 6. Do procedures exist for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)?
- ___ ___ ___ 7. Do procedures exist ensuring accurate account distribution of all entries resulting from invoice processing?
- ___ ___ ___ 8. Do procedures exist for disbursement approval and check-signing?
- ___ ___ ___ 9. Has the agency established procedures to ensure that all voided checks are properly accounted for and effectively canceled?
- ___ ___ ___ 10. Has an effective small purchase or emergency purchase policy been documented and implemented?
- ___ ___ ___ 11. 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?
- ___ ___ ___ 12. Are payments made as close to the discount date as possible?
- ___ ___ ___ 13. Is splitting orders to avoid higher levels of approval prohibited?
- ___ ___ ___ 14. Is an adequate record of open purchase orders and agreements maintained?
- ___ ___ ___ 15. Are receiving reports prepared for all purchased goods?
- ___ ___ ___ 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. If an invoice is received from a supplier not previously dealt with, are steps taken to ascertain that the supplier actually exists?
- ___ ___ ___ 19. Are payments made only on the basis of original invoices and to suppliers identified on supporting documentation?
- ___ ___ ___ 20. Are the accounting and purchasing departments promptly notified of returned purchases, and are such purchases correlated with vendor credit advices?
- ___ ___ ___ 21. Is proper control maintained over vendor credit memos?
- ___ ___ ___ 22. Are signed checks delivered directly to the mail room, making them inaccessible to persons who requested, prepared, authorized or recorded them?
- ___ ___ ___ 23. Are monthly reconciliations performed on the following:
 - ___ ___ ___ a. All petty cash accounts?
 - ___ ___ ___ b. All bank accounts?
 - ___ ___ ___ c. All subsidiary accounts to the general ledger accounts?

24. Are the following duties generally 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 of them, and making entries to the general ledger?
- ___ ___ ___ e. Making detail cash disbursement entries and entries to the general ledger?

___ ___ ___ 25. Is check signing limited to only authorized personnel?

___ ___ ___ 26. Are disbursements approved for payment only by properly designated officials?

___ ___ ___ 27. Are travel expenses for out-of-state, out-of-country, and excess allowances approved in advance?

___ ___ ___ 28. Are invoices (vouchers) reviewed and approved for completeness of supporting documents and required clerical checking by a senior employee?

___ ___ ___ 29. Is responsibility fixed for seeing that all cash discounts are taken and if applicable, that exemptions from sales, federal excise, and other taxes are claimed?

___ ___ ___ 30. Is the individual responsible for approval or check-signing furnished with invoices and supporting data to be reviewed prior to approval or check-signing?

___ ___ ___ 31. Are adjustments of recorded accounts payable or other liabilities properly approved?

___ ___ ___ 32. Are unused checks adequately controlled and safeguarded?

___ ___ ___ 33. Is it prohibited to sign blank checks in advance?

___ ___ ___ 34. Is it prohibited to make checks out to the order of "cash"?

___ ___ ___ 35. If facsimile signatures are used, are the signature plates adequately controlled and separated physically from blank checks?

___ ___ ___ 36. Are purchases of goods and services initiated by properly authorized requisitions bearing the approval of officials designated to authorize requisitions?

___ ___ ___ 37. Are all invoices received from vendors in a central location, such as the accounting department?

___ ___ ___ 38. Are purchase orders prenumbered and issued in sequence?

- ___ ___ ___ 39. 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?
- ___ ___ ___ 40. Are invoices and supporting documents canceled?
- ___ ___ ___ 41. Are changes to contracts or purchase orders subject to the same controls and approvals as the original agreement?
- ___ ___ ___ 42. Are there checks in the processing procedures to prevent or detect duplicate payments?

B. Monitoring:

- ___ ___ ___ 43. Are transfers or loans between funds approved by management?
- ___ ___ ___ 44. 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?
- ___ ___ ___ 45. Are purchase orders or contracts required to be approved by appropriately designated officials before issuance?
- ___ ___ ___ 46. Is a government representative or architect required to inspect construction projects before approval of payment?
- ___ ___ ___ 47. 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?
- ___ ___ ___ 48. Is the distribution of charges in the accounting department reviewed by a person competent to pass on the propriety of the distribution?
- ___ ___ ___ 49. Are debit balances in accounts payable and other liabilities reviewed and followed up?
- ___ ___ ___ 50. Are reasonable limits set on amounts that can be paid by facsimile signatures?
- ___ ___ ___ 51. Are all records, checks and supporting documents retained according to the applicable (state or federal) record retention policy?
- ___ ___ ___ 52. Does the accounting department record and follow up partial deliveries?
- ___ ___ ___ 53. Are P-card purchases reconciled monthly?
- ___ ___ ___ 54. Is this reconciliation performed by someone other than the card holder?
- ___ ___ ___ 55. Are all prescribed statewide policies and procedures regarding the use of P-cards followed?
- ___ ___ ___ 56. Are P-card transactions audited on a periodic basis?