

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

10/1/11  
10/1/11  
10/1/11

10/1/11

10/1/11  
10/1/11  
10/1/11

10/1/11

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

Effectiveness and efficiency of operations

**A. Materials purchased satisfy the company's requirements and needs.**

**Business risks**

- x Products ordered will not meet the necessary technical specifications or quality standards.
- x Materials will be received too early or too late, resulting in business interruptions and/or excessive levels of inventory.
- x Vendors are not aware of the company's needs or are not able to supply the necessary materials.

Contro 108 570 Tm [(V)-2.8 (e)0.6 (n)256 Tc si1R.8 ( 108 570 Tm [(s8 (d)39.2 (.)]TJ 0 6 ()-2.8 ( 108m 1 T

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

**B. Materials are purchased at an appropriate price.**

**Business risks**

- x Product costs will be higher than anticipated.
- x Products will not be profitable or able to compete in the market at a reasonable price.

e

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

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

**Business risks**

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

**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. Limit storage space in the receiving area to enforce the efficient distribution of goods away from receiving.
6. Maintain material routing procedures for received items.
7. Provide inbound functions with instructions for routing non-routine material.

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

**G. Materials received meet required quality standards.**

**Business risks**

- x The company will encounter production problems because materials received do not meet  
q

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT PURCHASE MATERIALS AND SUPPLIES

## **I. The receiving process is safe.**

### **Business risks**

- x Accidents will occur in which employees are injured or facilities are damaged.
- x The company will not comply with regulatory requirements.

### **Control practices**

1. Train employees fully in the safe handling and storage of non-hazardous materials.
2. Establish procedures for reporting and addressing safety concerns.
3. Maintain procedures and policies that comp

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT PURCHASE MATERIALS AND SUPPLIES

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

## **Business risks**

- x Employees and management will not be able to determine accurately whether the process is in control (that it is operating as planned).
- x Employees will not be able to improve the process on a timely basis.
- x Information provided to employees and management about the process will conflict with the company's objectives.
- x Plans to improve the process will be based on incorrect perceptions of process performance.

## **Control practices**

1. Monitor approv-31.5 (n)34.3 ( c)9oonid1 (s)1 (.5 0 Td m Tf ( )TG3/57 BP6o-3M0H22-D-3(BB)3.) <0.0



# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

## PURCHASE MATERIALS AND SUPPLIES

### Control practices

1. Require the requesting department to prepare the purchase requisition for all materials and supplies purchased.
2. Notify vendors of company personnel authorized to approve purchase orders.
3. Approve requisitions before making purchase commitments. Approve vendors, prices, quality, quantities, and terms.
4. Use computer system input screens and routines to generate purchase order documents and transactions.
5. Design computer system routines to automatically verify that purchase orders are created only for authorized vendors. (For example, configure the system to automatically verify the vendor against the vendor master file during purchase order entry.)
6. Provide purchasing personnel with current prices, vendors, specifications, and terms, such as supplier extranet sites or computer inquiry terminals that have direct access to vendor product and inventory record files, to ensure that only authorized terms are used to create purchase orders.
7. Require formal approval from management for all changes to purchase orders.
8. Apply established policies and procedures to define spending limits and approval procedures for purchase orders.
9. Configure approval limits in the purchasing system and allow authorized users to approve orders or requisitions within the approved limits.
10. Monitor and control systematic inventory reorder points.
11. Limit access for changing the inventory reorder points to management.
12. Segregate all purchasing responsibilities, from supplier selection to disbursement and accounting activities.
13. Restrict initiation and editing of purchase requisitions or orders to authorized users independent from vendor maintenance, goods receipts, accounts payable, and processing disbursements.
14. Rotate purchasing agents or buyers among purchasing responsibilities periodically to ensure independence. If business conditions make it impractical to rotate agents or buyers, implement other compensating controls.
15. Ensure that an approved-vendor master file is used by the system for verifying acceptable vendors during purchase order creation.
16. Add new suppliers to the established master file only if they meet the criteria established by management.
17. Require management to define and communicate criteria for supplier selection to ensure that goods and services are obtained only from properly approved suppliers.
18. Investigate suppliers prior to approval. Consider such factors as price competitiveness, reputation, product quality, delivery abilities, and financial solvency.
19. Obtain competitive bids for all purchases over amounts specified by management.
20. Require justification and management approval for the absence of competitive bids or for the acceptance of a price other than a lowest bid.
21. Install computer system controls, such as access control software, to preclude unauthorized purchase transactions.

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

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

**Business risks**

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

**Control practices**

1. Use computer system routines or pre-numbered purchase order forms to assign purchase order numbers to order requests.
2. Safeguard pre-numbered forms from unauthorized use.
3. Use batch totals before processing is complete for systems.5 (PJ 0 TwB.3 ( b)-3.5 (t)-9.3 (e)00 Tw [(pr)-

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

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

**Business risks**

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

**a**

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

**N. Receipts of materials and supplies are properly authorized.**

**Business risks**

- x The company will accept materials and supplies for which no authorized order has been placed.
- x The company will accept incorrect or excessive quantities of materials and supplies and/or materials and supplies that do not meet company specifications.
- x Unauthorized individuals will order and receive materials and supplies.
- x The company will receive and pay for, rather than return or refuse: unordered materials and supplies, excessive quantities or incorrect items, canceled or duplicated orders.

**Control practices**

1. Accept only materials supported with an authorized purchase order or its equivalent.
2. Return all other receipts to the supplier, or investigate them for propriety in a timely

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**

## **UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT PURCHASE MATERIALS AND SUPPLIES**

### **P. All material and supply receipt transactions are reliably processed and reported.**

#### **Business risks**

- x Unauthorized changes will be made to programs, causing unauthorized processing results.
- x Unauthorized versions of files and/or programs will be used to process transactions, resulting in unauthorized or incorrect business transactions.
- x Files (transaction, reference or master) will be lost, altered or damaged, resulting in inefficiencies, lost assets, or incorrect processing of transactions.

#### **Control practices**

1. Require authorization of all changes to program routines.
2. Require user approval for program change test results.
3. Implement tape and/or disk management systems to ensure that appropriate versions of transaction files, master files, and programs are used for processing.
4. Apply computer system controls, such as access control software, to preclude unauthorized changes in the versions of files and programs used to process transactions.
5. Implement computer system controls, such as access control software, to protect files and programs from unauthorized use, modification, or deletion.

### **Q. All materials requisitioned are properly transferred.**

#### **Business risks**

- x Some materials requisitioned will not be properly transferred.
- x Inadequate transfer or requisition procedures will be employed.
- x Transfer documents will be lost.
- x Information regarding materials transferred to/from storage will be incomplete or inaccurate.

#### **Control practices**

1. Transfer materials only on the basis of a properly approved requisition.
2. Require appropriate documentation for materials transferred from receiving to other business activities.
3. Ensure transfer documentation accompanies all transfers, and stores or other activities personnel verify materials and quantities received.
4. Pre-number transfer documents, and investigate missing documents.

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

## PURCHASE MATERIALS AND SUPPLIES

### **R. Performance measures used to control and improve the process are reliable.**

#### **Business risks**

- x Inaccurate measurements will result in erroneous perceptions about process performance, resulting in inappropriate decisions.

#### **Control practices**

1. Implement controls to automatically calculate and process the performance measures based on data captured at the transaction source, such as processing time, number of defects, and on-time delivery.
2. Review performance measures periodically to ensure that they reflect actual process performance.
3. Use quality reports and customer surveys to capture relevant information about process performance.
4. Communicate the information captured to employees responsible for vendor relations and improving the procurement and receiving process.
5. Ensure management and employees understand the linkage between the measures and customer satisfaction.
6. Ensure management and employees accept these measures as tools to improve process performance.
- 7.

**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT  
PURCHASE MATERIALS AND SUPPLIES**



**UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT**