

Risk / Control Matrix

This is a case assignment reviews the risk assessment and control Activities of the COSO internal control framework and then illustrates how this is accomplished in a highly integrated computerized enterprise business environment. The Monitoring Activities layer of the COSO framework are then illustrated in this same business environment.

Product

SAP ERP
GBI
Release 6.04

Level

Undergraduate
Graduate

Focus

Internal Controls

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Version

1.0

MOTIVATION

This scenario deals with examining the business functions and processes involved in selling goods to another company (B to B sales) and the business risks and internal controls controls that should be in place in order to safeguard the company's assets and the integrity of the company's financial records.

PREREQUISITES

Before you use this case study, you should be familiar with navigation in the SAP system.

You should also be familiar with:

- > basic internal controls
- > Order to Cash Process

NOTES

This case study uses the Global Bike Inc. (GBI) data set, which has exclusively been created for SAP UA global curricula.

Assignment Overview

The scenario follows a logical approach to analyzing business process risks and non-security internal controls to address or mitigate these risks consistent with the COSO internal control framework. There are 5 steps in this process / exercise. Part 6 of the assignment relates to each team member's work in support of the team submission for this and other prior exercise.

Part 1: Analyze and define the key risks that exist for the Order to Cash (OTC) process at GBI

Part 2: Guided by the risks you identified (esp. the High Severity and High Likelihood / Frequency risks) identify the key controls that will be used in the OTC process.

Part 3: Link the Risks from Part 1 to the controls in Part 2.

Part 4: Complete definition of the controls (classifications, links to assertions, etc.)

Part 5: The control activity description is not sufficient to assure the control process and related auditing process is understood and active. In Part 5 (leveraging some examples in the Appendix) you must write auditable control process documentation for either one (1) manual or one (1) automated (configuration) control you identified.

Risk Assessment and Other Controls

GBI is very concerned about security and information assurance. Due to the passage of the Sarbanes-Oxley law, GBI realizes that solid financial accounting controls are extremely important for the corporation. Originally GBI trusted the process and the people completing the tasks in the process as effective enough internal controls.

However, after implementing the ERP system at GBI, there is realization that a thorough review of the process, risks, controls, etc. is needed to truly assure GBI has the internal controls necessary to satisfy the requirement of the Sarbanes-Oxley law and many other laws and regulations.

An organization must do a detailed assessment of the risks involved with any business process and then determine the likelihood of that risk occurring and the severity of the risk if it should occur. These factors will then be used to decide what controls should be implemented in order to mitigate the risk.

To complete the definition of the controls, detailed documentation of the manual process that is used must be created. For configuration controls, a review / auditing process must be created. This documentation is required to assure each control is fully understood, taught, active and auditable.

This documentation in total is needed by GBI to assure good process operation that can be audited and certified in control by the auditors of GBI.

Company Background

Global Bike Inc., (GBI) is a world class bicycle company serving the professional and "prosumer" cyclists for touring and off-road racing. GBI's riders demand the highest level of quality, toughness and performance from their bikes and accessories.

Product development is the most critical element of GBI's past and future growth. GBI has invested heavily in this area, focusing on innovation, quality, safety and speed to market. GBI has an extensive innovation network to source ideas from riders, dealers and professionals to continuously improve the performance, reliability and quality of its bicycles.

In the touring bike category, GBI's handcrafted bicycles have won numerous design awards and are sold in over 10 countries. GBI's signature composite frames are world-renowned for their strength, light weight and easy maintenance. GBI bikes are consistently ridden in the Tour de France and other major international road races. GBI produces two models of their signature road bikes, a deluxe and professional model. The key difference between the two models is the type of wheels used, aluminum for the basic model and carbon composite for the professional model.

GBI's off-road bikes are also recognized as incredibly tough and easy to maintain. GBI trail bikes are the preferred choice of world champion off-road racers and have become synonymous with performance and strength in one of the most grueling sports in the world. GBI produces two types of off-road bike, a men's and women's model. The basic difference between the two models is the smaller size and ergonomic shaping of the women's frame.

GBI also sells an accessories product line comprised of helmets, t-shirts and other riding accessories. GBI partners with only the highest quality suppliers of accessories which will help enhance riders' performance and comfort while riding GBI bikes.

For purposes of this assignment, we will focus on the process involved in sales of in-stock, standard, off-road bicycles. GBI uses an open invoice system to bill its customers; that is, the customer is billed and must pay for each order separately as opposed to the customer being billed periodically for all orders made during that period (usually referred to as cycle billing).

Standard Order to Cash Business Process

Tasks within business processes may vary considerably depending on the level of automation and the associated technology. For instance, in a manual system, the task of recording a transaction may be accomplished by either entry into a journal or by the "filing" of a copy of a multi-copy form. In an automated system, "recording" entails the "filing" or storage of the transaction in the AIS. This is sometimes accomplished by pressing a "save" button after entering the transaction into the system. The order of the tasks will also differ depending on the extent of automation within the system.

Assume that GBI has recently converted from a manual system to a process that leverages the use of an ERP system (e.g. SAP). The company uses the following 24 steps when they sell standard goods to the customers. Note for organization and process optimization purposes, GBI has chosen to define 4 sub-processes within the broader Order to Cash (OTC) process.

Sub-Process: Order Receipt & Handling (OR&H)

1. A customer sends a purchase order for off-road bicycles to a GBI employee.
2. A GBI employee compares the customer's purchase order to determine if the customer's master data is in the system and is correct.

3. If the customer master data is not in the system or is incorrect, then the master sales and distribution data (such as company address, contact person, phone numbers, etc.) for the customer is entered or maintained in the ERP system.
4. If the customer master data is not in the system or is incorrect, then the financial data (such as banking information and GBI reconciliation account number) for the customer is entered or maintained by a GBI employee in the ERP system
5. If the customer master data is not in the system or if the customer would like to change credit terms or limits, then a GBI employee checks the credit rating of the customer and assigns a credit limit and credit terms in the ERP system.
6. A GBI employee creates a sales order in the ERP system.
7. If during creation of the sales order an ATP failure exists (e.g. inventory not available) A GBI employee reviews the order requirements with Supply Chain planning to determine best decision (e.g. adjust plans, notify customer of valid delivery date, etc.).
8. A GBI employee creates order acknowledgement & sends to the customer using ERP system.

Sub-Process: Material Flow (MF)

9. A GBI employee creates a delivery document in the ERP system and prints picking ticket to fill the customer's order.
10. A GBI employee physically picks the goods (the bicycles) from the picking ticket.
11. A GBI employee creates a packing slip and a mailing label using the ERP system.
12. A GBI employee puts the packing slip into a reinforced packing container with the goods, seals the container and adheres the mailing label to the container.
13. A GBI employee moves the goods from the inventory control area to the shipping dock.
14. A GBI employee prints a shipping manifest using the ERP system.
15. A GBI employee places the goods to be shipped on the truck.
16. A GBI employee gives the shipping manifest to the truck driver.
17. A GBI employee records that the goods have been shipped in the ERP system.

Sub-Process: Customer Invoicing (CI)

18. A GBI employee creates invoice with remittance advice in ERP system & sends to customer.

Sub-Process: Payment Receipt and Handling (PR&H)

19. A GBI employee receives the payment from the customer with the returned remittance advice.
20. A GBI employee records the payment from the customer in the ERP system.
21. A GBI employee takes all of the payments for that day and creates a deposit slip for the bank.
22. A GBI employee deposits the cash in the bank.
23. A GBI employee records the bank deposit.
24. A GBI employee reconciles bank deposits, cash receipts and ERP system balances daily.

Important Note – You are not allowed to change the above business process. That is, you cannot add, delete or modify any of the steps above.

Part 1 – Risk Analysis and Definition

In this part of the assignment you are required to review and analyze the entire Order to Cash (OTC) process as practiced by GBI and identify the key risks to the GBI business during operation of this process. The current OTC process design was outlined in the prior section.

Using what you've learned in class and in prior exercises (e.g. Exercise 4) analyze the Order to Cash (OTC) Process design and outline the **key risks** to the GBI business. Focus in Part 1 only on the risks (what could go wrong).

Record your risks in the 'Part 1 - GBI Risks' tab in the exercise submission spreadsheet. Record columns A through F in this Part 1 step (other columns will be addressed in future parts of the exercise). In analyzing and recording these risks you must:

- Identify at minimum 25 risks in the process
- Identify at minimum 4 risks in each of the sub-processes of the overall OTC process. These sub-processes are:
 - **OR&H**: Order Receipt and Handling
 - **MF**: Material Flow (shipping)
 - **CI**: Customer Invoicing
 - **PR&H**: Payment Receipt and Handling

Below are the definitions of the columns to be completed.

Risk #: A unique # assigned to the risk. The # includes the process (OTC) and indicator of 'R' for risk. This column is pre-populated.

Risk Description: Clearly define what the risk is and include enough information that a business person reading can understand how the risk might impact the GBI business.

Process: Order to Cash

Sub-Process: See above. Note: there can be instances where a risk is associated with more than 1 sub-process. If this is the case, enter all sub-processes the risk is associated with.

Severity of Risk: Indicate using the scale below (also in submission spreadsheet) your assessment of the severity of the risk.

Severity / Impact	
High	Potential for severe fraud, significant impact on financial Statement Assertions
Medium	Potential for moderate fraud, moderate impact on financial Statement Assertions
Low	Negligible or minor potential for fraud, Negligible or minor impact on financial Statement Assertions

Likelihood (Frequency) of Risk: Indicate using the scale below (also in submission spreadsheet) your assessment of the likelihood / frequency this risk would occur for GBI.

Likelihood / Frequency	
High	Risk is probable / frequent. Likely to occur
Medium	Some manifestations of this risk may occur occasionally
Low	Manifestations of this risk are possible but not likely, remote, improbable

Note: the submission spreadsheet has an example (in grey) of a potential risk for GBI.

Risks can affect the business in different ways and with different magnitude. The dimensions of Risk Severity or Impact and Likelihood / Frequency of occurrence help you discover the total impact of the risk to the business.

The Risk Assessment chart below in a visual and verbal way indicates the total impact of the risk given different values of Risk Severity / Impact and Likelihood / Frequency. This chart can be useful in defining which risks need internal controls defined vs. those where the risk is acceptable without a defined internal control.

Risk Assessment



Part 2 – Control Analysis and Definition

In this part of the assignment you are again focused on the Order to Cash (OTC) process as practiced by GBI (see prior sections). Using the risks you outlined in Part 1 and the total impact of the risk (see matrix in prior section), select the key controls you recommend that GBI implement as internal controls for GBI. Use what you have learned in class and in prior exercises (e.g. Exercise 4) to identify potential controls and choose those that will be the most effective (**key controls**).

Record the controls you choose in the ‘Part 2 - GBI Controls’ tab in the exercise submission spreadsheet. Record columns A through E in this Part 2 step (other columns will be addressed in future parts of the exercise). In analyzing and recording these controls you must:

- Identify at **minimum 15 controls** for the process
- Identify at least a minimum of three (3) controls in each of the sub-processes of the overall OTC process. These sub-processes are:
 - **OR&H**: Order Receipt and Handling
 - **MF**: Material Flow (shipping)
 - **CI**: Customer Invoicing
 - **PR&H**: Payment Receipt and Handling
- At least two (2) of the controls must be Automated / Configured controls
- At least one (1) control must be identified for all Risks identified in Part 1 as High Severity or High Likelihood / Frequency

Below are the definitions of the columns to be completed in the ‘Part 2 - GBI Controls’

Control #: A unique # assigned to the control. The # includes the process (OTC) and indicator of ‘C’ for control. This column is pre-populated.

Key Control Activity: Clearly define what activity will be completed with implementing this control.

Process: Order to Cash

Sub-Process: see above

Method: What method will be used to implement this control. Options are:

M: Manual – using a defined procedure a person is responsible for completing this activity to implement the control.

A: Automated (Configured) – the ERP system using a configuration parameter will automatically implement the control (Assure the activity occurs).f

Note: the submission spreadsheet has an example (in grey) of a potential risk and control for GBI.

Part 3 – Control Definition: Link to Risks and Assertions

The analysis of Part 1 (identify Risks) and Part 2 (identify controls) cannot be done in isolation of each other. Controls exist to remove or mitigate risks that exist.

In Part 3 of this exercise, you must link the risks from Part 1 to the Controls identified for Part 2. Record the results of this linkage by providing data in columns G through I in the ‘Part 1 - GBI Risks’ tab. Specifically enter the following information in these columns:

Key Control Activity: The key control activity (column B value from the Part 2 – GBI Controls tab) that will address this business risk. Note: more than 1 control can address a given risk.

Control Ref #'s: The control # (column A value from the Part 2 – GBI Controls tab) that will address this business risk. Note: more than 1 control can address a given risk.

How does the Control Address / Mitigate the Risk?: Briefly describe how the control addresses the business risk.

Notes:

- *The submission spreadsheet has an example (in grey) of a potential risk and control for GBI.*
- *A given control may be applicable to addressing more than 1 risk. In this case, the control will be listed only once in the Part 2 tab but multiple times in the Part 1 tab.*
- *A given risk can be addressed, mitigated by more than 1 control. In this case, enter all controls that are applicable in the Key Control Activity and Control Ref #'s column.*
- *Because Part 2 of the exercise only requires you to identify a minimum of 15 controls, not all risks may have a control identified. For risks without a control defined enter a value:

 - o *Acceptable Risk – no controls will be developed*
 - o *‘TBD’ (To Be Determined) in all columns.**
- *Controls must be identified and linked for all Risks identified in Part 1 as High Severity or High Likelihood / Frequency.*

Part 4 – Control Definition Details

There are many important components to effectively implementing the controls that have been identified. In support of this implementation it's useful to gather further information about the controls, classify them and identify ownership of their implementation and use.

In Part 4 of this exercise, you will gather and supply information about each of the controls you identified in in Parts 2 and 3. You will supply this information in columns F through AI in the 'Part 2 - GBI Controls' tab of your framework submission spreadsheet.

Specifically enter the following information in these columns:

Control Description (continued)

Frequency: The frequency at which this control is exercised, used or performed when implemented. Choose the most appropriate value from this list:

X	Multiple times a day
D	Daily
W	Weekly
M	Monthly
Q	Quarterly
A	Annual

Control Owner: The title of the person in the organization who's the 'Owner' of the control. The Owner is person held responsible for assuring the following:

- The control is properly implemented
- The control is performed as defined
- The control results are monitored and any remediations, adjustments, etc. actions are completed
- Certifying the above actions are completed as required by company Internal Control Certification policies.

You can choose the appropriate owners from the Organization Summary in Appendix A or choose an appropriate other title you expect exists in the Global Bike Inc (GBI).

Control Type: How does the control accomplish it's goal? Choose the most appropriate value from this list:

D	Detective
P	Preventive
DR	Directive
C	Compensating

Control Activity: What is the key activity used to implement the control. Choose the most appropriate value from this list:

R	Reconciliation
A	Authorization (Security)
S	SOD (Segregation of Duties Safeguarding)

M Monitoring/ Review
P Processing (within system)

Financial Statement Assertions – These columns indicate how the control (and the risks they mitigate) impact the various assertions that GBI must make when publishing its results.

Mark the impacted assertion(s) with an **X**.

Risk Assessment – These columns allow you to judge the relative risk of implementing the controls. Note Risk in this context is not related to the Order to Cash Process or its risks (Parts 1 and 3 of this exercise). These indicators relate to assessing the risk of implementing the controls only.

Complex / Routine: Are the actions required to properly implement this control routine (commonly practiced already) vs. Complex (requires new skills and expertise). Choose the most appropriate value from this list:

C Complex
P Moderate (Neither Complex or Routine)
R Routine

Inherent Risk / Fraud Risk: What is the level of inherent risks or a risk of fraud related to this control area and the risks it mitigates? Choose the most appropriate value from this list:

H High
M Medium
L Low

Judgement is Required: Level of judgement required to implement the control. Choose the most appropriate value from this list:

H High
M Medium
L Low

History of Error: Has there been a history of error at GBI or similar companies in effectively implementing this control. Choose the most appropriate value from this list:

Y Yes
N No

Financial Statement Impact – These columns indicate which section of GBI financial statements could be impacted if this control is not effectively implemented.

GBI follows standard financial reporting practices. Therefore the definitions of these financial statement sections can be found in standard financial statement reference materials.

Mark the impacted assertion(s) with an **X**.

Some of the Section descriptions use abbreviations. The abbreviations and their definitions are:

COGS - Cost of Goods Sold

LT - Long Term (> 1 year)

AP – Accounts Payable

Notes:

- *The submission spreadsheet has an example (in grey) of a potential risk and control for GBI.*
- *Complete the classification columns for each of the controls you identified.*

Part 5 – Internal Control Process and Audit Documentation

Valid and usable documentation is critical so good ERP system operations. This extends also to internal control related process and audit documentation.

Appendices 2 and 3 of this Exercise Guide include real documentation examples from the Procure to Pay process at GBI. Specifically:

- Appendix 2: example of documentation of an Automated Configuration Control and how it is audited.
- Appendix 3: example of how a Manual Monitoring Control is implemented.

Using these examples and format, create **one** example control document for one of your identified OTC process controls (Part 3).

Submit the documentation either as separate Word document or insert as tab in Submission Spreadsheet.

The following resources are available to you in determining the details for your documentation:

- Professor: in class, e-mail, phone (609-206-9783)
- Table TSTC (List of transaction codes – reports)
- Internet: some very good examples and ideas can be found by searching what others have done.



Part 6 – Individual Team Member Feedback

This section is not required in 2015.

This ends the assignment.

Appendix 1: Global Bike Inc (GBI) Organization Summary

Chief Executive Officer (CEO)

President

VP of Sales

District Sales Managers

Sales Account Executives

Customer Service Manager

Customer Master and Pricing Coordinators

Customer Service Representatives

VP of Finance (Chief Financial Officer – CFO)

Extrenal Auditing Manager

Internal Audit Manager

Computer Audit Manager

Computer Auditors

Process Audit Manager

Process Auditors

Controller

Financial Operations (Ops) Manager

Fixed Asset Accounting Supervisor and Accountants

General Ledger Accounting Supervisor and Accountants

Inventory Accounting Supervisor and Accountants

Accounts Payable Supervisor and Specialists

Accounts Receivable Supervisor and Specialists

Line of Business Financial Analyst

VP of Supply Chain

Procurement Manager

Procurement Buyers

Procurement Specialists

Procurement Data Specialists

Supply Chain Planning Manager

Demand Manager and Demand Planning Specialists

Supply Planners
Distribution Planners
Supply Chain Data Specialists
Logistics Manager
Inbound and Outbound Logistics Manager
Logistics Mode Specialists
External warehouse Manager
Zone Warehouse Specialists
Manufacturing / Plant Manager
Plant Supply Planning
Plant Operations Manager
Shipping Supervisor & Shippers

Appendix 2: Example of Control Process and Auditing Documentation:
Automated Configuration Control

Internal Controls Process Documentation Global Bike Inc. (GBI)

January, 2015

Procure to Pay Process

Application & Process

Procure to Pay Configuration: 3-way Match

Location: GBI Corporate Headquarters

Process Overview

The procure to pay (P2P) process at Global Bike Inc. for material purchases encompasses the normal procedures of:

- Developing / entering a purchase requisition,
- Converting the requisition into a purchase order (PO) to the vendor complete with pricing, delivery instructions, payment instructions, etc.
- Receiving the goods shipped from the vendor (GR). Note: receipt is done with reference to the original PO
- Entering the invoice details from the vendor invoice (IR)
- Match / reconcile the PO, GR and IR to verify within defined tolerances to determine the true payment liability for GBI.
- Pay the vendor per reconciled information and PU payment agreements.

Control Purpose / Objective

The quantity and value of these P2P documents: purchase order (PO), Goods Receipt (GR) and received vendor invoice (IR) needs (at the line item level) to match within defined corporate tolerances prior to vendor payment. Without these controls incorrect payments to vendors may result.

The purpose of this document is to ensure the SAP system has been appropriately configured to enforce the match (3-way match) for all GBI companies vs. corporate management tolerance allowance intentions. If matching gaps are found, inquire with management as to the necessity of changing the configuration settings and/or determine procedures necessary to ensure improper vendor payments are prevented.

Work Procedure

The Configuration for 3-way match is reviewed by any of the following methods:

A. Access Configuration:

1. Use config transaction SPRO and Following path below:
SPRO-> Materials Management-> Logistics Invoice Verification-> Invoice Block-> Set Tolerance Limits

2. Go directly to the 3-way match configuration with transaction OMR6.

3. The 3-way match configuration is stored in table V_169G. You can use table display transaction SE16N to review the configuration as well.

B. Verify Configuration Exists: For each GBI company in scope the following Tolerance Keys need to exist:

- DW: Quantity Variance when GR Qty = Zero
- DQ: Exceed Amount Quantity Variance
- PP: Price Variance
- BR: Percentage OPUn Variance (IR before GR)
- BW: Percentage OPUn Variance (GR before IR)

C. Verify Configuration Details / Tolerances: For each configured tolerance ensure the settings are appropriate, i.e. the tolerance limits are checked and the tolerance values match current management guidelines. (See Details below)

Configuration for Quantity Variance (Q):

Tolerance Key DW: blocks the Invoice when there is no corresponding GR for a line item of a PO. It prevents the invoice to be paid immediately to vendor.

Example:

PO Qty -100

Vendor Provides Invoice first for 100 Qty .

GR is Posted after few days of invoice Posting

Result:

As soon as the invoice is posted in the system the invoice gets blocked due to DW tolerance key & doesn't allow the system to pay the invoice immediately. The Blocked invoice appears in MRBR report & Buyer of the Purchase order takes the suitable Decision to ensure three way match.

Change View "Tolerance Limits": Details

Change View "Tolerance Limits": Details

New Entries BC Set: Change Field Values

Tolerance key	DW	Quantity variance when GR qty = zero
Company Cod	1000	Company Code 1000
Amounts in	USD	United States Dollar

Upper limit

Absolute

Do not check

Check limit

Val . 0.0

Tolerance Key DQ: Blocks invoice when there is Quantity discrepancy

Example:

DQ tolerance Config-5%

PO Qty-100

GR Qty-100

Invoice Qty-150

Result:

Since the invoice quantity is higher than the PO quantity the invoice gets blocked due to DQ tolerance Key.

Change View "Tolerance Limits": Details

Change View "Tolerance Limits": Details

New Entries BC Set: Change Field Values

Tolerance key Exceed amount: quantity variance
 Company Cod Company Code 1000
 Amounts in United States Dollar

Lower limit

Absolute
 Do not check
 Check limit
 Val.

Percentage
 Do not check
 Check limit
 Tolerance limit %

Upper limit

Absolute
 Do not check
 Check limit
 Val.

Percentage
 Do not check
 Check limit
 Tolerance limit %

Configuration for Price Variance (P)

Tolerance Key PP: Compares the price between purchase order & invoice with the Tolerance limit specified in the configuration.

Example:

PP tolerance in Config-200 \$

PO Price -1000\$ Qty-1

GR-Qty1

Invoice Price- 1400 \$

Result:

Invoice is blocked since the Invoice price is higher than the PO price (More than Tolerance Specified.)

Change View "Tolerance Limits": Details

Change View "Tolerance Limits": Details

New Entries BC Set Change Field Values

Tolerance key Price variance
 Company Cod Company Code 1000
 Amounts in United States Dollar

Lower limit

Absolute
 Do not check
 Check limit
 Val

Percentage
 Do not check
 Check limit
 Tolerance limit %

Upper limit

Absolute
 Do not check
 Check limit
 Val

Percentage
 Do not check
 Check limit
 Tolerance limit %

Configuration for Order Price Quantity (OPQ)

SAP provides two Tolerance Keys Tolerance Key BR (IR before GR) & Tolerance Key BW (GR before IR) to address the order price quantity scenarios.

Tolerance Key BR (IR before GR): Invoice gets blocked if the Order Price Quantity variation is more than the value specified in configuration. The system compares the ratio between quantities invoiced in order price quantity units: quantity invoiced in order units vs. quantity ordered in order price quantity units: quantity ordered in order units.

Tolerance Key BW (GR before IR): Invoice gets blocked if the Order Price Quantity variation is more than the value specified in configuration. The system compares the ratio between quantities invoiced in order price quantity units: quantity invoiced in order units vs. quantity ordered in order price quantity units: quantity ordered in order units.

Change View "Tolerance Limits": Details

Change View "Tolerance Limits": Details

New Entries BC Set: Change Field Values

Tolerance key	BR	Percentage OPUn variance (IR before GR)
Company Cod	1000	Company Code 1000
Amounts in	USD	United States Dollar

Lower limit

Percentage

Do not check

Check limit

Tolerance limit %

Upper limit

Percentage

Do not check

Check limit

Tolerance limit % 10.00

Testing Details (including SAP Table and Configuration Entries)

Table Name: V_169G

Conclusion:**Notes:****Test Date:****Tester:**

Appendix 3: Example of Control Process and Auditing Documentation:
Manual Monitoring Control

Internal Controls Process Documentation Global Bike Inc. (GBI)

January, 2015

Procure to Pay Process

Application & Process

Procure to Pay Report Monitoring (Manual)

Location: All GBI locations where procurement buyers work

Process Overview

The procure to pay (P2P) process at Global Bike Inc. for material purchases encompasses the normal procedures of:

- Developing / entering a purchase requisition,
- Converting the requisition into a purchase order (PO) to the vendor complete with pricing, delivery instructions, payment instructions, etc.
- Receiving the goods shipped from the vendor (GR). Note: receipt is done with reference to the original PO
- Entering the invoice details from the vendor invoice (IR)
- Match / reconcile the PO, GR and IR to verify within defined tolerances to determine the true payment liability for GBI.
- Pay the vendor per reconciled information and PU payment agreements.

Control Purpose / Objective

For various reasons the quantity and value of these P2P documents: purchase order (PO), Goods Receipt (GR) and received vendor invoice (IR) (at the line item level) may not match. 3-way match automated controls will (within defined corporate tolerances) cause these documents to block thus preventing vendor payment.

However, continuous and proper monitoring of these blocked documents is critical to assure the P2P process works to assure proper purchases of goods and services arrive for GBI's use as well as valid vendor payments assuring continuing supply.

- Report transaction MRBR (Release Blocked Invoices) needs to be generated each business day for each procurement buyer. Report MRBR provides PO details (PO #, dates, buyer, vendor, what procured, pricing, etc.) for use in resolving the blocked invoice.

Note: This report should be run in background by company code 3 times per day so that the program removes the block automatically after any corrective actions are taken (e.g. by Buyer).

Any issues open for longer than 10 business days need to be reviewed by and escalated to procurement Operations Management for resolution. Also, all PO's with open issues greater than 10 days need to have an explanation. This explanation needs to be added to the general header text or the associated Purchasing document (e.g. PO). This general text of the PO should not print anywhere.