

Procurement and Payables/Disbursements Checklist

Internal Controls

As public servants, it is our responsibility to utilize the taxpayer's dollars in the most effective and efficient way possible while adhering to laws and regulations governing those processes. There are many reasons for placing controls in various points in these processes that may appear bureaucratic, but are necessary to ensure guidelines are followed and there is accountability to the taxpayers.

This document does not address all possible circumstances that need to be considered when establishing internal controls or assessing risk. Each entity is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate them.

Examples of the results of payables controls are to support that:

- Procurement rules and regulations are complied with.
- Competitive bidding and contracting procedures are followed.
- Purchases are authorized and approved by the appropriate individuals.
- There is sufficient budget to meet the commitment.
- Goods or services are actually received and they meet quality standards.
- All expenditures are lawful, properly authorized, and represent a responsible and appropriate use of state funds.
- All expenditures are for goods or services where the full value of such goods and services was actually received.
- All expenditures are sufficiently documented, accurately and completely recorded, charged to the proper accounting period (fiscal year) and properly classified as to category of expense.
- Obligations for goods and services are paid in a timely manner as required by law or contractual terms, in sufficient time to take advantage of early payment discounts.
- Accounts payable are properly classified by type (due to other funds, due to other governmental agencies, etc.). If year-end accrual entries involve accounting estimates, the estimates are reasonable and sufficiently documented.

Control Objectives:

1. Controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.
2. Assets are safeguarded from loss through watchful and responsible care and reconciliation functions.
3. Segregation of duties, or mitigating controls, exists within transaction processing authorization, custody, and recording functions.
4. Separation of duties exist between the various types of transaction processing, e.g., procurement, accounts payable, disbursements.
5. Transactions are properly verified before disbursement.
6. Transactions and events are properly recorded.
7. Staff understands their duties, responsibilities, and accountabilities.
8. Procurement practices and procedures are documented, and in compliance with state, federal, and other requirements such as contract terms and conditions.
9. Applicable laws and regulations are complied with.
10. Transactions and activities are properly authorized.
11. Procurement records for authorizations and transactions are maintained in accordance with established requirements.
12. The quantity and quality of goods and services received is documented and agrees with the requisition and performance expectations such as service level agreements, contract terms, and vendor performance.
13. Accountability for refunds and credits are maintained.
14. Accounting records are protected from theft, obsolescence, or destruction.
15. There is an accurate statement of cash on hand and in the bank.

Segregation of Duties:

Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and record keeping for the same activity.
- Managing custodial activities and record keeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

Stated differently, there are four kinds of functional responsibilities that should be performed by different work units, or at a minimum, by different persons within the same unit:

1. Authorization to execute transactions: This duty belongs to persons with authority and responsibility to initiate and execute transactions.
2. Recording transactions: This duty refers to the accounting or record keeping function, which in most organizations, is accomplished by entering data into a computer system.
3. Custody of assets involved in the transactions: This duty refers to the actual physical possession or effective physical control/safekeeping of property.
4. Periodic reviews and reconciliation of existing assets to recorded amounts: This duty refers to making comparisons at regular intervals and taking action to resolve differences.

The advantage derived from proper segregation of duties is twofold:

- Fraud is more difficult to commit because it would require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

At a minimum, the following activities should be segregated:

- Individuals responsible for data entry of encumbrances and payment vouchers should not be responsible for approving these documents.
- A department should not delegate expenditure transaction approval to the immediate supervisor of data entry staff or to data entry personnel. Individuals approving expenditure transactions should not supervise data entry staff.
- Delegated expenditure authority must be in writing and approved by the appointing authority.
- Individuals responsible for acknowledging the receipt of goods or services should not be responsible for purchasing or accounts payable activities.
- Individuals who prepare/record checks should not sign the checks.
- Individuals who prepare/record checks should not reconcile the checking account.
- Individuals responsible for cash receipts functions should be separate from those responsible for cash disbursements.

Example Segregation of Duties Controls Questions:

A.	Segregation of Duties:	Yes	No	N/A	Comments
1.	Are the individuals responsible for the requisitioning, purchasing, and receiving functions different from the individuals responsible for the invoice processing, accounts payable, and general ledger functions?				
2.	Are the individuals responsible for the purchasing function different from the individuals responsible for the requisitioning and receiving functions?				

3.	Are the individuals responsible for the invoice processing and accounts payable functions different from the individuals responsible for the general ledger functions?				
4.	Are the individuals responsible for the disbursement preparation and disbursement approval functions different from the individuals responsible for recording cash disbursements and general ledger entries?				
5.	Are the individuals responsible for the disbursement approval function different from the individuals responsible for the disbursement preparation function?				
6.	Are the individuals responsible for entries in the cash disbursement records different from the individuals responsible for general ledger entries?				

Example Procedural Controls Questions:

B.	Requisitioning Procedures and Controls:	Yes	No	N/A	Comments
1.	Is the initiation of purchases of goods and services done by properly authorized requisitions bearing the approval of officials designated to authorize requisitions?				
2.	Are pre-numbered requisition forms used and accounted for?				
3.	Does the person requesting the purchase indicate the appropriation (budget) to be charged on the purchase requisition?				
4.	Does the accounting and budget department verify there are sufficient unobligated funds remaining under the appropriation to meet the proposed expenditure before commitment?				
5.	Do technical specifications accompany requests for special purpose (non-stock items) materials or personal services?				

C.	Purchasing Procedures and Controls:	Yes	No	N/A	Comments
1.	When assigning purchase authorizations, are the nature and size of purchases matched to the knowledge and experience of purchasing personnel?				
2.	Are there purchase orders, contract issuance, and contract approval procedures?				
3.	Does a responsible employee who is independent of the purchasing department perform periodic reviews of purchase prices?				
4.	Are competitive bidding procedures used?				
5.	Are competitive bidding procedures documented?				
6.	Are contracts or purchasing officer's areas of responsibility rotated on a regular basis?				
7.	Is an audit of contractor's costs required prior to approving payment for contracts for materials, services, or facilities acquired on other than a fixed-price basis?				
8.	Are there procedures for public advertisement of non-stock item procurement in accordance with legal requirements?				

C.	Purchasing Procedures and Controls:	Yes	No	N/A	Comments
9.	Are periodic reviews done by non-procurement staff of recurring purchases and documentation of the justification for informal, rather than competitive, bids performed?				
10.	Are there established, documented, and distributed policies regarding conflicts of interest and acceptable business practices?				
11.	Are purchase orders and contracts issued under numerical or some other control?				
12.	Is it a requirement to obtain a number of price quotations before placing orders not subject to competitive bidding?				
13.	Are there procedures to detect splitting orders to avoid higher levels of approval?				
14.	Does the purchasing department maintain price lists and other records of price quotations?				
15.	Does the purchasing department maintain a record of suppliers who have not met quality or other performance standards?				
16.	Are procedures for the disbursement of funds under grants or loan agreements and related regulations imposing requirements updated when they differ from the organization's normal policies?				
17.	Are there controls to identify costs and expenditures not allowable under grant programs before order entry?				
18.	Is a record of open purchase orders and agreements maintained?				
19.	Are purchases made for the accommodation of employees prohibited or controlled?				
20.	Are bid and performance bonds considered if construction contracts are to be awarded?				
21.	Are selection criteria predetermined for awarding personal service or construction contracts?				
22.	Are changes to contracts or purchase orders subjected to the same controls and approvals as the original agreement?				

D.	Contract Administration Procedures and Controls:	Yes	No	N/A	Comments
1.	Are contract programs monitored?				
2.	Are the results of monitoring documented?				
3.	Does the monitoring ensure that the contractors are performing in accordance with the contract?				
4.	Is the reasonableness of progress payments based on work performed validated and documented?				
5.	Is extra work and/or contract modifications approved only with some form of cost or price analysis?				
6.	Are audits of the final costs under cost reimbursement contracts required?				
7.	Are fixed price/lump-sum contracts subjected to pre-awarded cost or price analysis?				

E.	Receiving Procedures and Controls:	Yes	No	N/A	Comments
1.	Are receiving reports prepared for all purchased goods?				
2.	Are claims filed against carriers or vendors for all shortages or damaged materials?				
3.	Are goods received accurately counted and examined to verify they meet quality standards?				
4.	Is a permanent record of material received by the receiving department maintained?				
5.	Are receiving reports issued under numerical or some other control to ensure all goods received are reported to the accounting department?				
6.	Are copies of receiving reports sent directly to purchasing, accounting, and (if applicable) inventory record keeping?				
7.	Is a government technical representative assigned to monitor and evaluate contractor performance and to approve receipt of services with respect to procurements of special-purpose materials, services, or facilities?				
8.	If a receiving department is not used, are there procedures to ensure goods have been received and meet quality standards before payment is made?				

F.	Invoice Processing Procedures and Controls:	Yes	No	N/A	Comments
1.	Are copies of purchase orders and receiving reports obtained directly from issuing departments?				
2.	Are invoice quantities, prices, and terms compared with those on the purchase order?				
3.	Are invoice quantities compared with those on the receiving report?				
4.	Is the accuracy of all calculations checked?				
5.	Is timely payment of invoices required, to avail the entity of available discounts?				
6.	Are all invoices from vendors received in a central location, such as the accounting department?				
7.	Are there procedures to ensure the accounts payable system is properly accounting for unmatched receiving reports and invoices?				
8.	Are contractors' requests for progress payments under long-term contracts compared to the contractors' efforts and results?				
9.	Are there procedures for processing invoices for materials or supplies (for example, lease or rental payments, utility bills, etc.)?				
10.	Are vendor monthly statements compared with accounts payable balances?				
11.	Are subsidiary ledgers reconciled monthly with control accounts?				
12.	Do only employees authorized to make changes have access to the EDP master vendor file?				
13.	Is a current list of individuals authorized to approve expenditures maintained by the accounting department?				
14.	Are there procedures for submission and approval of reimbursement to employees for travel and other				

F.	Invoice Processing Procedures and Controls:	Yes	No	N/A	Comments
	expenses?				
15.	Are there procedures to identify and report taxable fringe benefits in accordance with IRS rules for travel or other taxable employee reimbursements?				
16.	Are invoices date stamped and recorded by the accounting department before releasing them for departmental approval and other processing?				
17.	Is a review of the distribution of charges in the accounting department done by an individual with the knowledge and experience to determine the correctness of the distribution?				
18.	Does a senior employee review and approve invoices (vouchers) for accuracy and completeness of supporting documents?				
19.	When an invoice is received from a supplier not previously dealt with, are steps taken to verify the supplier actually exists?				
20.	Are payments made only on the basis of original invoices?				
21.	Are transactions monitored to ensure all cash discounts are taken and, if applicable, exemptions from sales, federal excise, and other taxes are claimed?				
22.	Are differences in invoice and purchase order price, terms, shipping arrangements, or quantities referred to the purchasing department for review and approval?				
23.	Does the accounting department record and follow up on partial deliveries?				
24.	Are both the accounting and purchasing departments promptly notified of returned purchases?				
25.	Are returned purchases matched with vendor credit advices?				
26.	Are the program and expenditure accounts to be charged reviewed for propriety and budget conformity?				
27.	Do check signers or other responsible officials determine restricted revenues are expended only for restricted purposes?				

G.	Disbursements Procedures and Controls:	Yes	No	N/A	Comments
1.	Are warrants, sight drafts, and checks signed after disbursements have had final approval?				
2.	Control of warrant, sight draft, and check-signing-machine signature plates and usage restricted?				
3.	Are there procedures for immediate notification, as applicable, to banks, state treasurer, state controller, etc., of newly authorized warrant, sight draft, and check signers?				
4.	Are there procedures for immediate notification, as applicable, when authorized signers leave the unit or are otherwise no longer authorized to sign?				
5.	Is the signer furnished with the invoices and supporting documents prior to signing the warrant, sight draft, or check?				

G.	Disbursements Procedures and Controls:	Yes	No	N/A	Comments
6.	Are limits set on amounts payable by facsimile signature?				
7.	Are two signatures required on warrants, sight drafts, or checks over a stated amount?				
8.	Are signature plates or stamps kept in the custody of the person whose facsimile signature is on the plate, when the plate is not in use?				
9.	Does only the person whose facsimile signature is on the plate use signature plates or stamps?				
10.	Are readings of signing machine controlled and recorded by the signer, or an appropriate designee, to ascertain all signed warrants, sight drafts, or checks are properly accounted for, by comparing to document control totals?				
11.	Are invoices and supporting documents cancelled by, or in the presence of, the signer at time of signing?				
12.	Are signed warrants, sight drafts, or checks delivered directly to the mail room, making them inaccessible to persons who requested, prepared, or recorded them?				
13.	Are warrants, sight drafts, and checks cross-referenced to vouchers?				
14.	Are warrants, sight drafts, and checks controlled and accounted for, with safeguards over those unused and voided?				
15.	Is drawing warrants, sight drafts, or checks to "cash" or "bearer" prohibited?				
16.	Are signed and issued warrants, sight drafts, and checks promptly recorded?				

H.	Accounts Payable Encumbrances or Obligations Procedures and Controls:	Yes	No	N/A	Comments
1.	Are regular comparisons of statements from vendors with recorded amounts payable performed?				
2.	Are monthly reconciliations of outstanding purchase orders to the reserve for encumbrances performed?				
3.	Is recording encumbrance entries based only on approved purchase orders?				
5.	Are there procedures to ensure department heads are notified of payments made against accounts payable and encumbrances?				
6.	Are there procedures to ensure adjustment of the reserve for encumbrances, if applicable, when invoices are prepared for payment?				

I.	General Ledger Procedures and Controls:	Yes	No	N/A	Comments
1.	Are trial balances of reserve for encumbrances and accounts payable being regularly prepared?				
2.	Is checking the footing and testing the trial balances to the individual items, as well as comparing the total to the general ledger balance, done by an employee other than the accounts payable clerk?				
3.	Are transactions between funds posted in all affected funds done in the same accounting period, and on a timely basis?				