

Accounts Payable Templates

NON-PAYROLL EXPENDITURE AUDIT PROGRAM

A. The non-payroll expenditure audit program provides the detailed testing to verify the operation of the internal controls and procedures reviewed during the preliminary survey. The extent of the detailed testing will be determined by the auditor and supervisor during a review of the preliminary survey documentation. Any significant increases over budgeted hours must be approved by the audit manager.

B. Supplies

1. Determine if the department has special purchasing authority. If so, obtain a copy of purchasing authorization issued by the Material Manager.

2. Is the historical level of purchase activity within the department sufficient to warrant the added level of authority?

3. From the funds selected for review, select a sample of supply expenditures from the general ledger detail report (GLO 60). Document sampling criteria.

4. Prepare schedules of transactions to be tested (copy the G/L if applicable).

5. Trace the transactions to the supporting documentation and complete the Supply Expenditure Checklist (attached).

Note: During the review of paid voucher files, be alert for invoices which are not regular printed vendor invoices, such as "Rediform", rubber stamped, letterhead or handwritten invoices. If these types of invoices are found and the purchase transactions are not covered by specific purchase orders or specific vendor blankets, the auditor should verify (through the Purchasing Department, or Dunn & Bradstreet listings) that the vendors are legitimate business concerns and that an employee-vendor relationship did not exist as defined by BFB, BUS-43.

6. Evaluate how effectively the department maintains purchasing files and records and determine that invoices are retained in accordance with retention schedules.

C. Equipment Purchases (Non-Federal funds)

1. Select a sample of equipment expenditures (object code 9000) for general funds from the general ledger detail report (GLO 60).

2. Document selection criteria.

3. Prepare a schedule of transactions to be tested.

4. Trace the transactions to the supporting documentation and complete the Equipment Purchase Checklist(s) attached.

Note: While completing the checklists, be alert for the following requirements:

a. Equipment screening for items over \$1,000:

1) Verify that the department head (and the principal investigator, if a contract or grant is involved) certified that the equipment to be acquired was not available

- within the department, if the cost is from \$1,000 to \$9,999;

- within the organization, if the cost is \$10,000 or more.

2) For acquisitions valued at \$1,000 to \$9,999, verify that the Purchase Requisition is accompanied by a memo signed by the department head (and by the principal investigator when the purchase was funded from a contract or grant), citing a list of equipment within the department that is similar to the item being requested, with a brief explanation for each item as to why the equipment is unsuitable or unavailable for sharing.

3) For acquisitions valued at \$10,000 or more, verify that the Purchase Requisition is accompanied by a Statement of Need for High-Value Equipment. (Note: For acquisitions funded from contracts or grants, a Statement of Need or High-Value Equipment approved by the contracting agency/granting agency should be attached to the Purchase Requisition.)

b. For computers computing equipment, and software, verify that:

1) an acquisition, costing over \$50,000 or augmenting an existing system to the extent that the aggregate cost is \$50,000 or more, was approved by the Director of the Computer Center and the Company Policy Committee.

2) an acquisition of a mainframe that costs \$100,000 or more, or addition to an existing mainframe that brings the aggregate cost to \$100,000 or more, was approved by System Administration;

c. For word processors, verify that:

1) the acquisition (whether by lease, lease purchase, or purchase) was properly approved;

2) the acquisition of Word processors which interface with typesetting equipment also was approved by Graphic and Reproduction Services.

D. Federal Grants and Contracts

1. Review comments by the Grants Manager regarding listing of all federal funds which are over expended in equipment and travel sub-budgets that was obtained during preliminary survey (if applicable). Determine:

- a. reason(s) for overdraft(s), and
- b. appropriateness of the overdraft (i.e., will funds be provided to cover it).

2. Equipment Purchases:

Select a sample of equipment purchases charged to federal grants and contracts. Document method of selection and perform the following audit procedures:

a. Ensure prior approval was received from the agency for the following:

- 1) non-budgeted acquisitions of special purpose research equipment,
- 2) non-budgeted acquisitions of general purpose equipment exceeding \$500, and

(NOTE: Auditor should remember that the more restrictive rule applies, i.e., file cabinets are classified by the Inventory Division as non-inventorial freestanding equipment, but the Federal Government classifies them as general purpose equipment and prior approval must be obtained.)

- 3) budgeted acquisitions of special research equipment exceeding \$1,000.

b. Determine from departmental records if any federal contract or grant terminated during the past 6 months, or if any current federal projects are nearing completion.

c. Determine that equipment was not purchased within the last three months of a terminating Federal Contract or Grant. If purchased within this time period, determine that prior approval was received from the agency and perform the following:

- 1) ensure funding was available at the time of purchase; and
- 2) ensure that the cost of the equipment was both reasonable and necessary in the completion of the grant or contract objectives.

d. Ensure that the equipment purchased has been properly added to the Equipment Inventory List.

e. Ensure that equipment was not ordered at the termination (in contrast with the end of a budget year) of the Federal Grant Contract.

4. Equipment Leases and Rentals:

The general policy is that if the leasing of equipment is more economical than purchasing it, then this type of cost is allowable. The definition of "more economical" is that cost of the lease over its entire life must be less than the acquisition cost of the same item as of the first day of the lease.

For the purpose of the audit, review all equipment rental and lease agreements negotiated by the department to ensure compliance with the stated rule and that the cost could be specifically identified to the grant or contract charged. If there are a significant number of lease and rental agreements, the Auditor will perform this test on the basis of a selected sample which has been approved by the Supervising Auditor.

a. Obtain a list of current equipment purchases on deferred payment plans or conditional sales contracts from the Department Business Officer. If none is available, the purchase order files should be reviewed and the relative purchase orders extracted for further analysis.

b. Determine if the following has been performed for orders selected in preceding step:

1) Equipment purchases were properly negotiated by Purchasing.

2) Prior written approval was obtained from the appropriate agency sponsor when funded by a federal contract or grant.

3) Interest costs were specifically stated.

4) Other fund sources were used when interest costs were not approved by the appropriate Federal Agency.

c. Ensure that the equipment purchased under the deferred payment plan or conditional sales contract was both reasonable and necessary for the efficient performance of the grant, contract or department.

d. Ensure that equipment purchased under the deferred payment plan or conditional sales contract was properly added to the equipment inventory list.

E. Receiving

Since nearly all items received at the Organization will be delivered through Central Receiving, the following should be checked within each Department:

1. Was the packing list/delivery ticket compared against the contents of the package and with the purchase order?

- a. Were defective items returned promptly?
- b. Was payment stopped if defective items involved a Low Value Purchase Order (LVPO)?
2. Who signed for the goods? Was it the same person who placed the order and performed the reconciliation?
3. Were packing list/delivery tickets for LVPO orders on file in the department?

F. Telephone Charges

From Communications Office or departmental files, review (and copy as necessary) telephone billings for a recent two or three month period and determine the following:

1. that there is evidence that telephone billings are being reviewed; and
2. that the review provides adequate control over telephone usage and ensures identification of improper charges.

G. Garage Charges

1. Based on departmental recharge support files and recharge entries, determine the amount of garage recharges for the most recent three month period. If multiple account/funds are involved, select two or three of the major garage users. Enter totals on a separate W/P.
2. If the department has autos assigned to it on a monthly basis, determine that one of the following justifications apply:
 - o The department is located in an area remote from the Garage.
 - o The vehicle is needed on a daily basis.
 - o Work assignments of departmental personnel require extensive vehicle use.
 - o Assignment on a long-term basis is more economical than the use of vehicles from the Central Garage pool or other means of transportation.
3. Is there evidence that a review of garage charges is made?
4. Describe procedures followed to verify the validity of garage recharges.

H. Travel

Review general ledger detail for all account/funds administered by the department or activity under review. The time period covered will depend on the frequency of travel advance requests, the size of the department, and the number of account/funds involved.

1. From the ledger, select a sample of travel advance liens:

- a. document method of selection, and
 - b. enter the appropriate travel advance information on the attached Departmental Travel Advance Worksheet.
2. For those advances selected, review subsequent months expenditure ledgers until the advance amount is cleared.

Note: Be alert for uncleared advances over 90 days old, since some extended travel requires quarterly reporting of expenditures.

- a. Review claim for compliance with policy and complete the attached compliance questionnaire for each sample item.
- b. If payments for travel are not being made in accordance with company policy, determine reasons during your discussions with departmental staff, and document non-compliance items.

I. Removal and Moving Expense

1. Review general ledger detail for the selected expenditure account/funds. Determine the amount of removal and moving expense for the period under review.
 2. Select a representative sample of removal and moving expense entries from the general ledger. Document sampling criteria.
3. Complete Departmental Removal and Moving Expense checklist for those items selected.

J. Entertainment

1. Ascertain who has the authority to approve entertainment expenses for the department or activity under review. (Entertainment expense may be approved by the Department Head.) Obtain a copy of the written authorization.
2. Select a representative sample of entertainment expenditures from the Departmental Report of Expenditures. Document sampling criteria.
3. Complete Departmental Entertainment Expenditure checklist (attached) for those items selected.

L. Independent Consultants

1. Utilizing the listing of Independent Consultants obtained in the preliminary survey, select a sample of consultant agreements to be tested. Include all agreements where the aggregate payments were \$5,000 or more. Document method of selection.

Note: Individuals eligible for payment of honoraria (for certain types of professional services in the academic context, such as delivery of special or guest lectures, conduct of seminars, and appraisal of scholarly articles for publication) are not consultants.

2. Determine that consultants were not utilized under the following circumstances:

a. when the service can be economically and satisfactorily performed by existing Organization staff in the course of their normal duties;

b. when the service involved direction of or extensive participation in a Organization program; (In such cases, the individual should be engaged as an employee. Engagement of casual employment is subject to less time-consuming recruitment procedures than engagement of career employees;)

c. when an employer-employee relationship would exist between the Organization and the consultant;

d. if the consultant is an employee of the organization; or (exceptions must be authorized by management)

e. if the work covered by an independent consultant agreement relates to a federal or state contract or grant, an employee of the government in question may not perform any work under the agreement.

3. Determine that:

a. payments were reasonable in relation to the services provided;

b. payments were supported by both an invoice and consulting agreement;

c. payments were made after the service was rendered unless specifically authorized by a prior written agreement;

d. for aggregate payments of \$5,000 or more:

1) proposals were obtained from three or more consultants, and

2) was approved by the Director of Business and Finance;

e. for aggregate payments of less than \$5,000, determine that the agreement was approved by the appropriate manager; and

f. for consulting expenses charged to Federal Grants and Contracts:

1) determine that supporting documentation includes evidence that:

a) the services to be provided are essential, and cannot be provided by persons receiving salary support under the grant;

b) the person selected is the most qualified available; and

c) the rate is appropriate considering the qualifications of the consultant, his/her normal rates, and the nature of the services rendered.

2) contact the Accounting Office, and determine that applicable agency approvals have been secured.

M. Cost Transfers

1. Review the general ledger for selected account/funds that may have cost transfers.

2. Select a representative sample of cost transfers from the Departmental Report of Expenditures. Document sampling criteria.

3. Complete Departmental Cost Transfer checklist for those items selected.

4. If cost transfers are not being made in accordance with company policy, determine reasons during your discussions with departmental staff, and document noncompliance items.

N. Additional Audit Procedures

1. Upon completion of systems review and testing, the auditor may consider it necessary to apply extended audit procedures. The auditor should determine if the errors or weaknesses noted may be isolated to specific types of transactions and if so, target additional testing to those types. Before extending audit procedures, notify the supervising auditor to adjust time budgets.

2. There are conditions where the auditor cannot easily isolate errors due to severe weaknesses in internal control. If such is the case, select a representative sample of departmental S&E expenditures for a three to six month period from all departmental account/fund sources. In selecting expenditures for review include the following types of transactions:

a. high value purchases from unknown vendors.

b. direct charge purchases (individuals or vendors),

c. payments to consultants,

d. unusual recharges from other company activities,

*e. low-value purchase (over-the-limit purchase and apparent split invoicing),

f. honorarium payments.

*g. equipment purchases verify if federally funded, and

*h. purchases from Organization of local supply agreement vendors.

*For these types of purchase transactions, test for compliance with policy guidelines governing low value purchasing authority, the planned purchasing program.

0. Summary and Conclusion
1. Document any findings utilizing the Record of Audit Findings and Closing Conference Summary.
2. Discuss audit findings with supervising auditor.
3. Ensure that all findings are included in the Summary section.
4. Discuss audit findings with departmental management
5. Ensure that the source, scope and purpose of all working papers is clearly identified.
6. Write a brief conclusion being responsible to stated audit objectives.

SUPPLY EXPENDITURE CHECKLIST

Sample Number: 1 2 3 4 5 6 7 8 9 0

1. Was the data on each voucher traceable to the departmental subsidiary ledger?
2. Was the voucher adequately supported by apparently authentic documents, i.e., were all documents such as invoices, purchase orders, etc., called for by external agencies or Organization policy present?
3. Did invoice bear evidence of having been checked as to:
 - o Clerical accuracy? (Did we scan clerical accuracy for reasonableness?)
 - o Agreement of invoice and purchase order price? (Did we test the agreement of these prices?)
4. Were quantities and descriptions in agreement with supporting documents?
5. Was each document properly approved?
6. Were all allowable discounts taken? If not, list exceptions for discussion with appropriate departmental employee.

7. Was the documentary support cancelled to prevent subsequent re-use?

8. Were the proper General Ledger accounts charged?

9. Was the expenditure reasonable in relation to the nature of the department's operations?

Tick Mark legend:

Black Check () = Yes

Black Mu () = Not applicable

Red Cross () = No

10. Where practicable, was the item procured from a Organization source (i.e., storehouse, bookstore, library, etc.) or from government sources (i.e. excess and surplus property)?

11. If the item was a sub order, was there a supply agreement?

12. If the expenditure was a Low Value Purchase Order (LVPO):

o Were orders to that vendor less than or equal to \$100 in that day?

o Was the purchase for supplies and expense items only?

o Was the expenditure not for human services, rentals, machine maintenance and repair services, inventorial equipment, narcotics and dangerous drugs, or radioactive materials.

14. If the purchase was from petty cash, were purchases made from that vendor less than \$25 in that day?

15. If the item was purchased under a letter of delegation or purchasing authority issued by the Material Manager, did the purchase conform to the terms of that letter?

16. If the expenditure was for supplies charged to a federal grant or contract:

o Was it reasonable and necessary for the efficient operation of the grant or contract; and

o Was it purchased within the last 30 days of a terminating grant or contract?

17. Were proper procedures followed for the procurement of narcotics and dangerous drugs or the procurement of tax-free alcohol?

18. Were items noted for inclusion in the audit report summarized in the working papers?

19. Documentation supporting the discrepancy (if applicable) is located at W/P _____, sheet:

Departmental Preliminary Survey
Internal Control Questionnaire
Non-Payroll Expenditures

OBJECTIVES

o To determine that applicable policies and procedures have been followed in departmental purchases, the administration of federal grants and contracts, telephone and garage charges, travel, removal and moving expenses, entertainment, the use of independent consultants, cost transfers and record-keeping.

o To determine that the internal controls over non-payroll expenditures are adequate and functioning properly.

REFERENCES

The auditor should be familiar with the following references before starting the non-payroll expenditure audit area:

FEDERAL

OMB Circular A-21 - Cost Principles
OMB Circular A-110 - Uniform Administrative Requirements

BUSINESS AND FINANCE BULLETINS -

COMPANY GENERAL LEDGER

300 Series - Accounting
350 Series - Disbursements and Entertainment
365 Series - Travel
380 Series - Budget
523 Series - Purchasing

524 Series - Receiving

OTHER REFERENCES

Contract and Grant Handbook

Name of Individual See Key Below

NON-PAYROLL EXPENDITURES
INTERNAL CONTROL QUESTIONNAIRE

Performance and Segregation of Duties

1. Purchase Orders (including LVPOs):
 - a. prepares;
 - b. approves; and
 - c. mails.
2. Receiving reports:
 - a. matches copy of P.O. upon receipt; and
 - b. checks against open file, annotates accounting copy.
3. Invoice and related voucher:
 - a. opens mail;
 - b. cancels all copies of invoice to prevent subsequent duplicate payment;
 - c. confirms items have been received and no problem with order;
 - d. compares terms, clerical accuracy, and account distribution;
 - e. prepares coding; and
 - f. reviews and approves invoices for payment.
4. Reviews and reconciles vendor statements to book amounts (vendor ledger, open invoice file, etc.).

Key (1) Primary responsibility.

(2) Function performed only in the absence of the individual primarily responsible or during peak periods.

Name of Individual

5. Form 5:
 - a. prepares;

- b. reviews and approves entertainment expenses;
 - c. approves other expenditures.
 - d. approves other expenditures.
6. Reviews and approves recharges:
- a. telephone,
 - b. garage,
 - c. storehouse,
 - d. bookstore
 - e. computer,
 - f. physical plant,
 - g. reprographics/quick copy, and
 - h. other.
7. Recharge Form (Recharges to other departments):
- a. prepares;
 - b. approves; and
 - c. mails.
8. Department Subsidiary Ledgers:
- a. records entries;
 - b. reconciles to General Ledger and prepares monthly financial reports; and
 - c. reviews financial reports.
9. Does the department maintain a Low Value Purchases, Log or other encumbrance record for LVPOs?
- o Are those entries verified against amounts entered in the General Ledger?
 - o Indicate who posts and who verifies?
10. Is the person responsible for departmental budgetary control records and review of General Ledger sheets also authorized to perform any ordering or payment transactions? Explain in detail, if yes.

11. Is the person authorized to approve invoices for payment also authorized to approve LVPOs, General Requisitions or initiate MBO purchases? Explain if yes.
12. Do persons below the level of Department Head approve payments to themselves?
13. Are Non-Payroll Expense Transfers used to correct erroneous recordings on the General Ledger or to change costs posted on one account/fund/sub/object to another? Indicate who prepares the form.
14. Has the department head redelegated the approval authority for any of the categories? Indicate by category, to whom.
15. Have any employees redelegated signature authorization or cancellation forms?
16. Has the Department Head or PI signed all signature authorization or cancellation forms?
17. Is the first copy of the form forwarded to the Accounting Office?
18. Are authorizations cancelled promptly upon separation or transfer of an employee?
19. Is prior approval obtained for the reimbursement of entertainment expenses?
20. Are claims for reimbursement supported with invoices or receipts?
21. Have travel credit cards been issued to any department personnel?
22. Have any departmental personnel engaged in foreign travel? (Within the scope of the audit). What approvals were obtained?
23. Are Travel Notifications and Request for Travel Advance forms completed and submitted to the Accounting Office prior to departure?
24. Are Travel Expense Vouchers submitted within 10 days after the completion of a trip?
25. Have any academic or staff personnel permanently assigned to the department incurred moving expenses that were charged to the department? (Within the scope of the audit).
26. Does the department generate invoices to individuals, firms or agencies for student or employee fines, departmental services, or special agreements? (GUARD System).

PROCUREMENT TRANSACTIONS

Does the Department have blanket purchasing authority?

27. Do individuals signing LVPO or requisitions, have signature authority? Indicate who initiates and who signs.
28. Are account balances reviewed for the availability of funds to cover costs of goods and services prior to placing the order? Indicate by whom.
29. Is the allowability of costs to extramural funds determined prior to placing the order? Indicate by whom.
30. Are costs of purchases recorded in budget ledgers and reconciled to the general ledger? Indicate by whom.
31. Are goods received compared to the packing list? Are packing slips maintained in the units purchasing files? Indicate by whom.
32. Does the department procure, receive, store, control, or dispose of narcotics, dangerous drugs, or restricted chemicals?
33. Does the department procure compressed gases from the central storehouse and other suppliers? Indicate the types of gases and supplies.
34. Are conflict of interest policies specified and disseminated to the unit employees responsible for LVPO vendor selection?

EQUIPMENT SCREENING

35. Are purchases of equipment valued at \$1,000 to \$10,000 screened against available departmental assets prior to the purchase? (Have individual explain the process used by the department to screen equipment.)
36. Are screening forms prepared and sent to purchasing for equipment purchases over \$10,000?

INDEPENDENT CONSULTANTS

Definition: An independent consultant is an individual or organization, outside the Organization, of proven profession or technical competence who provides primarily professional or technical advise to the Organization in an independent contractor relationship.

37. Within the scope of this audit...has the department secured the services of an independent consultant? (If yes, continue.) Identify.
38. Who determined that the consulting service was needed?
39. Indicate the type of consulting relations that exist:
- a. Employer-Employee

b. Independent Contractor

c. Independent Consultant

40. Was a written request for consulting services presented to and approved by the appropriate responsible administrative office?

41. Was a standard agreement form (FO-2042) used to execute the agreement between the Organization and the consultant

42. Develop a statement on the adequacy of internal controls for non-payroll record keeping.

43. Based on the review of procedures and controls in effect, determine which segments of the non-payroll audit program can be eliminated or should be expanded. Document your analysis in the workpapers and discuss with the audit supervisor.