Purchasing Audit Program

OBJECTIVES

1. **Review Controls.** Evaluate and test compliance with Company's internal control system related to the Purchasing/Inventory Control/ Receiving/ Accounts Payable cycle by addressing the following questions: (1) Are all transactions and activities properly authorized? (2) Are all transactions properly recorded? (3) Is access to assets limited to those individuals who should legitimately have access? And (4) Is there accountability over assets so that responsibility is properly placed in the event of a loss?
2. **Review Policies and Procedures.** Review purchasing policies and strategies to determine whether they cover all important aspects of purchasing activities. Also, examine the purchasing procedures to determine if they are in agreement with the established policies.
3. **Economy, Efficiency, and Effectiveness.** Review, analyze, and determine the economy, efficiency, and effectiveness of the Receiving and Distribution Department, Purchasing Department, and Accounts Payable Department.

PLANNING

1. Complete a planning memo which contains the background, the focus, and the staff relating to the examination.
2. Inform the appropriate parties of the beginning of the project and areas which will be included within the scope. Memorandums should be delivered to:
   a. President & General Manager
   b. Board representative
   c. VP of Operations & Assistant General Manager
   d. Director of Facilities
   e. Purchasing Manager
   f. Director of Culinary & Hospitality
   g. Director of Accounting
3. Establish a timetable for the job performance and a time budget.
4. Speak with key personnel to determine any areas of concern.
5. Document communications with personnel.

POLICIES AND PROCEDURES/INTERNAL CONTROLS

1. Prepare Internal Control Questionnaires for Purchasing, Receiving & Distribution, and Accounts Payable Departments and document any significant items.
2. Review soft controls, such as communication, ethics, and management philosophy.
   a. Prepare a relationship questionnaire.
   b. Meet with the departments to complete the questionnaire.
   c. Document any significant items.
3. Review all policies & procedures established by Company relating to the Purchasing, Receiving & Distribution, and Accounts Payable (including travel) and assess the adequacy of these controls.

TESTING

1. Purchase Orders
   a. Determine why PO are still open
   b. Compare the PO listing with the open invoice report.
2. Expenses
   a. Review expense authorization by judgmentally selecting 25 checks from date x to date y.
      - Determine if proper approvals are evidenced.
      - Note any evidence of review by A/P.
      - Note that adequate supporting documentation is attached.
      - Note whether Company utilizes a Positive Pay or Reverse Positive Pay for check clearing through the bank.

- Note turnaround time.

b. Examine travel advances and expense reports.
   - Note proper approvals.
   - Note evidence of review by Accounts Payable.
   - Note that adequate supporting documentation is attached.
   - For expense reports, note whether the original advance was properly reversed.

3. Other
   a. Obtain A/P reconciliations for month end 1 and month end 2. Review for timeliness and accuracy.
   b. Review procedures for manual checks. Examine checks and supporting documentation.
   c. Review procedures for storing and disposing of canceled checks. Examine checks and supporting documentation.
   d. Selecting vendors from the expense test, complete the following steps:
      - Agree stated payment terms and vendor information to vendor master.
      - Verify that written reconciliations to statements were performed.
   e. Document processing of credit memos. Note any problems.
   f. Bidding Process
      - Review and document the bidding process.
      - Determine which areas are currently bid out and which orders Purchasing obtains quotes
      - Determine whether the provisions of the bids are considered, such as, freight terms, discounts, and service.
      - Determine if the procedures were properly followed.
   g. "Regulatory Agency" Approval of Contracts.
      - Obtain a listing of all vendor receiving more than $50,000 during year.
      - Determine whether "regulatory agency" approved all contracts before the purchase.
      - Determine whether all related party transactions were approved by "regulatory agency."
4. Determine whether Accounts Payable certifies the availability of funds before sending the checks.
5. Compare a list of vendor addresses to employees' addresses. Do any employees have the same address as a vendor?

ECONOMY, EFFICIENCY, AND EFFECTIVENESS

1. Determine and evaluate:
   a. Cost (payroll, toner, checks, mailing, admin, etc.) per purchase order
   b. Cost per invoice
   c. Cost per check issued
   d. Cost per ACH payment
   e. Aging of Accounts Payable
   f. Percent of invoices processed through EDI
   g. Number of invoices processed
   h. Number of line items
   i. # of checks issued outside of the check run policy
   j. Number of voided checks (and then review the check #, check amount, vendor name, reason for cancellation)
   k. Percent of checks returned/voided
   l. Number of invoices by person
2. Turnaround Time
   a. Process purchase orders.
   b. Process vendor invoices (avg days to process an invoice & avg. days to process payment from receipt)
   c. Receive and distribute merchandise to the departments.

3. Vendor Discounts
   a. Determine which vendors offer a discount on purchases.
   b. Determine whether company is taking advantage of all available discounts (discounts earned/lost).
4. Determine the top 10 companies receiving payments.
   a. Determine how the vendor is paid (check, ACH/EDI, other).
   b. Determine whether the amounts are small dollar and/or large volume.

REPORTING

1. Summarize all significant findings.
2. Discuss any findings with the appropriate staff.
3. Draft the final report or letter.

ADDITIONAL PROCEDURES

1. Document related information relating to Purchasing/Receiving & Distribution, and Accounts Payable.
2. Determine who has access to “system?”
   a. Who has access to write checks?
   b. Who has access to release journal entries?
   c. Who has access to enter POs?
   d. Who has access to receiving of mdse?
3. Determine whether any duplications or blanks exist in the system: amount, vendor number, PO#, invoice#
4. Sale of Scrap
   a. Document Company’s current procedures.
   b. Document the amount of scrap year-to-date.

CONCLUSION

Policies and procedures have been evaluated and tested for compliance relating to Purchasing, Receiving & Distribution, and Accounts Payable and the economy, efficiency, and effectiveness of the Purchasing, Receiving & Distribution, and Accounts Payable Departments have been reviewed, analyzed, and tested.