

Generic Inc. Asia Pacific Site Review

October 1998

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Appendix A - Observations & Recommendations

Executive Summary



Internal Audit reviewed operations at the Generic Inc. Singapore and Sydney facilities during August 1998. The objectives of this review were to obtain an understanding of key processes and associated controls; to evaluate the adequacy and effectiveness of key controls; and to assess opportunities for improvement of internal controls and business processes. Overall, processes are operating adequately. However, opportunities to strengthen processes and related controls were noted, as detailed in the summary below.

Process	Features Tested								
	Policies & Procedures	Mgmt. Information	Authorized	Valid	Accurate	Complete & Proper	Timely	Other	Overall
Order Entry	●	▲ (1)	▲	●	●	●	▲	▲	▲
Billing	●	●	●	●	●	●	●		●
Credit & Collections	●	●	●	●	●	●	●		●
Pricing	●	▲	●	●	●	▲	■	▲	■ (2)
Sales Distribution	●	▲	●	▲	●	▲	▲		▲
Commissions	▲	●	▲	●	●	●	●		▲
Supporting Processes - Singapore									●
Payroll	▲	●	●	●	●	▲	▲	▲	▲
Outside Contractors (Temps)	●	●	●	●	●	●	●	●	●
Purchasing	▲	●	▲	●	▲	▲ (3)		▲	▲
Accounts Payable	▲	●	●	●	●	▲ (3)	●	●	▲
Disbursements	▲	●	●	●	●	▲ (4)	●		▲
Travel and Entertainment	●	●	●	●	●	●	●	●	●

● - Process & Controls Adequate ▲ - Improvement Needed ■ - High Priority

Significant Items

- (1) Additional key statistics should be gathered (i.e. RMA's by reason, customer complaints) to enhance the management of the Order Entry process. *See Appendix A, C1*
- (2) Overall pricing processes should be examined and improved. Special Pricing Authorizations should be tracked to facilitate process improvement. *See Appendix A, C7*
- (3) Opportunity exists to improve the controls surrounding the purchasing and accounts payable processes by implementing a purchase requisition system. Management should consider the opportunity for implementing Oracle purchasing functionality. *See Appendix A, C15*



Scope & Work Performed

check writing functionality to increase accuracy. We will continue to support this improvement. See Appendix A,

E3

See Detailed Scorecards for more information.

The following table summarizes the processes reviewed and internal audit procedures performed during this site review:

SCOPE		Control Self Assessment			
		1	Management Interview		
2	Analyze Data		4		
	3			Test	
Process	Description of Process Activities	1	2	3	4
REVENUE PROCESSES					
Order Administration	Order creation and approval	✓	✓	✓	✓
Billing	Generation of invoices for goods shipped / services rendered	✓	✓	✓	✓
Credit and Collections	Approval of customer credit limits; collection of open invoices	✓	✓		✓
Pricing	Maintenance/Approval of pricing data (including controls over special pricing)	✓	✓		✓
Sales Distribution	Monitoring of sales and distribution channels		✓		
Commissions	Calculation of sales commissions	✓	✓		
EXPENDITURE PROCESSES					
Payroll	Hiring and maintenance of full time and temporary employees paid via payroll	✓	✓	✓	✓
Outside Contractors (Temps)	Hiring, maintenance and payment of temporary agency labor		✓		✓
Purchasing	Procurement process	✓	✓		✓
Accounts Payable	Vouchering and verification of invoices	✓	✓	✓	✓
Disbursements	Generation of checks and release of wire transfers for approved invoices		✓		✓
Travel and Entertainment	Processing of employee expense reports from receipt of report to payment	✓	✓		✓

- 1 - Completion of questionnaire documenting management's assessment of process performance, controls and issues.
- 2 - Interview of key management to obtain understanding of process operation, controls and key issues.
- 3 - Analysis of database information to assess process performance.





④ - Detail testing of sample transactions to confirm operation of key controls.

Detailed Scorecards

Order Entry

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	●	<ul style="list-style-type: none"> Process flow and related controls are well documented. 	
Management Information	Management receives accurate and relevant information.	▲	<ul style="list-style-type: none"> Additional key statistics should be retrieved to enhance management of the Order Administration process. Manual credit memo activity should be tracked to enhance process control and facilitate process improvement. 	C1 C2
Authorization	Transactions are authorized by appropriate personnel.	▲	<ul style="list-style-type: none"> Inadequate segregation of duties exists. Risk is increased that a single user could process unauthorized or invalid transactions. 	C3
Validation	Transactions are based on valid sales and returns transactions.	●	<ul style="list-style-type: none"> Order entry personnel review order documentation before orders are processed. Credit & Collections personnel release orders for shipping to new customers. 	
Accuracy	Transactions are accurately processed based on information provided by sales agents and customers.	●	<ul style="list-style-type: none"> No significant items noted during detail testing. Low volume of corrections and customer complaints indicates adequate clerical accuracy. 	
Completeness	Process captures all sales. All product ordered has been shipped.	▲	<ul style="list-style-type: none"> The Order Backlog report is not being reviewed by Order Administration or being communicated to sales. As of 8/14/98, the report had over 200 sales orders on it, many dating back more than a month. 	C4
Proper Process	The proper process is followed for the entirety of the transaction.	●	<ul style="list-style-type: none"> Detailed testing indicated that the processes are being adhered to. Order Administration understand the process for each order type. 	

Order Entry



Feature	Feature Description *	Rating	Explanation	Xref ^
Timeliness	Transactions are processed in a timely, efficient manner. Exceptions (i.e. no P.O.) are dealt with promptly. Goods are shipped in a timely manner.	▲	<ul style="list-style-type: none"> Testing indicated that orders are processed through Order Administration in a timely, efficient manner; however, a large number of orders have not been shipped. Many orders date back more than a month. 	C4
Other	Special Pricing Authorization (SPA)	▲	<ul style="list-style-type: none"> SPA activity is tracked on a manual log. Therefore, key statistics are not easily maintained. 	C5
	Rams	▲	<ul style="list-style-type: none"> The RMA process does not require that scrapped goods be verified by a third party. 	C6
	High Volume Transactions	▲	<ul style="list-style-type: none"> Opportunity exists to develop special processes for high volume customers and transactions to streamline processing / minimize processing time. 	E1

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	●	<ul style="list-style-type: none"> Billing is integrated with the Oracle Order Entry process. A reconciliation is done to ensure all goods shipped have been invoiced. 	
Management Information	Management receives accurate and relevant information regarding billing.	●		
Authorization	Invoices are authorized by appropriate personnel.	●		
Validation	Invoices created are based on valid orders that have been confirmed as shipped.	●		
Accuracy	Invoices are accurately created based on information in the originating sales order.	●		
Completeness	All items shipped are billed.	●		
Timeliness	Invoices are created in a timely, efficient manner.	●		

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. Related comments in Appendix A – Observations and Recommendations

Credit and Collections



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear corporate guidelines and procedures dictating how process is to function.	●	<ul style="list-style-type: none"> Worldwide policy as created by corporate is documented. 	
Management Information	Management receives accurate and relevant information regarding Credit and Collections activity.	●	<ul style="list-style-type: none"> Local offices receive Accounts Receivable aging reports on a regular basis. 	
Authorization	New customers are approved by the credit review process; any deviation from credit limits/terms must have appropriate approval.	●	<ul style="list-style-type: none"> Proper credit levels are established and authorized through Credit and Collections in Cupertino. 	
Validation	New customers accepted by Credit are valid entities/reasonable credit risks.	●	<ul style="list-style-type: none"> New customers with a sale order greater than \$500 are subject to credit review. 	
Accuracy	Sales Order information used by Credit during the review process is accurate.	●	<ul style="list-style-type: none"> Credit process is integrated with the Oracle Order Entry module. 	
Completeness	Sales Orders are subject to appropriate level of credit review.	●	<ul style="list-style-type: none"> Orders are automatically placed on hold in Oracle (preventing shipment of product) unless a valid credit limit is established. Orders on hold must be released by Credit in order for product to be shipped. 	
Timeliness	New customers are reviewed in a timely manner. Payment collection is adequately managed to reduce amount of aged accounts.	●	<ul style="list-style-type: none"> Orders are reviewed daily and are released from credit hold as soon as credit is approved. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Policies and Procedures are well documented and communicated to staff.	●	<ul style="list-style-type: none"> Adequate policies and procedures exist. 	
Management Information	Management has access to relevant and correct information to manage and improve the Pricing function.	▲	<ul style="list-style-type: none"> SPA activity is not being tracked and communicated to management to facilitate process improvement. 	C5,C7
Authorization	Prices are authorized by appropriate personnel.	●	<ul style="list-style-type: none"> Prices are authorized by management in the Asia Pacific region. 	
Validation	List prices in Oracle are valid.	●	<ul style="list-style-type: none"> Comparison done between prices sent and entered into Oracle 	
Accuracy	Price changes are entered into the database accurately.	●	<ul style="list-style-type: none"> Comparison done between prices sent and entered into Oracle. 	
Completeness	All price changes flow through the appropriate process.	●	<ul style="list-style-type: none"> Price change responsibilities are centralized with a Pricing Analyst in Sydney. 	
Proper Process	Pricing processes are effective.	▲	<ul style="list-style-type: none"> Overall process and controls should be improved to ensure timely availability and update of pricing data. Customers continue to order obsolete items. 	C7 C8
Timeliness	Price changes are updated in a timely manner.	■	<ul style="list-style-type: none"> Pricing update information is not consistently available in a timely manner. Control should be increased and process should be streamlined and/or automated. 	C7
Other (Efficiency)	Pricing process is efficient and effective.	▲	<ul style="list-style-type: none"> Pricing strategy and related processes should be reviewed. Overall process should be automated 	C7

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in [Appendix A – Observations and Recommendations](#)

Sales Distribution



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Process is adequately documented.	●	<ul style="list-style-type: none"> Data collection process is well defined. 	
Management Information	Management has adequate information to monitor process efficiency and effectiveness.	▲	<ul style="list-style-type: none"> Required information is not being provided by distributors in a timely manner. Several distributors in Asia Pacific are not providing inventory reports at all. 	C9
Authorization	Management authorizes the payment of rebates to customers.	●	<ul style="list-style-type: none"> Rebate data reviewed by management before release. 	
Validation	Sell-through data provided by the customer is valid.	▲	<ul style="list-style-type: none"> Management should consider implementing periodic site inspections to test the accuracy of data received from key customers. 	C9
Accuracy	Sell-through data provided by the customer is accurately included in the sell through database and report.	●	<ul style="list-style-type: none"> Data from significant customers is provided electronically via Excel spreadsheets, minimizing the risk of clerical errors. 	
Completeness	Process ensures all entities that should provide sell-through information do provide such information.	▲	<ul style="list-style-type: none"> Sell through information is not received on a regular basis from all customers and is not tracked. 	C9
Timeliness	Process is executed within a reasonable time frame.	▲	<ul style="list-style-type: none"> Incentive to provide timely data built into rebate structure; however, data is still not being retrieved on a timely basis. 	C9

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority
 * Column describes the appropriate process for the feature.
 ^ Xref. related comments in Appendix A – Observations and Recommendations

Commissions



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	▲	<ul style="list-style-type: none"> No written policies and procedures exist outlining the current process. 	C10
Management Information	Management receives accurate information to calculate commission payments.	●	<ul style="list-style-type: none"> Finance Australia frequently receives revenue data from Cupertino. Final quarter-end revenue data is received within two weeks following the end of the quarter. 	
Authorization	Commission payments are authorized by management prior to payment.	▲	<ul style="list-style-type: none"> No formal authorization process occurs for end of quarter revenue adjustments. 	C11
Validation	Commissions are based on valid sales transactions.	●	<ul style="list-style-type: none"> Majority of commissions payments calculated using information available directly from Oracle 	
Accuracy	Commissions calculations are accurate.	●	<ul style="list-style-type: none"> Testing indicated that commission calculations are accurate. 	
Completeness	Commissions are calculated for all relevant sales persons / sales.	●	<ul style="list-style-type: none"> All relevant sales persons are accounted for. 	
Proper Process	Commissions are calculated using an appropriate methodology.	●	<ul style="list-style-type: none"> Appropriate methodology is followed. 	
Timeliness	Commissions are calculated on a timely basis.	●	<ul style="list-style-type: none"> Commissions calculated within appropriate time frame following the quarter end. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Supporting Financial Processes - Singapore

Feature	Feature Description *	Rating	Explanation	Xref ^
Purchasing	Procurement process from the time a PR is created through the creation of a valid PO.	●	<ul style="list-style-type: none"> Risk mitigated by use of centralized disbursements / accounting in Cupertino. The Asia Pacific Controller noted that there may be control risk associated with the regional A/P processes due to certain fields not being entered into Oracle in Cupertino (i.e. risk of duplicate payment if invoice detail not entered). No exceptions noted in testing. 	
Accounts Payable	Verification and approval of invoices.	▲		
Payroll	Hiring and maintenance of full time and temporary employees paid via payroll.	●		
Travel & Entertainment	Processing of employee expense reports from receipt of report to approval of payment.	●		
Fixed Assets	Identification and tracking of capital purchases.	●		

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	▲	<ul style="list-style-type: none"> Clear, documented policies and procedures do not exist for the payroll function. 	C12
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Adequate monitoring processes are in place. 	
Authorization	Payment of wages authorized by management.	●	<ul style="list-style-type: none"> Controllers authorize ListPay Schedule for payment of wages. 	
Validation	Wages paid to bonafide workers for work actually performed.	●	<ul style="list-style-type: none"> Management reviews the draft and final Timesheet by Employee Schedule and Payroll Journal Listing Report. 	
Accuracy	Wages paid accurately calculated based on hours worked and management approved salary.	●	<ul style="list-style-type: none"> Management reviews the Payroll Journal Listing Report for clerical accuracy. Controllers, Vice President and Human Resources approve all salary increases and salary package for new employees. 	
Proper Process	Payment via payroll process is appropriate.	▲	<ul style="list-style-type: none"> The current payroll service used to calculate tax rates for Australia does not provide adequate service. Multiple clerical errors have been noted. An added step occurs in Sydney to finalize payment. 	C12
Timeliness	Wages paid in a timely manner.	▲	<ul style="list-style-type: none"> Performance evaluations are not being completed in a consistent, timely manner. Retroactive calculations and payments result. 	C13

Payroll



Feature	Feature Description *	Rating	Explanation	Xref ^
Other (Vacation Accrual)	Process used to calculate vacation accrued and used is appropriate.	●	<ul style="list-style-type: none"> The process to track vacation is adequate. 	
Other (Efficiency)	Process is cost-effective and minimizes time spent.	▲	<ul style="list-style-type: none"> A central payroll process occurs in Cupertino. A separate service is used to calculate tax rates. Generic Inc. Sydney finalizes payment through Westpac. Opportunity exists to improve efficiency. 	E2

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority
 * Column describes the appropriate process for the feature.
 ^ Xref. related comments in Appendix A – Observations and Recommendations

Outside Contractors (Temporary Agency)



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	●	<ul style="list-style-type: none"> Clear guidelines and procedures for the process exist. Established relationship exists with employment agencies to employ independent contractors. 	
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Adequate information is received by management. 	
Authorization	Management authorizes hiring.	●	<ul style="list-style-type: none"> Controller, HR Manager, and Departmental Management authorize the Employment Requisition Form for outside contractors. Management is actively involved in the interview process. 	
Accuracy	Billings accurately reflect time actually worked.	●	<ul style="list-style-type: none"> Controller or Human Resources review and authorize timesheets produced by employment agency. 	
Completeness	Process adequately captures all activity.	●	<ul style="list-style-type: none"> No exceptions noted in testing. 	
Proper Process	Process is appropriate for transactions processed.	●	<ul style="list-style-type: none"> Adequate segregation of duties between the payment and processing of transactions. 	
Timeliness	Process operates within a reasonable time frame.	●	<ul style="list-style-type: none"> Adequate involvement throughout the process. Payments made through A/P on a timely basis. 	
Other (Agency Labor Severing)	Access to Generic Inc. physical and information assets is removed at the completion of the work relationship.	●	<ul style="list-style-type: none"> Use of ground floor by key access only. Outside contractors are not issued keys. User access to IT system is terminated upon completion of contract. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	▲	<ul style="list-style-type: none"> Procedures for the purchasing process are not clearly defined. Guidelines and procedures should be documented in a procedure manual. 	C14
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Asia Pacific controller has adequate visibility into process effectiveness and efficiency. 	
Authorization	Management authorizes PO's and PR's prior to the commitment of funds.	▲	<ul style="list-style-type: none"> No local signatory limits exist identifying those personnel who can authorize a purchase by signing an invoice. 	C16
Validation	Purchases are for valid programs / business purposes.	●	<ul style="list-style-type: none"> Detailed monthly departmental budgets approximate purchasing requirements. 	
Accuracy	Items ordered are accurately recorded on PO's.	▲	<ul style="list-style-type: none"> Purchase orders are not utilized. 	C15
Completeness	All items that should be processed via PO are processed via PO.	▲	<ul style="list-style-type: none"> Purchase transactions are processed by accounts payable on receipt of an authorized invoice. Purchase orders are not used. 	C15
Proper Process	Items processed via PO represent items that should be processed via PO.	▲	<ul style="list-style-type: none"> No guidelines exist surrounding this process. Purchase requisitions and purchase orders are not utilized. 	C15
Timeliness	<ul style="list-style-type: none"> Purchasing is involved throughout the procurement process. PO is processed timely. 	N/A		



Feature	Feature Description *	Rating	Explanation	Xref ^
Other (Corporate Budgeting)	Management review of budgets vs. actual performance provides a strong detective control of the validity and accuracy of transactions.	●	<ul style="list-style-type: none"> Controller reviews budget vs actual expenses on a regular basis to monitor purchases. 	
Other (Vendor Management)	The vendor pool is effectively managed to maintain an optimum number of vendors and to ensure appropriate quality.	▲	<ul style="list-style-type: none"> Established relationship exists with key suppliers, however, no established criteria are reviewed to determine if new vendors should be used. 	C17

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority
 * Column describes the appropriate process for the feature.
 ^ Xref. related comments in Appendix A – Observations and Recommendations

Accounts Payable



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	▲	<ul style="list-style-type: none"> Clear guidelines and procedures for the account payable process do not exist. Guidelines and procedures should be documented in a procedure manual. 	C14
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Asia Pacific controller has adequate visibility into process effectiveness and efficiency. 	
Authorization	Invoices are authorized for payment by an appropriate level of management.	●	<ul style="list-style-type: none"> Controller and department manager authorize all invoices. 	
Validation	Disbursements are made for goods and services actually received.	●	<ul style="list-style-type: none"> Invoices are approved for payment when goods and services are actually received. 	
Accuracy	Disbursements are for proper amounts and to appropriate parties.	●	<ul style="list-style-type: none"> Invoice details including supplier name and amount are matched to the check. Check details including payee, check date and amount are verified. 	
Completeness	Process captures all required payments.	▲	<ul style="list-style-type: none"> Checks are prepared manually and authorized payments are recorded manually in the accounts payable ledger. 	E3
Proper Process	Transactions are processed using correct method: PO, expense report or check request.	▲	<ul style="list-style-type: none"> No guidelines exist surrounding this process. Purchase requisitions and purchase orders are not utilized. 	C15
Timeliness	Invoices are paid in a timely manner.	●	<ul style="list-style-type: none"> Invoices are paid within the trading terms specified by suppliers. 	
Other (Corporate Budgeting)	Management review of budgets vs. actual performance provides a detective control of the validity, accuracy and validity of transactions.	●	<ul style="list-style-type: none"> Controller reviews Monthly and Quarterly Budget vs Actual Expense Report by Department. Functional managers are provided these reports on a regular basis. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

^ Xref. related comments in Appendix A – Observations and Recommendations

Disbursements



Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	▲	<ul style="list-style-type: none"> Clear guidelines and procedures for the disbursements process do not exist. Guidelines and procedures should be documented in a procedure manual. 	C14
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Management receives adequate information to monitor the process. 	
Authorization	Disbursements authorized by management.	●	<ul style="list-style-type: none"> All checks are authorized by the Asia Pacific controller. 	
Validation	Disbursements represent valid expenses.	●	<ul style="list-style-type: none"> All invoices paid are based on an authorized invoice or check request. 	
Accuracy	Disbursements are for proper amounts.	●	<ul style="list-style-type: none"> Testing indicated that disbursements equal the amount on the invoice. Invoice details including supplier name and amount are matched to the check. 	
Completeness	Disbursements authorized are executed.	▲	<ul style="list-style-type: none"> Checks are prepared manually and authorized payments are recorded manually in the accounts payable ledger. 	E3
Proper Process	Disbursements are transacted using appropriate process via check, wire transfer, or direct deposit.	●	<ul style="list-style-type: none"> Payments are made using appropriate process. 	
Timeliness	Disbursements are made in a timely manner.	●	<ul style="list-style-type: none"> Invoices are paid within the trading terms specified by suppliers. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.

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Travel and Entertainment

Feature	Feature Description *	Rating	Explanation	Xref ^
Policies & Procedures	Management has developed clear guidelines and procedures dictating how process is to function.	●	<ul style="list-style-type: none"> Clear guidelines and procedures for the account payable process exist. 	
Management Information	Management has adequate information to monitor process effectiveness and efficiency.	●	<ul style="list-style-type: none"> Management receives adequate information. 	
Authorization	Reimbursements authorized by appropriate level of management.	●	<ul style="list-style-type: none"> Departmental Management approves all reimbursements. Controller reviews all reimbursements for reasonableness. 	
Validation	Reimbursements represent goods/services received for valid business purposes.	●	<ul style="list-style-type: none"> The validation process is adequate. 	
Accuracy	Reimbursement amounts accurate based on receipts/supporting documentation.	●	<ul style="list-style-type: none"> Departmental Management checks the Expense Claim Schedule for sufficient supporting documentation and clerical accuracy. 	
Proper Process	Use of expense report process for reimbursements is appropriate. Reimbursement does not include items that should be procured via a PO.	●	<ul style="list-style-type: none"> Adequate involvement throughout the process. Payments made through A/P on a timely basis. 	
Timeliness	Expense reports are processed in a timely manner.	●	<ul style="list-style-type: none"> Associate Accountant reviews a monthly American Express Card Member Spending Exception Report and emails employees with amounts that are outstanding for more than 40 days. 	
Other (Corporate Budgeting)	Management review of budgets vs. actual performance provides a detective control of the validity, accuracy and validity of transactions.	●	<ul style="list-style-type: none"> Controller reviews Monthly and Quarterly Budget vs Actual Expense Report by Department. 	

● - Process & Controls Adequate ▲ - Improvement Needed ■ -High Priority

* Column describes the appropriate process for the feature.



^ Xref. related comments in Appendix A – Observations and Recommendations

Appendix A

Observations and Recommendations



Area	#	Observation(s)	Recommendation(s)
CONTROL POINTS			
Order Entry	C1	Key statistics are not being tracked. Tracking of key performance statistics would facilitate process improvement and enhance the management of the Order Administration process.	Management should identify and track certain key statistics to identify process weakness and process improvement opportunities. Examples of statistics to track include the following: <ul style="list-style-type: none"> • Number of sales orders processed per personnel • Customer complaints by reason • RMA's processed and outstanding • Time between order entry and fulfillment of shipment
Order Entry	C2	Credit memo activity is not being tracked. The tracking of credit memos by reason is a key tool for process monitoring and improvement.	I. Key statistics on credit memo activity should be maintained to identify high-risk transaction activity and opportunities for process improvement. The following statistics should be tracked by both value and number of credit memos: <ul style="list-style-type: none"> • Reason type (e.g., price error, shipment error, etc.) • Activity by sales agent • Activity by sales region • Activity by customer type (e.g., DIST, OEM, etc.) • Activity by product type (e.g. VLP, boxed product, etc.) • Activity by Order Administration personnel II. Exception reports should be created to focus management attention on specific "high risk" or unusual transactions. For instance, a report summarizing material credit memos (e.g., greater than \$5,000) sorted by customer, sales agent, and OA staff could be reviewed by management to identify unusual activity or trends.



Area	#	Observation(s)	Recommendation(s)
Order Entry	C3	<p>Order Administration personnel have broad system access rights for many processing duties including the following:</p> <ul style="list-style-type: none"> • Customer Set-Up • Sales Order Creation • Price Change • RMA Creation and Receipt • Credit Memo Creation <p>The lack of system and process segregation of duties increases the risk that unauthorized transactions could be processed and remain undetected.</p>	<p>Management should increase process control using the following strategies:</p> <ul style="list-style-type: none"> • Review Order Administration system responsibilities and adjust system access rights and / or job requirements as necessary. • Implement mitigating controls such as the use of exception reports to monitor activity of individuals with incompatible job duties or access rights. For example, an exception report listing RMAs created and manually closed by the same Order Administration person could be used by management to monitor "high risk" transactions. • Identify possibilities of separating functional responsibility. For example, allow only the Order Administration manager the ability to input RMA receiving transactions into the Oracle system.
Order Entry	C4	<p>The Oracle Order Backlog is not being utilized by Order Administration, nor is the information disseminated to sales personnel to effectively manage outstanding orders. This increases the risk that customers will not receive orders in a timely manner or that delayed shipment of orders will not be adequately communicated to customers.</p>	<p>The following steps should be taken to ensure that order backlog is resolved in a timely manner:</p> <ul style="list-style-type: none"> • The Order Backlog report should be run on a consistent basis. • Items on "hold" (i.e. customer on credit hold) should be reviewed by Order Administration management and dealt with in a timely manner. • The report should be disseminated to sales management personnel to effectively track orders outstanding.



Area	#	Observation(s)	Recommendation(s)
Order Entry	C5	The tracking of Special Pricing Authorizations (SPA) is paper based and relies on a handwritten log for tracking. This increases the risk that SPA's will not be readily accessible when processing orders and increases the difficulty of tracking SPA's.	Information technology should be used to ensure SPAs are properly authorized and adequately tracked. Lotus Notes or another database strategy (e.g., Oracle) should be used to implement this recommendation. Until a fully automated process can be implemented, the current paper log should be replaced by an electronic log (e.g., an Excel spreadsheet) located on the network. The electronic log could be sorted in a variety of ways (e.g., SPA number; SPA authorizing manager; product, etc.) to aid personnel in locating SPAs during order processing.
Order Entry	C6	The current RMA process does not require that a third party witness the destruction of goods. Therefore, the risk exists that a credit memo will be issued for goods that still exist in the market.	A policy should be documented which requires a third party verify that goods are destroyed before an RMA is closed and a credit memo is issued. A certain dollar limit should be established which indicates when a third party certification must be received. For low dollar RMA's, the current process of receiving customer verification that the product has been destroyed will be sufficient. Additionally, management should determine guidance as to when the sales representatives should be involved in this process.



Area	#	Observation(s)	Recommendation(s)
Pricing	C7	<p>Pricing is a manual process involving multiple personnel and geographic regions. Due to the complexity of the Generic Inc. pricing strategy and the manual nature of the process, risk of inaccurate or out-dated prices being used in order administration or at the customer facility is increased.</p> <p>Despite the large amount of time spent maintaining the price lists, testing indicated that Special Pricing Authorizations (SPA's) are still used frequently.</p>	<p>The overall pricing process should be examined to identify key weaknesses impacting the accuracy and efficiency of the sales and order creation processes.</p> <p>Areas to consider include:</p> <ul style="list-style-type: none"> • Simplifying pricing methodology such that a single standard price list exists for all products. The price list should be subject to an adjustment index (e.g., exchange rate) to reflect prevailing price levels in various geographic locations. • Increasing efficiency in the SPA process by using minimum prices indexed to geographic area such that prices greater than the minimum require no special authorization. Minimum price levels should be adjusted quarterly based on historical sales/SPA data and prevailing economic conditions. • Enhanced systems to facilitate direct transmittal of pricing data to Oracle. • Producing reports summarizing pricing exceptions by reason to facilitate process improvement.
Pricing	C8	<p>Opportunity exists to improve the process of communicating that products have been designated obsolete. Instances were noted in which customer purchase orders contained obsolete product.</p>	<p>These processes should be reviewed by management and the process for communicating obsolete products to Order Administration, Sales, and customer personnel strengthened. Additionally, the process should ensure the Regional Product Managers (RPM) notify this appropriate personnel to facilitate timely dissemination of information.</p>



Area	#	Observation(s)	Recommendation(s)
Sales Distribution	C9	Currently, Sales Distribution data is not being compiled on a weekly basis in Asia Pacific. Additionally, the data validation process should be improved to ensure data reliability.	<p>Customers should be consistently pursued / held accountable to provide required Sales Distribution data. This data is important for determining inventory levels at the customer locations and related sell through statistics.</p> <p>Site visits to significant vendors should be performed periodically to review the accuracy of vendor reported data.</p>
Commissions	C10	No written policies and procedures exist outlining the current commissions process.	<p>Formal policies and procedures should be established to ensure that the commissions process is understood and followed. The policies and procedures should include the following areas:</p> <ul style="list-style-type: none"> • Steps necessary in developing the commission plan • Calculation of the commission payments • Payment of draws and commissions to employees
Commissions	C11	No formal authorization process occurs for end of quarter commission related revenue adjustments. This increases the risk that unauthorized transactions will be processed, and that future tracking of the adjustment will not occur.	A formal commissions adjustment authorization process should be established. Sales representatives should be required to complete an adjustment request form and have it approved by the sales manager. Further approval should be established as necessary. The process should also ensure that adjustments are tracked to facilitate process improvement and control.
Payroll	C12	Clear, documented policies and procedures do not exist for the Human Resource or payroll functions.	<p>Develop formal policies and procedures that outline the following processes:</p> <ul style="list-style-type: none"> • New hire • Employee termination • Employee evaluation <p>Policies and procedures should also address the role of the finance department in the payroll process.</p>



Area	#	Observation(s)	Recommendation(s)
Payroll	C13	Performance evaluations are not being completed in a consistent and timely manner. Retroactive calculations and payments result.	HR should be given the responsibility to initiate and monitor the evaluation process. A deadline should be set when performance evaluations are due. Managers who are not completing timely evaluations should be held accountable. This will help ensure the Peoplesoft payroll data is updated and minimize the need to calculate retroactive payments.
Purchasing, Accounts Payable, and Disbursements	C14	Clear, documented policies and procedures do not exist for the purchasing, accounts payable, and disbursements processes.	<p>Develop clear policies and procedures that outline the steps for purchasing, accounts payable and disbursements.</p> <p>Policies should address the following areas:</p> <ul style="list-style-type: none">• Vendor selection process (including criteria for determining when competitive bidding or sole source justification is required)• Vendor maintenance• Purchase Requisition (PR) creation and review• Criteria dictating when various procurement / payment methods must be used (e.g., PO, check request, etc.).• Processing of invoices <p>Also, a stratified review process should be implemented in which larger invoices and disbursements are subject to greater scrutiny than smaller / recurring invoices.</p>



Area	#	Observation(s)	Recommendation(s)
Purchasing and Accounts Payable	C15	<p>Opportunity exists to improve the purchasing process. The transfer of invoices between the finance and marketing, sales and information technology departments increases the possibilities for invoices to be misplaced.</p> <p>In addition, the difficulty of matching quantity of goods or services received to the original order placed increases the risk of fraudulent expenditure by employees and unintentional excessive expenditure.</p>	<p><i>Short-term</i> A manual purchase requisition should be used to document purchases and approvals prior to commitment. Subsequent receipts of goods and services should be documented on the original manual PR. The document should then be forwarded to accounts payable.</p> <p>This document will then serve as a support for payment when the invoice is received, and eliminate the need for invoice approval by management.</p> <p>Upon receipt of the invoice, accounts payable can match the invoice to the manual PR, and process the transaction.</p> <p><i>Long-term</i> Develop and implement an integrated purchasing and accounts payable system. Some of the features of such a system include (1) automatic matching of purchase orders and invoices (2) supplier performance reporting (3) automatic accrual processing (4) exception reporting This functionality is available in the Oracle System.</p>
Purchasing	C16	No expenditure approval limits exist for purchasing commitments. This increases the risk that unauthorized personnel will purchase goods for the company.	Identify and document approval limits and signatory authorities. Create a matrix by department for those personnel who should be given this authority.



Area	#	Observation(s)	Recommendation(s)
Purchasing	C17	Key statistics on service providers and suppliers of goods are not maintained. The collation of vendor performance statistics is key to the adequate management of vendor relationships.	<p>Document vendor profiles for each key vendor. Criteria should include price competitiveness, quality of the product/service and delivery capabilities.</p> <p>Identify possibilities of establishing relationships with new vendors to ensure receiving the best quality and price.</p>
EFFICIENCY POINTS			
Order Entry	E1	<p>Opportunity exists to improve order processing by implementing modified processes for significant customers / transaction types. For example, during the last 10 months, Tech Pacific has generated over 20% of the sales orders and more than 30% of the dollar sales.</p> <p>Implementation of electronic orders with Tech Pacific and/or streamlined processing methods (e.g., decreased documentation requirements) would increase overall process effectiveness and compress processing cycle time.</p>	<p>A process whereby transaction activity data is analyzed quarterly to identify opportunities for improved process efficiency should be implemented. Data should be summarized to identify the number of sales orders, value of sales orders and estimated processing time in labor hours by transaction type and customer.</p> <p>* High volume complex processes (e.g., transaction types that require a significant amount of labor in OA) should be evaluated to identify opportunities to compress cycle time and improve efficiency.</p> <p>* Customers who initiate a high volume of sales orders should be identified and opportunities to streamline or automate the processing cycle investigated. Possible strategies include electronic commerce and abbreviated approval/documentation requirements.</p>
Payroll	E2	Opportunity exists to improve payroll processing. Inaccurate processing by the current Australia/New Zealand tax payroll service has delayed past payroll runs. The service also does not distribute or fund employee paychecks.	Research and evaluate the services of outsource payroll agencies. Consider factors such as client base of the agency, services offered, rates and reputation within the industry.



Area	#	Observation(s)	Recommendation(s)
Accounts Payable and Disbursements.	E3	Presently, the assistant accountant manually writes all checks. This is inefficient and increases the risk of errors and payment delays.	To improve the efficiency and effectiveness of the process, develop and implement an automatic payment system. This functionality is available in the Oracle system. The process should include the following attributes: <ul style="list-style-type: none"><li data-bbox="1199 435 1921 496">• Diary triggers to notify the assistant accountant of invoices that are due for payment.<li data-bbox="1199 500 1598 529">• Computer generation of checks<li data-bbox="1199 532 1808 561">• Automatic update of the accounts payable ledger