

INTERNAL CONTROLS AND THE PURCHASING OFFICE

WHAT IS INTERNAL CONTROL?

Internal Control

Internal control is an interlocking set of activities that are layered onto the normal operating procedures of an entity, with the intent of safeguarding assets, minimizing errors or fraud, promoting accountability and ensuring that operations are conducted in an approved and efficient manner.

Components of Internal Control

- Control Environment
- Communication
- Risk Assessment
- Control Activities
- Monitoring

THE PERSPECTIVE OF MANAGEMENT

Focus on the Entity as a Whole

Management must ensure achievement of objectives and Auditors will test:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with laws and regulations

HCDE Financial Operating Guidelines FY 2020-2021/Internal Controls

Types of Controls

Preventive Controls:

- Segregating duties
- Requiring approvals
- Securing assets
- Password protection
- Using document control numbers
- Testing for drugs

Types of Controls

Preventive Controls:

- Positive pay system
- Rotating jobs and duties
- Backing up computers
- Lockbox system
- Pre-employment testing
- Pre-employment background checks

Types of Controls

Detective Controls:

- Written confirmations
- Reconciliations
- Management reviews
- Surprise cash counts
- Counting inventory
- Hot lines

HCDE Management Review Example

P-Card Manual

- Ensure Monthly Review and Segregation of Duties

Assign a knowledgeable individual acting in a supervisory capacity (usually the Division Director/Budget Manager) to the cardholder as the Approving Official for each card. Sufficient internal controls must be established and implemented to ensure that this knowledgeable individual review the monthly expense report package, including receipts and other supporting documentation for approval in a timely manner during regularly scheduled billing cycles.

HCDE Contract Monitoring and Compliance Example

CONTRACTS-INCLUDING GRANTS-MONITORING AND COMPLIANCE

Levels of responsibility for contract management internal controls:

- **Superintendent** – (1) Assigns Assistant Superintendent development of internal controls (2) Assigns enforcement responsibility to Division Directors
- **Division Director – Contracts** implements internal controls for all programs functions under their oversight
- **Division Director – Purchasing** controls the processing of Purchase Orders
- **Division Director – Grants** attests all procedures have been followed
- **Business Services-Contracts, Purchasing, and Grants** facilitates the payment of Purchase Orders

Types of Controls

Corrective Controls:

- Training personnel
- Redesigning processes
- Improving controls
- Budget variance reports
- Insurance
- Civil or criminal action

Emphasis on Potential for Fraud

- Manipulation of financial information
- Misappropriation of Assets
- Corruption such as:
 - Bribery
 - Kickbacks
 - Conflicts of Interest

THE PERSPECTIVE OF PURCHASING

Integral and Significant Part of the Big Picture

- Ensures appropriate use of taxpayer dollars
- Focuses on quality of products and services acquired for the best value
- Provides fair, open and transparent information in a level playing field to constituents

Integral and Significant Part of the Big Picture

- Ensures compliance with Purchasing related laws, regulations and grant requirements
- Provides safeguards from fraudulent activities related to procurement

Why Purchasing Internal Controls Matter

- **Identifies risks** that may have a major impact on the entity and its constituents
- **Eliminates waste** through proper purchasing procedures and redistribution of unneeded assets throughout the entity
- **Protects from financial loss** by ensuring best prices and qualification of vendors/contractors for the specified products and services

Why Purchasing Internal Controls Matter

- **Keeps purchasing processes separated:**
 - Purchase requests
 - Verification of vendor and price
 - Issuance of purchase order
 - Receiving of goods
 - Approval of invoices for payment
 - Inventory management

Internal Control Provided by Purchasing Policies

- Appropriate approvals are required
- The Purchasing Office monitors purchases
- Approved Purchase Orders / contracts communicate terms to your vendors
- Purchase Orders are numbered and accounted for
- Access to issue POs is secured and restricted
- Approved vendor lists are controlled by Purchasing

Internal Control Provided by Purchasing Policies

- Goods are received by receiving department
- Goods are inspected for quantity and quality at time of receipt
- Receiving information is documented at time of receipt on receiving document
- Receiving documents may be pre-numbered

Internal Control Provided by Purchasing Policies

- Partial deliveries on Purchase Orders are properly recorded and subsequently monitored
- Goods rejected by receiving department are documented and returned. Accounts Payable is notified of the return
- Invoices are matched by Purchasing to PO and receiving documents. Discrepancies are resolved

Internal Control Provided by Purchasing Policies

- Purchases are monitored for Conflicts of Interest
- Procedures in place for cancelling Purchase Orders
- Unmatched invoices in Accounting should be monitored
- Unmatched receiving reports should be monitored
- Services received that do not match original Purchase Order should be investigated

Internal Control a Purchase Order System Provides

A Purchase Order system should incorporate proper segregation of duties.

	Purchase of Goods	Purchase of Services
Initiates	Requisition—Person A	Requisition—Person A
Authorizes	Approves PO / Invoice—Person B	Approves PO / Invoice & Verifies Receipt of Services—Person B
Records	Accounting—Person C	Accounting—Person C
Reconciles	Budget Comparison—Person D	Budget Comparison—Person D
Controls / Custody	--Receives Goods—Person F --Distributes Payment—Person E	Distributes Payment—Person E

HCDE Segregation of Duties Example

Changes to Approved Purchase Orders

- Request to close a Purchase Order and issue a new one with correct information shall include the following approval levels
 1. Budget Manager
 2. Chief Accounting Officer
 3. Purchasing Director
 4. Purchasing Specialist

Internal controls have been established by HCDE's financial management to provide reasonable assurance that assets of HCDE are being properly safeguarded, financial records are fairly, and accurately maintained, and governing statutes and policies are correctly followed.

Harris County Department of Education Financial Operating Guidelines 2020-2021

THANK YOU N&C CONSULTING



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