

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

TRANSPORT AND DELIVER PRODUCTS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of transporting and delivering products. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Proper products and quantities are obtained from storage.
- B. Shipments are delivered on time and in a cost-effective manner.
- C. Shipments are delivered undamaged.
- D. Installations are made on a timely basis in accordance with customer expectations.
- E. Shipments are adequately secured.
- F. Employees and management are given the information they need to establish, track, and evaluate the performance of the delivery and installation process.
- G. Shipments are properly authorized.
- H. Shipments are accurately and completely recorded on a timely basis.
- I. Installations are accurately and completely recorded on a timely basis.
- J. Shipment and installation transactions are reliably processed and reported.
- K. Performance measures used to control and improve the process are reliable.

Compliance with applicable laws and regulations

- A. The delivery process complies with all applicable laws and regulations.

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Effectiveness and efficiency of operations

A. Proper products and quantities are obtained from storage.

Business risks

- A sufficient quantity of product will not be available.
- Improper products or improper quantities will be retrieved from storage.

Control practices

1. Compare products and quantities retrieved from storage to the customer order and/or product requisition.
2. Maintain perpetual product inventory records, and notify operations or other appropriate personnel when inventory drops below a predetermined level.

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B. Shipments are delivered on time and in a cost-effective manner.

Business risks

- Delays in delivery will result in reduced customer satisfaction.
- Disruption of normal shipping channels will result in shipment delays.
- Promising on-time deliveries will result in inefficient delivery processes and higher costs.
- Use of inefficient delivery systems will result in higher costs and reduced customer satisfaction.

Control practices

1. Identify and review alternative shipping methods and routes on a continuing basis, and implement the most efficient alternative.
2. Review shipping patterns for trends and changes in customer requirements.
3. Maintain effective communication between shipping and other processes in the revenue cycle.
4. Align the delivery process with the transportation strategy.
5. Develop and monitor performance measures for cost, quality, and service. Include measures such as delivery time, deadlines missed, and total shipping costs incurred.
6. Integrate the delivery process with other processes, such as marketing and manufacturing, to increase efficiency.
7. Ensure that management identifies which information to exchange with customers, such as delivery acceptance, confirmation of sales, or satisfaction or complaints, and also the most cost-effective process for capturing or delivering that information.
8. Use cross-functional teams to develop a thorough understanding of the delivery process and to maximize value.
9. Consider negotiating with carriers and exploring the possibility of outsourcing all or a portion of the shipping function.
10. Automate scheduling and load planning to facilitate "what if" analysis and optimize delivery costs.
11. Calculate and report performance measures on a consistent basis. Monitor measurements over time and against desired performance levels. Analyze the reasons for variations, and make necessary adjustments and improvements to the process.

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C. Shipments are delivered undamaged.

Business risks

- Packing materials, containers, or procedures will be inappropriate for the nature of the product or method of shipment.
- Receipt of damaged goods will reduce customer satisfaction. Future orders will be lost.
- The company will incur additional costs in processing returns and providing replacement goods.
- The company will use inefficient shipping methods.
- Goods will be "overprotected" and packing will not be cost effective.

Control practices

1. Identify and test alternative packing materials.
2. Select a cost-effective combination of materials, containers, and procedures that adequately protect goods.
3. Monitor the incidence of damaged goods and incomplete deliveries, and take corrective action, as necessary, to improve the process.

D. Installations are made on a timely basis in accordance with customer expectations.

Business risks

- Products will be unavailable.
- Customer satisfaction will be reduced.
- Warranty claims will increase.
- The company will incur additional costs of correcting any installation errors.
- Installers will be untrained or unavailable.

Control practices

1. Use pre-numbered installation authorization documents.
2. Compare installation documents with customer orders to verify information accuracy.
3. Review the sequence of installation documents, and track missing and or duplicate documents to ensure that the company is addressing all authorized installations.
4. Provide sufficient training to employees responsible for delivery and installation.
5. Coordinate scheduled installations with production and delivery schedules.
6. Monitor customer complaints regarding product installations.
7. Use performance measures to track installation performance in achieving on-time, trouble-free installations. Include performance measures such as percentage of orders installed on-time (as defined by the customer's requirements) and percentage of customer installations not requiring subsequent follow up and rework.

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E. Shipments are adequately secured.

Business risks

- Goods being prepared for shipment will be lost or stolen.
- Customer shipments will be lost, misplaced, or misappropriated.
- Goods will be damaged.
- Intentional errors or misappropriations of assets will occur.
- Misappropriated shipments will not be identified.

Control practices

1. Control and restrict access to packing and shipping areas to authorized personnel.
2. Close shipping bays and loading docks when goods are not being shipped.
3. Supervise gates and docks whenever they are open.
4. Require that the shipping function be independent of the billing and accounts receivable functions.
5. Require a signed proof of receipt from customers for every delivery.
6. Match proof-of-receipt documents with company copies of shipping documents and invoices from shippers; investigate invoices without proof of delivery.

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F. Employees and management are given the information they need to establish, track, and evaluate the performance of the delivery and installation process.

Business risks

- Employees and management will receive information about the delivery process that conflicts with company objectives.
- Employees will not be able to improve the process on a timely basis.
- Employees and management will not be able to accurately determine whether the process is in control and operating as planned.
- Employees and management will base their plans on incorrect perceptions about process performance.

Control practices

1. Define, track, and evaluate the performance of the delivery process.
2. Ensure that management identifies the performance measures for evaluating cost, quality, and productivity levels of the delivery process.
3. Ensure that management uses the performance measures to benchmark against industry performance and periodically evaluates the measures as effective catalysts for continuous improvement.
4. Require periodic review of the performance measures by a level of management involved in determining overall corporate objectives for all critical business processes, including delivery.
5. Establish performance measures that are quantifiable and controllable.
6. Apply performance measures that link the delivery process to company goals and customer expectations and stimulate continuous improvement.
7. Require that management determine how data should be collected and which managers and employees should receive the information.
8. Build processes into the delivery system to obtain and report results against performance measures.
9. Tie management and employee compensation to performance measures.
10. Integrate improvements in the process to ensure that customer expectations continue to be met.

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G. Shipments are properly authorized.

Business risks

- Fictitious or otherwise invalid shipments will be made.
- The company will make shipments to unauthorized customers, or to incorrect locations.
- The wrong type or quantity of goods and services will be shipped or delivered.
- The company will ship goods too early or too late.
- Shipments will violate existing laws and regulations, such as export requirements.

Control practices

1. Require an authorized sales order for each shipment.
2. Configure the computer system to automatically generate shipping documents based on previously approved sales order records.
3. Require an independent verification of shipments (types and quantities of goods shipped) on a test basis.
4. Safeguard blank shipping authorizations, numerically controlled shipping documents, and bills of lading from unauthorized access and use.
5. Supervise shipping operations properly.
6. Document proper shipping and cut-off procedures.
7. Train shipping personnel properly.

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H. Shipments are accurately and completely recorded on a timely basis.

Business risks

- Shipping documents will be inaccurate or incomplete.
- The order or shipping documentation will be lost.
- The company will inaccurately record the quantity and/or type of goods shipped.
- The company will not bill customers for goods shipped.
- The company will not identify unbilled shipments.
- Delays in reporting shipments will result in delayed billing and cash collections.
- Revenues and related cost of sales will be recorded in the wrong accounting period.

Control practices

1. Pre-number order and shipping documents and investigate missing documents.
2. Design the computer system to generate shipping documents directly from sales order records to ensure the accuracy of information recorded on the documents.
3. Design the system to capture information regarding shipments using tools such as scanning devices, bar coding, and data entry of shipping documents. Capture data such as: sales order authorizing the shipment, customer name and number, inventory part description and number, quantities shipped, transaction date, and the shipment terms according to the order.
4. Design the system to ensure the accuracy of the captured shipment data by comparing the information to sales order data.
5. Configure the system to produce exception reports that highlight discrepancies between shipment data and sales order reports. Review and resolve discrepancies.
6. Automatically update sales order records when orders have been filled.
7. Configure the system to periodically generate a list of sales orders that have remained unfilled for an unreasonable length of time. Appoint appropriate personnel to investigate these outstanding orders.
8. Require evidence of shipment, such as a signed bill of lading from the shipper, to establish the physical and legal transfer of goods or merchandise.
9. Segregate the shipping function from the production and receiving facilities.

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I. Installations are accurately and completely recorded on a timely basis.

Business risks

- Installations will not be initially recorded.
- Records of installations will be lost, resulting in lost revenues.
- Delays in recording installations will result in delayed billings.

Control practices

1. Record each installation on a pre-numbered installation document.
2. Ensure that the system captures all completed installation data.
3. Use the system to validate the accuracy of input data. (For example, validate product numbers and descriptions of goods installed and match them against sales order data).
4. Configure the system to automatically update sales orders to indicate services that have been completed.
5. Implement control procedures (manual or automated) to ensure that all installation documents are accounted for and entered into the system.
6. Require that employees investigate and resolve exceptions. Periodically review the results of these investigations.
7. Require evidence, such as a signed service order, to show that the customer accepted the installation.

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J. Shipment and installation transactions are reliably processed and reported.

Business risks

- Unauthorized access to shipment and installation records will occur.
- Loss, destruction, or alteration of shipment and installation records will preclude the collection of outstanding balances.
- Unauthorized changes to programs will cause unauthorized processing results.
- Use of unauthorized versions of files and/or programs will result in unauthorized or incorrect business transactions.
- Files (transaction, reference, or master) will be lost, altered, or damaged, resulting in inefficiencies, lost assets, or incorrect processing of transactions.

Control practices

1. Require proper authorization for all changes to the system's program routines.
2. Approve test results of changes to the system's programs.
3. Install computer system security controls to preclude unauthorized modification of programs.
4. Use tape and/or disk management systems to ensure that appropriate versions of transaction files, master files, and programs are used in processing.
5. Safeguard blank shipping authorizations, numerically controlled shipping documents, and bills of lading from unauthorized access and use.
6. Document key shipping procedures and use the information to train shipping personnel.
7. Require that shipping personnel comply with documented cutoff procedures.

K. Performance measures used to control and improve the process are reliable.

Business risks

- Inaccurate measurements will result in erroneous perceptions about process performance, resulting in inappropriate decisions.

Control practices

1. Collect the data required to effectively assess process performance.
2. Ensure that process personnel calculate performance measurements using standard forms completed during the course of their work.
3. Review performance measurements periodically to ensure they reflect process performance.
4. Obtain feedback through varied channels such as customer surveys, complaints, and sales and service calls, and synthesize, evaluate, summarize, and communicate the collected data to appropriate personnel, including people responsible for delivery and installation.
5. Ensure that management and employees understand the link between performance measures and customer satisfaction and that they accept these measures as tools to improve process performance.

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Compliance with applicable laws and regulations

A. The delivery process complies with all applicable laws and regulations.

Business risks

- The company will incur fines or lose its business licenses.
- The company will lose its reputation for safety and quality.
- Injured parties will sue the company if accidents occur.

Control practices

1. Require legal review of all relevant laws and regulations.
2. Request that company lawyers prepare a checklist of compliance procedures.
3. Incorporate the necessary procedures for compliance with laws and regulations in the delivery process.
4. Consult industry organizations or regulatory bodies about the adequacy of compliance procedures and possible future requirements.
5. Teach compliance procedures to all employees who need to know them.
6. Assess the delivery process periodically to test whether it complies with applicable laws and regulations.
7. Take necessary corrective action when problems within the delivery process are identified.
8. Monitor the competitive, legislative, and regulatory environments continually to ensure that the delivery process continues to operate in accordance with the market's expectations, industry standards, and new laws and regulations.