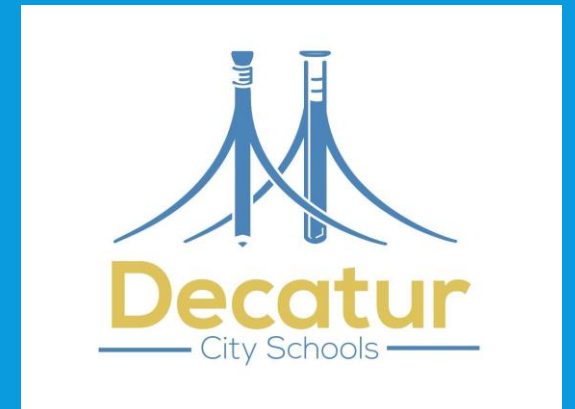


# INTERNAL CONTROLS & THE RELATIONSHIP BETWEEN AP AND PURCHASING

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# INTERNAL CONTROLS

- As servants of public money, we have a great responsibility to utilize the resources provided in the most effective and efficient ways possible while adhering to laws and regulations.
- A strong system of Internal Controls is vital to properly manage these resources.
- Every employee in a school system has some role in effecting internal controls. Roles vary with responsibility, however, Finance Departments play a key role in assuring that high standards of business and ethical practices are followed because they are ultimately responsible for the appropriate use and control of the resources entrusted to them.

# INTERNAL CONTROLS

- Definition...
- Internal controls are procedures and processes put into place by a company to prevent fraud, promote accountability and ensure the integrity of financial data.

# PURPOSE OF INTERNAL CONTROLS

1. Protect Assets
2. Ensure Financial Statement Reliability
3. Promote Operational Efficiency
4. Compliance with Laws , Regulations, and Policies



# PERSONAL – INTERNAL CONTROLS

- Locking your home and vehicle
- Reviewing bills and credit card statement for accuracy before paying them
- Account passwords and PIN numbers
- Securing blank checks, cash and credit/debit cards



# COMPONENTS OF INTERNAL CONTROLS

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring



# CONTROL ENVIRONMENT

- The control environment
  - sets the tone for the organization and influences how employees conduct their activities and carry out their control responsibilities.
  - is the foundation for all other components of internal control and provides structure and discipline.
- An effective control environment must incorporate the following principles:
  - 1) Integrity and ethical values – (Tone from the top)
  - 2) Commitment and competence – (Educating employees on policies & procedures)
  - 3) Attention and oversight provided by Supervisors and Auditors
  - 4) Management philosophy and operating style
  - 5) Organizational structure – (Defined Job Duties)
  - 6) Manner of assigning authority and responsibility – (Clearly Defined Responsibilities)
  - 7) Human Resources policies and procedures – (Training)

# RISK ASSESSMENT

- Risk Assessment is the process of setting objectives; prioritizing and linking those objectives; and identifying, analyzing, and managing risks relevant to achieving those objectives.
- Questions to ask to assess the risk:
  - 1. What could go wrong?
  - 2. What assets (inventory) should we be protecting?
  - 3. What do we do to prevent theft/fraud?
  - 4. How do we know we are achieving our objectives?





# CONTROL ACTIVITIES

1. Preventative Controls – designed to **discourage** errors and/or irregularities
  - Segregation of Duties – includes cross training
  - Approval, Authorizations, and Verifications – view/edit/approve transactions
  - Security of Assets – who has access to cash and/or equipment
  
2. Detective Controls - designed to **find** errors and/or irregularities
  - Physical Inventory – both preventative and detective
  - Audits
  - Reconciliations – budget comparisons (budget to actual) and current to prior period

\*\*Some controls can be both preventative and detective but both are essential to having an effective internal control system.



# INFORMATION AND COMMUNICATION

- **Communication, Communication, Communication – This is key!!!!**
- Communication of expectations, responsibilities, and other matters is necessary for any organization to operate effectively.
- Communication relates to providing a clear understanding of financial reporting and safeguarding controls, how they work, and the responsibilities of individuals within the organization related to those controls.
  - Staff meetings, policy manuals, memoranda, letters, oral communications, etc
- In particular, it is important that management clearly communicate:
  - 1) That internal control responsibilities are a critical part of employees' job duties
  - 2) The roles and responsibilities that each employee has in the internal control system
  - 3) That unexpected events should be investigated, including determining the cause of the event
  - 4) How job activities relate to the work of others.

# MONITORING

- Monitoring is a process that assesses the quality of an organization's internal control over time and involves assessing the design and operation of controls on a timely basis and taking actions as necessary.
- Monitoring activities can also reveal evidence or indicate potential fraud.
  - Annual Audits
  - Spot checking transactions
  - Annual Inventory



# RELATIONSHIP BETWEEN ACCOUNTS PAYABLE AND PURCHASING

- Accounts Payable and purchasing must work closely together to ensure efficiency, cost control and accuracy.
- A Purchase Requisition is the initial request made by an employee (requisitioner) to acquire goods or services. In our world, this could be a:
  - 1.) teacher for their classroom
  - 2.) principal for their school
  - 3.) supervisor for their department
- The purchase requisition is sent to Accounts Payable for approval and the issuance of a purchase order.
- Accounts Payable will check the requisition for:
  1. Coding
  2. Allowable or unallowable items
  3. Approved vendor
  4. Budget allowance



# PURCHASE ORDER

- A Purchase Order is then issued.
- A Purchase Order is a legally binding document authorizing the purchase of goods or services.
- The purchase order is sent to the requisitioner to place the order or to the vendor depending on situation.



# ACCOUNTS PAYABLE-INVOICE

- Once the order is received, the purchaser (requisitioner) signs the purchase order (signifying that the order is complete) and sends it to Accounts Payable.
- Accounts Payable receives the invoice, usually by mail or email from the vendor.
- It is matched to the corresponding purchase order and purchase requisition.
- The invoice is reviewed for any discrepancies from the purchase order.
- Enter invoice in accounting system

# COMMON ISSUES

- Missing documentation for expenditures – Invoice not itemized
- Duplicate payment
- Incorrect amount
- Paying sales tax
- Purchase order created after an invoice



# PURCHASE ORDERS: INTERNAL CONTROLS

- Obtain quotes
- State Contract Pricing
- National Purchasing Cooperatives
- Bids





# PURCHASE ORDERS: INTERNAL CONTROLS

- Employees who creates requisition is different than the employee who creates the purchase order.
- Employee who creates the purchase order does not have access to approve purchase orders.
- Purchase orders are automatically assigned a number from Harris (numbers should be sequential)
- Periodically review encumbrances



# ACCOUNTS PAYABLE: INTERNAL CONTROLS

- Employee who receives invoice is different from the employee who created the purchase order.
- Invoice is compared to purchase order for any discrepancies
- Employee who enters the invoice into Harris should not be the employee who approves the invoice.
- Review AP detail to ensure all invoices listed are truly payables (ex: voided checks)
- Bank Reconciliations



# IMPORTANCE OF PURCHASING AND AP

- Accountable for public money
- Give reliable information in a timely manner
- Ensure compliance with laws and regulations



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