UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
PURCHASE MATERIALS AND SUPPLIES

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of purchasing materials and supplies. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your indu

D. Materials are received on a timely basis.

Business risks

- The company will receive goods too early or too late.

Control practices

1. Develop, apply, and monitor supplier performance ratings.

E. The receiving process is efficient and cost-effective.

Business risks

- The receiving process will incur higher labor costs than necessary.
- The organization of the receiving area will not allow for optimum storage of goods or for the efficient movement of goods from receiving.

Control practices

1. Review the physical activities of the receiving process.
2. Design the receiving area and procedures to reduce the number of activities and the time required to complete activities.
3. Train employees in the process of materials handling.
4. Encourage employees to share ideas and suggestions on ways to improve the process.
5. Allow only limited storage space for within the receiving area to enforce the efficient distribution of goods away from receiving.

F. Materials received are processed on a timely basis.

Business risks

- Materials will arrive, but end users will remain unaware of the receipt.
- Plans and schedules for goods to be received will not be communicated to the receiving department.

Control practices

1. Notify end users when materials and supplies are received.
2. Establish communication channels between purchasing, end users, and receiving to ensure all parties are aware of material needs and the timing of these needs.

J. Employees and management are provided the information they need to control the process of obtaining materials and supplies.

Business risks

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L. Purchase orders are accurately and completely prepared and recorded on a timely basis.

Business risks

- Receiving will reject deliveries because no valid purchase order will exist.
- The company will receive incorrect supplies and merchandise, or quantities of supplies and merchandise, and incur additional costs to return or store these goods.
- The company will obtain an inadequate supply of supplies and merchandise.
- The company will lose purchase orders, resulting in incomplete records of supplies and merchandise to be received.
- Management will be unable to determine unfulfilled purchase commitments.

M. All purchase order transactions are reliably processed and reported.

Business risks

- Mistakes and discrepancies on purchase orders will remain undetected.
- Individuals will make unauthorized changes to programs, causing unauthorized processing results.
- Individuals will use unauthorized versions of files and/or programs to process transactions, resulting in unauthorized or incorrect business transactions.
- Files (transaction, reference, or master) will be lost, altered, or damaged, resulting in inefficiencies, lost assets, or incorrect processing of transactions.

Control practices

1. Perform a one-to-one check between the entered information and the source documents to verify the accuracy of key data fields, including the date.
2. Require authorization for all changes to program routines.
3. Require user approval for program change test results.
4. Use tape and/or disk management systems to ensure that appropriate versions of transaction files, master files, and programs are used for processing.
5. Install computer system controls, such as access control software, to preclude unauthorized changes in the versions of files and programs used to process transactions.
6. Install computer system controls, such as access control software, to protect files and programs from unauthorized use, modification, or deletion.

N. Receipts are properly authorized.

Business risks

O. Receipts are recorded accurately and completely on a timely basis.

Business risks

- The company will not record, or will inaccurately record, receipts of supplies, merchandise, or services. Liabilities will not be recorded and inventory will be misstated.
- The company will lose the records of supplies and merchandise received.

Control practices

1. Test count, weigh, or measure incoming goods on a sample basis to determine the accuracy of supplier shipments.
2. Note all discrepancies on the receiving reports and resolve them with the supplier.
3. Inspect incoming goods for effects such as damage, quality characteristics, and product specifications.
4. Use receiving documents or online computer input routines to record the actual receipt of supplies and merchandise.
5. Implement reconciliation controls to ensure that all receiving transactions are entered into the system if receiving documents are initially used to record receipts of materials and supplies.
6. Use computer system routines to match each line item of the receiving transaction with the line items of the corresponding purchase order record.
7. Install computer controls to highlight discrepancies on exception reports and denote purchase orders on file with partial receipt indicators.
8. Design computer procedures to close purchase order records when all line items match and have been received.