Town of Palm Beach, Florida

Internal Audit Report

Procurement and Accounts Payable

October 31, 2010

Presented by

HCT
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Town of Palm Beach, Florida
Internal Audit Report

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SECTION I

EXECUTIVE SUMMARY

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Section I – Executive Summary

A. OVERVIEW

As a part of the internal audit plan prepared by Crowe Horwath, LLP for the Town of Palm Beach, Florida (the "Town"), Harvey, Covington and Thomas, LLC ("HCT") performed an internal audit of the procurement and accounts payable functions as of June 30, 2010.

The objectives of our audit were to evaluate the design and effectiveness of the Town's internal controls over the procurement (purchasing) and accounts payable (disbursements) transaction cycles, and to present identified findings in terms of financial and compliance risk. The procurement and accounts payable transaction cycles are inherently high risk for irregularities, theft of assets and other misappropriation. An adequate system of internal controls is therefore essential to protect against such abuse.

To meet our overall objectives, HCT,

- reviewed selected policies and procedures;
- discussed compliance with these policies and procedures with Town personnel;
- analyzed the propriety and compliance with established policies and procedures; and,
- tested certain detailed records of specific transactions.

B. METHODOLOGY

In this report, we provide a summary of our results and recommendations as well as management's responses. To assist you in analyzing our recommendations, we have provided our suggestions for corrective action based on the finding's exposure to loss or increased regulatory scrutiny, as follows:

High – Requires *immediate* remedy and, if left uncorrected, exposes the Town to significant or immediate risk of loss, asset misappropriation, data compromise or interruption, fines and penalties, or increased regulatory scrutiny.

Moderate – Requires *timely* remedy and, if left uncorrected, exposes the Town to risk of loss or misappropriation asset, compromise data, fines and penalties, or increased regulatory scrutiny. These issues should be resolved in a timely manner, but after any high priority issues.

Low – Should be addressed as time and resources permit. While it is not considered to represent significant or immediate risk, repeated oversights without corrective action or compensating controls could lead to increased exposure or scrutiny.

Best Practice – Represents operational efficiencies or improvements for consideration by management based on industry best practices and the Audit team's judgment and experience.

Section I – Executive Summary (Continued)

C. SUMMARY OF RESULTS

In performing our analysis, we found weaknesses in the purchasing and accounts payable processes that may allow for errors and/or irregularities. In particular, we found that control procedures were at times circumvented by Town employees in order to bypass controls, including purchase documentation and authorization procedures. Therefore, for the period reviewed, the financial transaction and compliance control procedures supporting the purchases and payment for goods and services were not always adequate to ensure that purchases were,

- for valid transactions;
- for legitimate obligations;
- fairly awarded to vendors;
- compliant with laws and Town mandated procedures; and,
- under the most advantageous terms for the Town.

Although we identified critical control weaknesses that would typically be classified as high risk, we noted the Town had taken corrective actions subsequent to the review period. Because those procedures were not subject to detailed testing, we have presented the findings for the purposes of this report, but decreased the related risk rating accordingly. We presented our status observation within each finding, as applicable. We also noted weaknesses that, although rated at low risk or as a best practice, none-the-less offer the opportunity to strengthen controls and achieve effective compliance. The table below displays the number of recommendations identified through our procedures, categorized by priority.

Risk Rating	Total
High	**0**
Moderate	**2**
Low	**2**
Total	**4**

Best Practices	**4**

Section I – Executive Summary (Continued)

Our observations are summarized as follows:

Moderate:

1. Procurement controls were circumvented by Town Departments.
2. The vendor masterfile and, therefore, the active vendor listing were outdated, incomplete and portrayed numerous inconsistencies, including duplicated vendors and incomplete or missing information.

Low:

3. Purchasing and accounts payable functions were not always segregated to ensure that individuals with vendor masterfile addition/change capability were precluded from all financial related responsibilities.
4. The number of outstanding purchasing cards and level of available purchasing authority were disproportionate to the Town's actual use and needs.

Best Practices:

5. Manual processing controls could be improved through the maintenance of support to document reconciliations performed and verification of approval.
6. Exception reports were not routinely generated and evaluated for noncompliant or outstanding transactions.
7. Access to the Eden modules was not restricted based on an employee's actual job responsibilities.
8. The policies and procedures for purchasing and accounts payable were not indicative of all actual responsibilities and portrayed certain delegations that would have been in conflict with basic internal control tenants if actually placed in operation.

The items summarized above offer opportunities for the Town to implement control procedures and processes to address the risk of misappropriation of assets, compliance with laws and regulations, proper accounting and reporting and the efficient use of public resources. Detailed observations and recommendations are provided in **Section III – Results and Recommendations.**

SECTION II

BACKGROUND INFORMATION

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Section II – Background Information

A. AUDIT OBJECTIVES

The primary objectives for the audit were to evaluate the design and effectiveness of internal controls for ensuring that,

1. adequate due diligence is performed for major suppliers before hiring;
2. purchases are valid and properly authorized;
3. purchasing decision-maker is independent and does not have a conflict of interest;
4. vendor invoices are properly authorized before payment is made;
5. accounting rules for financial reporting are appropriately implemented; and,
6. fraudulent activities in the organization are prevented or detected in a timely manner.

To assist the reader, we have provided the following Appendices for additional clarification:

Appendix A – Provides a summary of the Audit Scope
Appendix B – Provides detailed procedures to achieve the audit objectives
Appendix C – Provides an Organization Chart for the Town's procurement and accounts payable functions

B. INFORMATION TECHNOLOGY – ENTERPRISE RESOURCE PLANNING SYSTEM

The Town uses the Eden enterprise resource planning ("ERP") system for its management and financial information systems processing, including processing and compliance controls. The Eden ERP system was developed specifically for State and Local Governments and is used by numerous municipalities in the United States. Within the Eden ERP system, the accounts payable and purchasing modules are used for invoice/payment processing and procurement compliance functions. The General Ledger module is used for financial accounting and reporting purposes. One of the benefits of ERP, including the Eden system, is the integration among the accounts payable, purchasing and general ledger functions. In addition, the system offers pre-set internal control functions which include automated controls to replace or enhance manual procedures.

The Eden ERP system has the capability to function as the foundation for a strong internal control system for accounts payable and procurement compliance. To a great extent, the Town's internal control system for these applications depends on the effective use of its Eden system and the implementation of the available automated controls.

SECTION III

RESULTS AND RECOMMENDATIONS

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Section III – Results and Recommendations

Finding #1: ***CIRCUMVENTION OF PROCUREMENT CONTROLS***

Risk Rating: ***Moderate***

Condition

During our interviews and tests of specific transactions, we noted that the Town's procurement procedures and, therefore, the underlying policies, were circumvented by employees. It was communicated to us that Departments would at times circumvent Purchasing functions during the period subject to review. For one of 22 transactions randomly selected, we identified one instance that demonstrated this circumvention of established controls. Specifically, the Department employees did not contact either Finance or Purchasing until after goods were ordered, accepted, and the invoice was received from the vendor for payment. The Purchasing and Finance functions were only made aware of the transaction when it was necessary to process payment of the invoice.

The Town's Eden ERP accounts payable program has automated control features requiring all disbursements be supported by approved purchase orders. Therefore, to pay invoices for purchases made without a pre-approved purchase order, the requisition and purchase order were created after delivery of goods, thus circumventing the automated system controls. As a result of the Departmental circumvention of established control procedures, the Purchasing Department was unable to ensure that compliance requirements were met *prior to* the transaction taking place, including the determination that,

- proper approval was obtained;
- purchases were for a valid public purpose;
- the vendor selection was fairly conducted;
- there were no conflicts of interest or that appropriate conflict of interest statements were obtained before the transaction occurred; and
- goods and services were obtained at the most advantageous terms for the Town.

By circumventing Town's procurement process, authorization policies and essential internal controls for the validation of purchase transactions were bypassed, increasing the risk that purchased items may be not be properly authorized, may be misdirected upon receipt, or may not represent the greatest value for the Town. In addition, the Town is subject to an increased risk that fraudulent activities may occur and not be timely detected.

Subsequent to the period reviewed, we noted that the existing Town procedures were enforced to ensure that such transactions would no longer occur or, if they do occur, appropriate reprisals would be made for the employees responsible and the breach properly communicated to the Town Manager.

Recommendation

We recommend that management continue to actively enforce the Town's established purchasing procedures. The "Purchasing Policy and Procedures Manual", Section 10-1, effective October 2009, states that,

> *…town employees committing unauthorized purchases may be held personally responsible for such purchases and/or be subject to disciplinary actions…*

Section III – Results and Recommendations (Continued)

Finding #1 – continued

Section 10-2 provides examples of the definitions of "unauthorized purchases":

10-2.1 "Purchasing directly from a vendor and bypassing the Purchasing Division."
10-2.2 "Committing for a purchase before securing an authorized purchase order."

In addition, for all instances found for which Departments circumvented the established procedures, we recommend that the Finance Department communicate to the involved vendors that the Town is under no obligation to pay claims for which purchase orders were not issued prior to the transaction.

As we did not perform detailed testing for transactions occurring after the Town's enforcement of procedures to address this finding, we also recommend additional detailed testing to verify that controls have been placed in operation and are functioning pursuant to Management's objectives.

Management's Action Plan
The one instance of violation of purchasing policy occurred prior to the implementation of strict enforcement rules in May, 2010. Since May, any employee that violates the purchasing policy is notified of the violation and the notice is sent to the employee's supervisor, their Department Director, and the Town Manager. The Town Manager decides on the appropriate disciplinary action for the employee and his/her Director. No instances of intentional circumvention have occurred since strict enforcement of the policy has been implemented.

Individual(s) Responsible: Peter B. Elwell, Town Manager and
Lynda Venne, Purchasing Agent

Due Date: Completed and Ongoing

Finding #2 *ACTIVE VENDOR LISTING NOT PURGED/UPDATED*

Risk Rating: ***Moderate***

Condition
The active vendor listing was not periodically purged or reviewed and updated for inconsistencies. We also noted that internal controls did not prevent the setup of multiple vendor profiles for a single vendor, or input of unauthorized or inaccurate vendor information. As a result, the Town's vendor listing included over 4,400 active vendors. We reviewed detail of the vendor listing noted the following examples:

1. Numerous instances of the same vendor listed multiple times with multiple vendor identification codes
2. Vendors flagged as inactive yet still included on the listing.
3. Businesses listed as active that did not appear to be currently approved vendors of the Town

Section III – Results and Recommendations (Continued)

Finding #2 – continued

4. Missing or incomplete information - approximately 600 businesses (13% of the total vendors on the listing) had incomplete or missing addresses or contact information

As a result, there is an increased risk of duplicate payments to vendors and payments to unauthorized vendors. We observed that the Town took immediate action to purge and update the listing and is in the process of completing this task.

Recommendation
We recommend that the Town complete their current efforts to update the vendor listing and ensure that all vendor masterfile data is current. The listing should be reviewed at least annually, and subject to periodic independent checks by the Finance Director. These quality control procedures should include a comparison of supporting documentation to the masterfile to verify that vendors are properly authorized, are not duplicated, and that information input is accurate and complete.

Management's Action Plan
When we converted to the EDEN software, we transferred the entire vendor file, which is partially the cause for the excessive number of vendors. The Town has taken action to deactivate vendors that have not been used since September, 2007 (date of EDEN conversion). We will also review the vendor list to add missing information and deactivate vendors that are not used.

There are legitimate instances where a vendor will have multiple vendor codes. These occur for utilities (i.e. FPL) and the Palm Beach Post/Daily News accounts where there are multiple accounts for the Town. Having multiple vendor numbers for these accounts avoids the issue of the utility applying the payment to the incorrect account. If there are other vendors with multiple vendor codes, we will investigate each to determine whether the vendor should be deleted or deactivated.

We will make sure the list is reviewed annually and deactivate vendors that have had no activity for the past 3 years.

Individual(s) Responsible: Jane Struder, Finance Director and
Lynda Venne, Purchasing Agent

Due Date: March 31, 2011, and annually thereafter

Section III – Results and Recommendations (Continued)

Finding #3: ***SEGREGATION OF DUTIES***

Risk Rating: ***Low***

Condition
There was an inadequate separation of duties with respect to the purchasing and accounts payable functions. Specifically, we noted the following:

a) Financial personnel with payment processing and authorization capabilities also had the capability to:
   i. change vendor masterfile information within the Eden purchasing module; and,
   ii. setup vendor accounts within the Eden purchasing module.
b) Finance personnel responsible for accounts payable data entry also had custody of the checks prior to mailing of the payments.

A lack of separation of duties between purchasing and accounts payable functions increases the risk that unauthorized purchases or misappropriation of town assets may occur and not be detected in a timely manner.

We noted that the Town does have controls within the accounts payable functions that lessen the risk of disbursements made to phony or "ghost" vendors. Specifically, the basic Eden controls will not allow the same person who inputs payable transaction to also authorize, or "release", the payment.

Recommendation
Because the separation of duties between the purchasing and accounts payable is a key control for the prevention of irregularities, the Town should make every effort to segregate vendor masterfile change capability from and financial-related tasks. Further, individuals who perform accounting, or cash disbursement activities should not also be able to perform purchasing functions, including contact with outside suppliers and the issuance of purchase orders. We recommend that the assignment of user rights in the purchasing and accounts payable software be used to separate the capabilities of creating new vendors and changing vendor information from the activities related to the processing, recording and authorization of payments.

Management's Action Plan
Vendor set-up will be limited to certain purchasing employees and one Finance employee. The Finance employee will be limited to the set-up of vendor numbers for employee reimbursements, travel expenditures, subscriptions, memberships and other payments that do not require a purchase order. The employee will not have invoice approval authority.

Due to recent staff shortages, the accounts payable clerk has been responsible for mailing the vendor checks. This duty will now be delegated to another finance staff member. In addition, all vendor checks will be mailed directly to the vendor unless an exception is approved by the Finance Director, Deputy Town Manager, or Town Manager.

Section III – Results and Recommendations (Continued)

Finding #3 – continued

Individual(s) Responsible: Jane Struder, Finance Director

Due Date: January 1, 2010

Finding #4: ***MANAGEMENT OF PROCUREMENT CARDS***

Risk Rating: ***Low***

Condition

We noted that approximately 25% of the Town employees have been assigned procurement cards ("P Cards") for purchasing goods and services on behalf of the Town. The number and purchasing capacity of outstanding P Cards indicates an increased risk for the circumvention of established procurement policies and procedures for the acquisition of goods and services or that the Town is receiving the most advantageous terms. For example Town policy requires transactions between $1,000 and $5,000 to be supported by verbal (up to $1,999) or written (up to $4,999) quotes; however, it is possible to make purchases within this range because of the high level of purchasing authority.

Although the majority of cards limited single transactions to $1,000, certain cards allowed single purchase transactions of greater than $1,000, as shown below. In addition, there were no controls in place to prevent multiple purchases from a single vendor on the same day.

. Single Transaction Limit ("STL")	Number of Cards
$ 1,500	2
2,000	7
2,500	3
3,000	4
5,000	5
25,000	1
Total	22

Section III – Results and Recommendations (Continued)

Finding #4 – continued

We reviewed the P Card Report and noted the following:

P Card Limit	No. of Cards	Percentage of Total P Cards
$ 5,000	90	80 %
7,500	1	1 %
8,000	7	6 %
10,000	13	12 %
50,000	1	1 %
Total	**112**	**100 %**

We noted that the Town has comprehensive procedures in place for the P card stewardship and transaction processing. Further, after our initial discussion regarding the number and authorization level of outstanding P cards, Management took immediate action to evaluate the outstanding cards. The highest limit card was reported as cancelled and a review performed to identify and cancel cards with no activity as well as the single purchase and authorization levels of active cards.

Recommendation
We recommend that the Town complete its analysis of purchasing card use, including a determination of the necessity of each outstanding P Card and the appropriateness of assigned limits for each card. We also recommend that the monthly purchasing capacity for the majority of cards be reduced unless there is a specific rationale for a higher level based on the needs of the cardholder. For example, we have observed that the majority of Florida municipalities have a monthly limit of no more than $1,000. The single transaction limit should also be analyzed for each card and appropriately lowered.

Management's Action Plan
The Purchasing Cards are used for many small transactions during the year. For FY10 a total of 5,591 transactions occurred through the use of P Cards. The average purchase amount of these transactions was $177. The cards allow us to decentralize procurement for the small transactions. If the cards were not used, additional personnel would be needed in the purchasing division and in accounts payable to handle these transactions.

We have reviewed the number and limits for the purchasing cards and have eliminated some cards and reduced the total monthly limits on the PCards from $666,500 to $352,500.

Section III – Results and Recommendations (Continued)

Finding #4 – continued

Employees with single transaction limits higher than $1,000, are required to have documentation supporting the quotes that are received for the purchase. In the review of the purchasing card limits we have reduced the number of cards with single transaction limits higher than $1,000 from 22 to 10. The higher limit cards are issued to senior management and a few recreation employees responsible for summer camp field trip entry fees.

Each month an employee in Finance reviews all transactions for compliance. Reports are used to determine if any employee split a transaction into two or more in order to avoid obtaining quotes. If we find that this has occurred, we notify the employee, their supervisor and the Director of the violation for appropriate action. If it is determined that the violation is intentional, the Town Manager will determine the appropriate disciplinary action for the employee and his/her Director

Individual(s) Responsible: Jane Struder, Finance Director and
Lynda Venne, Purchasing Agent

Due Date: Completed

Finding #5: ***MANUAL PROCESSING CONTROLS***

Risk Rating: ***Best Practices***

Condition
During our interviews and tests of transactions, we found that although the Finance Department was performing key manual processing controls, there was no documentation to evidence performance of these procedures. For example, while comprehensive reconciliations were performed to ensure that all transactions input into the system were properly processed, the reconciliation and reviews were not evidenced or supporting documentation maintained.

We also noted that although Departments signed off as having reviewed and approved expenditures, for approximately 2% of the Town's total transactions, the scanned invoices attached to the electronic form did not match the accompanying purchase order. Therefore, it did not appear that the authorizing signers actually reviewed the support prior to approving the transaction for payment. In these cases, the Finance Department would typically identify the errors prior to payment.

Recommendation
Documentation evidencing reviews and reconciliations should be maintained to provide an adequate audit trail and as evidence of performance. In addition, authorizing signers should always take due care to review the support documents which support the disbursement they are approving. Such reviews are critical to ensure that purchases are associated with the proper invoice and to help prevent incorrect payments to vendors.

Section III – Results and Recommendations (Continued)

Finding #5 – continued

Management's Action Plan
Staff is currently using a report of approved invoices, due before a selected date, to pull invoices for the check run. This report is checked against the check edit report from the system, after the checks are generated but before printing. This report has been kept in hard copy with the check run batch of invoices. In accordance with this finding, staff will begin initialing the total on the report of approved invoices, once reconciled against the check edit list. This initialed report will be scanned and saved with other reports generated with the weekly check run.

Departments may be reviewing the amounts and other descriptive information on the invoices form within the system without drilling down to the image of the invoice. Before the invoice is fully approved, Finance staff check the image to make sure it matches the invoice in order to ensure that our electronic records are fully accurate and the records point to the correct electronic images, with the future goal of keeping A/P records for past years only in electronic format. It is this image only which has on rare occasions been found not to match the record in the computer. If an error is found, it is corrected by Finance, by attaching the correct invoice image. The Finance Department will send a yearly email to department directors reminding them of the importance of viewing the image of the invoice. If refresher training is provided during the year, this item will also be stressed.

Individual(s) Responsible: Jane Struder, Finance Director and
Amy Wood, Accounting Supervisor

Due Date: Immediate

Finding #6: ***SYSTEM ACCESS***

Risk Rating: ***Best Practices***

Condition
A Finance employee had access (read-only) ability that was not restricted to appropriate employee level and job description. Specifically, a Finance employee did not have payroll-related responsibilities but was able to access the payroll module.

Recommendation
In addition, access capability should be properly restricted to appropriate employee levels and job descriptions. These levels should be periodically reviewed to ensure that access capability is still appropriate for the job responsibilities.

Management's Action Plan
Finance employees are crossed trained on multiple duties in order to assume the duties of other staff members in case of absence. The employee with read-only payroll access has this ability in order to answer simple questions from Town employees (i.e. number of Federal withholdings) when the payroll clerk and supervisor are absent.

Section III – Results and Recommendations (Continued)

Finding #6 – continued

A process has been developed to review the employee access levels on an annual basis to ensure proper segregation of duties.

Individual(s) Responsible: Jane Struder, Finance Director

Due Date: Completed

Finding #7: ***POLICIES AND PROCEDURES***

Risk Rating: ***Best Practices***

Condition
We noted that the Town's Policies and Procedures manual for purchasing and accounts payable were not always indicative of actual procedures and documented incompatible responsibilities for purchasing and accounts payable functions. For example, we noted that certain procurement functions that should be within the control of the Purchasing Division were reported in the manual to be delegated to the Departments, which, if performed in practice, would result in a conflict for proper segregation of duties. We also noted that certain policies were not representative of rudimentary controls or proper procedures that were actually in place and functioning, for example the manual portrayed that purchasing personnel were to assist with financial functions. In addition, the classification between a "policy" and a "procedure" was unclear and at times inconsistent with the proper demarcation between the two.

Recommendation
The Town should consider re-evaluating the purchasing and accounts payable policies and procedures manuals. Policies should be clearly defined from procedures and the procedures should portray the basic tenants of internal control. A government's "policies" represent the basic principles by which the organization is guided: the guidelines formulated and enforced by the governing body to direct and limit actions in pursuit of long-term goals. While "procedures" are specific step by step tasks designed to achieve or support the overall policy – a means to achieve or enforce the policy and to be carried out by the employees on a day-to-day basis. Procedures are not meant to document every single task, or the potential for every task. To this end, the Town may develop less "formal" process documentation if required.

Management's Action Plan
We will review our purchasing and accounts payable policies and procedures to ensure that the tenants of internal control are being met and to determine appropriate modifications.

Individual(s) Responsible: Jane Struder, Finance Director, Lynda Venne, Purchasing Agent, and Cheryl Somers, Assistant Finance Director

Due Date: January 31, 2011

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Town of Palm Beach, Florida

Internal Audit Report

APPENDICES

APPENDIX A – SUMMARY OF SCOPE

The specific procedures performed were based on the concepts of statistical (random) testing. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Further, although for certain areas the specific tests were performed without exception, we can provide no assurance, and do not provide assurance, that exceptions or other matters would not have been detected or come to our attention that would have been reported to you had additional procedures been performed.

Internal controls are designed to provide reasonable, but not absolute assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

The scope of procedures included inquiry, observation and testing of the procurement and accounts payable (disbursements) processes and, based on the concept of selective testing, included,

- "walkthroughs" of internal controls over the cash disbursement cycle to include purchases and accounts payable;
- review of policies and procedures related to purchases, including payments for goods and services;
- interviews of Town personnel;
- testing of procurement and accounts payable transactions within the Eden ERP system; and,
- analysis of the vendor purchase policies.

Although our testing was performed in some areas and for certain procedures without exception, we can provide no assurance that exceptions would not have been detected had procedures been changed or expanded. In addition, certain of our recommendations are based on representations from the Town's Management and other personnel.

APPENDIX B – PROCEDURES

A detailed listing of procedures to achieve the audit objectives is provided below:

Procedures

1. Discussed the following with management:
   a. The process of determining whether authority has been granted to designated individuals for requisitioning goods and services, including quantities and quality specifications, to be ordered from vendors and/or suppliers.
   b. The process of receiving goods and services, including quantities and quality specifications, to be ordered from vendors and/or suppliers.
   c. The process of approving and reviewing related-party purchases and
   d. The process for selecting major vendors and suppliers.
   e. Document the processes, considering the essential control points. Comment on whether the controls are designed effectively, are in operation and are efficient.
2. Obtained policies and procedures relating to purchasing operations and determine whether they provide appropriate guidance and reflect current operations.
3. Obtained information on the individuals authorized to approve the requisition of goods and services and determine whether they perform other incompatible duties. Determined if appropriate individuals are assigned the authority and responsibility for,
   a. selecting vendors and arranging payment terms;
   b. requisitioning goods and services;
   c. receiving/rejecting goods and services;
   d. reviewing and approving related party purchases; and,
   e. Initiating request for payment.
4. Selected a sample of purchases. Determine if purchases were capitalized or expensed in accordance with the organization's policy or procedures. In addition, determine if purchase transactions were executed in accordance with purchasing policy and were properly approved.
5. Selected a sample of related-party purchases. Determined if purchases were reviewed for propriety and accuracy by someone independent of the purchase approval.
6. Determined if an appropriate segregation of duties exists between and among those responsible for purchasing, receiving, recording and disbursing payment for goods and services.
7. Selected a sample of supplier and vendor contracts. Review due diligence information to determine if selected vendors and suppliers were reviewed and selected in accordance with purchasing policy and were properly approved.

APPENDIX B – PROCEDURES

Procedures

8. From discussions with management, determined and documented the various aspects of the process within the scope of the audit area relative to segregation of duties, including: authorization, Recording, Reconciliations. Commented on whether the controls were designed effectively and were placed in operation.

    a. Within the documentation, identified the related responsibilities and applicable individuals involved. Identified if there are any conflicting responsibilities and, if applicable, related compensating controls.

    b. Where segregation of duties was achieved through system settings, the auditor may obtain evidence to support segregation of duties through system settings in this section or in the System Access process.

9. From discussion with management, gained an understanding of the following:

    a. The process to establish access levels to the systems utilized in the area for new and existing personnel. Document management's ongoing review of user access levels as well. Include all kinds of posting access (e.g. set-up and transactional access in the subsidiary ledger, block posting or on-line posting access to the GL, etc.).

    b. The process regarding how personnel access the systems utilized in the area once they have been set up on the system. Consider factors such as how the system recognizes their level of authorization (i.e., is the user's access restricted based on his/her unique user name and password).

10. Obtained a list of employees within the department and, on a sample basis, compare the access rights assigned on the system to their job responsibility profile. Determine if any additional access to the system is appropriate for the job responsibilities assigned to the individual.

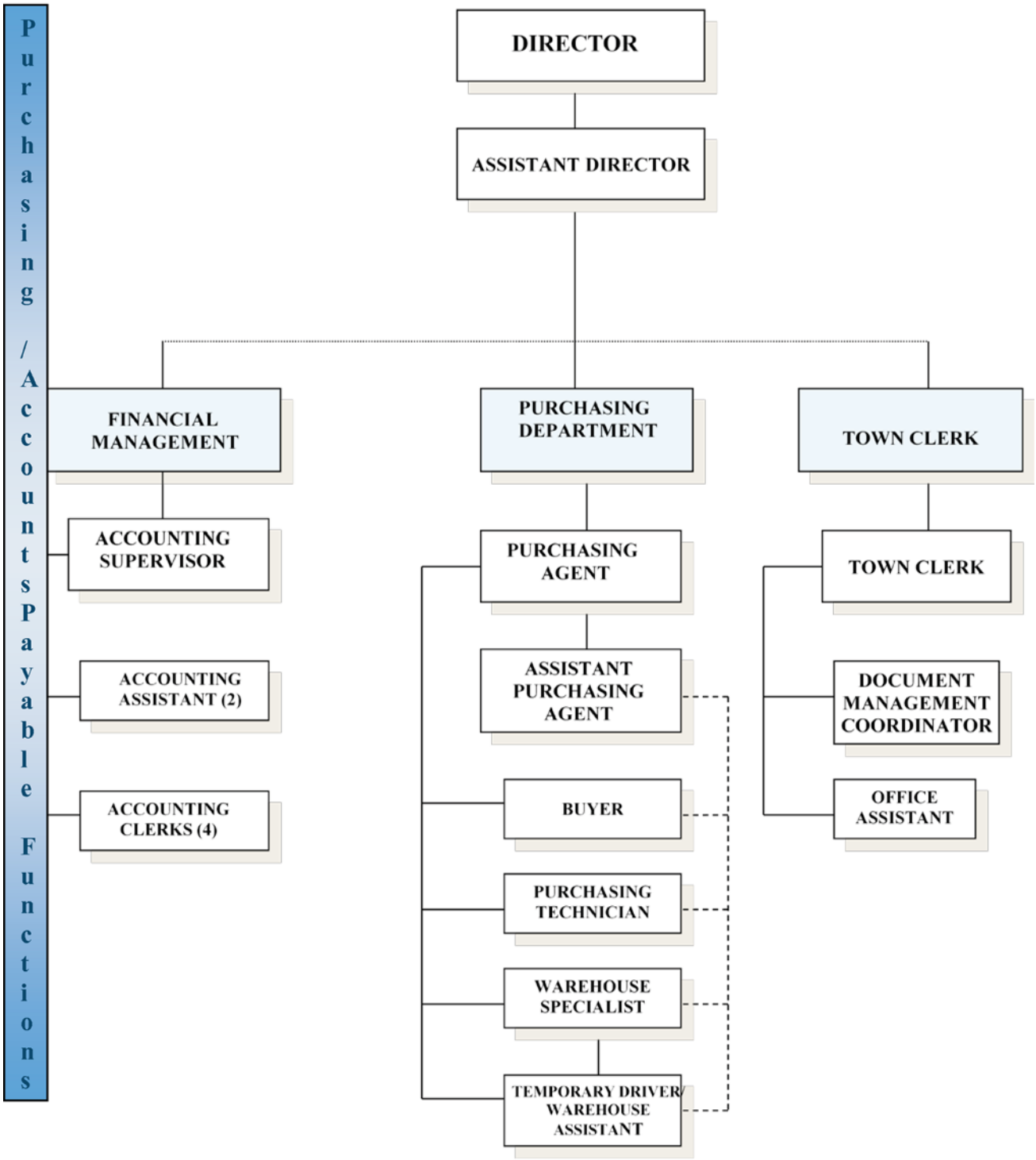
11. Based on discussions with management, documented the process for preparing and reviewing reconciliations. Document the process of researching and clearing reconciling items. Comment on whether the controls are designed effectively and are in operation. Considered, at a minimum, the following :

    a. Who prepares the reconciliation(s) and their other responsibilities within the institution and whether they conflict with the reconciliation process,

    b. Frequency of the reconciliation(s),

    c. Whether an independent review exists, and

    d. The process for researching, resolving and/or elevating reconciling items to management.

12. Discussed with management the procedures in place regarding security over access to the purchasing and accounts payable accounting application/system and data. Determined if purchasing and accounts payable accounting data records were maintained in a secure place to which access was limited to authorized persons.

APPENDIX C – ORGANIZATION CHART