

Champions of Change Workshop:

**Case Study: ABC Procurement Process**

Directions: Please read the below problem at ABC Corporation. Then review the answers to the risk diagnostic and be prepared to discuss what controls you would put in place as a result.

**Background of Company and Problem**

The company is a manufacturer of tires. They have been in business for several years. They have a formal process for the procurement of raw materials that go into the manufacturing process. However, there is no formalized process for capitalized expenditures or for purchases of office supplies, equipment etc.

Janet Smith is the Chief Operations Officer. She has called you into her office to talk about the problems with procurement. She tells you the process keeps her up at night because multiple people can order items like PCs, photocopy machines, office supplies, etc. from multiple vendors. She is unsure if the appropriate controls exist to ensure the company is prudent in its purchases. She requests that your team review this process and provide an assessment back to her on the risks in the process within 7 business days.

**Procurement Control Diagnostic Exercise and Results**

***Reliability of information***

**Purchase orders are properly authorized.**

The requesting department is required to prepare the purchase requisition for all materials and supplies purchased.

☒ Yes    ☐ No    ☐ Not applicable

Requisitions are approved before purchase commitments are made. Vendors, prices, quality, quantities, and terms are approved.

☐ Yes    ☒ No    ☐ Not applicable

Computer system input screens and routines are used to generate purchase order documents/transactions.

☐ Yes    ☒ No    ☐ Not applicable

Computer system routines have been designed to automatically verify that purchase orders are created only for authorized vendors (e.g., the system automatically verifies the vendor against the vendor master file during purchase order entry).

☐ Yes    ☒ No    ☐ Not applicable

All purchasing responsibilities are segregated (including supplier selection) from disbursement and accounting activities.

☐ Yes    ☒ No    ☐ Not applicable

Purchasing agents or buyers are periodically rotated among purchasing responsibilities to ensure independence. If business conditions make it impractical to rotate agents or buyers, other compensating controls are implemented.

☐ Yes    ☒ No    ☐ Not applicable

An approved vendor master file is used by the system for verifying approved vendors during purchase order creation.

☒ Yes    ☐ No    ☐ Not applicable

**Purchase orders are accurately and completely prepared and recorded on a timely basis.**

Computer system routines or prenumbered purchase order forms are used to assign purchase order numbers to order requests.

☒ Yes    ☐ No    ☐ Not applicable

Prenumbered forms are safeguarded from unauthorized use.

☐ Yes    ☐ No    ☒ Not applicable

Appropriate personnel (e.g., the original requestor) review generated purchase orders to ensure that items ordered are correct.

☐ Yes    ☒ No    ☐ Not applicable

Computer system routines are used to generate exception reports to identify purchase orders that have been outstanding for excessive lengths of time.

☐ Yes    ☒ No    ☐ Not applicable

***Receipts of materials and supplies are properly authorized.***

Only materials supported with an authorized purchase order or its equivalent are accepted.

☐ Yes    ☒ No    ☐ Not applicable

All other receipts are returned to the supplier, or they are investigated for propriety in a timely manner.

☐ Yes    ☒ No    ☐ Not applicable

Computer system routines are used to verify that the material orders received are for legitimate outstanding purchase orders (e.g., match the purchase order number entered as part of the receiving transaction with records contained on the purchase order master file).

☐ Yes    ☒ No    ☐ Not applicable

The computer application is used to generate exception reports for any material receipts for which there is no outstanding purchase order on file.

☐ Yes    ☒ No    ☐ Not applicable

***Relevance of information***

Employees and management are provided the information they need to control the process of obtaining materials and supplies.

Approved suppliers are periodically and systematically monitored to ensure that their actual performance meets expectations. Performance measures may include percent of on-time delivery, accuracy of shipments, product quality, and actual cost performance compared with original cost projections.

☐ Yes    ☒ No    ☐ Not applicable

Appropriate performance measures are selected to ensure that the procurement and receiving processes are properly controlled.

☐ Yes    ☒ No    ☐ Not applicable

Selected performance measures support the creation of value and customer service by reflecting quality and time as well as costs.

☐ Yes    ☐ No    ☒ Not applicable