

UNIVERSITY OF TOLEDO INTERNAL AUDIT

BILL THE CUSTOMER

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of billing the customer. 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. Invoices are accurate and issued on a timely basis.
- B. Billing queries are efficiently resolved to customers' satisfaction.
- C. Invoice design and format are effective.
- D. Billings facilitate timely customer payments.
- E. Employees and management are given the information they need to control the billing process.
- F. Billings are properly authorized.
- G. Billings are accurately and completely recorded on a timely basis.
- H. Billings are reliably processed and reported.

Compliance with applicable laws and regulations

- A. Invoices submitted to customers comply with laws and regulations.

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Effectiveness and efficiency of operations

A. Invoices are accurate and issued on a timely basis.

Business risks

- Price, amount, and other information will be incorrect on the invoice.
- Duplicate recording of invoices will occur.
- Re-issuance of incorrect invoices will increase costs.
- Resolution of customer queries about incorrect invoices will delay collections.
- Customer satisfaction will decline.
- Delays in issuing invoices will cause collection delays and increase the probability of customer queries.
- Incorrect postings to sales and receivables will delay collections.

Control practices

1. Automate and integrate the billing system with information systems throughout the company.
2. Identify and address the risks related to information systems. These include obsolescence and incompatibility of the billing system with other systems.
3. Ensure that system edits exist to validate invoice data input (such as customer name and number, pricing, amounts and other information) against approved standing data and the sales order system.
4. Pre-number sequentially and account for all invoices.
5. Perform a manual or system check to ensure invoice numbers are not duplicated or fall outside a specified range of numbers (check can be preventive or detective).
6. Use batch totals before processing is complete for invoices that are input into a temporary file before sub-ledger updates.
7. Set up specific EDI transaction codes to verify for completeness and accuracy Invoice information that is transmitted via EDI.
8. Ensure that the invoicing system automatically updates the sale/receivable accounting records when an invoice is released.
9. Use a simple price structure to the extent possible and minimize invoice detail to avoid complexity.
10. Ensure that invoices contain the details customers want, to the extent possible.
11. Track performance measures regularly, such as the number of billing-related customer inquiries per month and the number and amount of adjustments to prior billings.

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B. Billing queries are efficiently resolved to customers' satisfaction.

Business risks

- Failure to resolve customer queries on a timely basis will reduce customer satisfaction, increase the cash collection cycle, and increase the likelihood of uncollectible accounts.

Control practices

1. Enable real-time interaction between employees responsible for billing, customer inquiries, and order processing so that customer issues are resolved in a timely manner.
2. Monitor customer responsiveness with performance measures such as: average number of calls required to respond to customer inquiries, average time required to resolve queries, and feedback from customer satisfaction surveys.

C. Invoice design and format are effective.

Business risks

- Inadequate invoices will reduce customer satisfaction, increase the number of customer queries, and delay cash collections.

Control practices

1. Gather feedback on the information customers want on invoices, such as product descriptions, unit prices, total prices, discounts, and taxes, and then take this feedback into account when designing invoices.
2. Ensure that customer billing protocols are understood and taken into account when preparing bills (for example, the billing location, the person to whom the bill must be directed, and any other expectations that will expedite payment).
3. Use a simple price structure whenever possible and minimize detail included to avoid complexity.

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D. Billings facilitate timely customer payments.

Business risks

- Customer payments for goods delivered and services rendered will be delayed.

Control practices

1. Document credit control procedures and define the nature and timing of follow-up activities (for example, when to send reminder notices, when to telephone, or when to use credit collection agencies).
2. Develop a solid and trusting relationship between the company's credit and collections department and the customer's accounts payable department to facilitate timely payments and dispute resolution.
3. Require that the credit and collections department maintains contact with specific employees and managers in each customer's accounts payable department so it can resolve disputes in a timely manner.

E. Employees and management are given the information they need to control the billing process.

Business risks

- Information provided to employees and management about the billing process will conflict with company objectives.
- Employees will not be able to improve the billing process on a timely basis.
- Employees and management will not be able to determine whether the billing process is operating as planned.
- Plans to improve the billing process will be based on incorrect perceptions about process performance.

Control practices

1. Establish relevant performance measures for the billing process.
2. Use quantifiable and controllable performance measures to monitor the billing process.
3. Provide performance measure reports to management in a timely manner.

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F. Billings are properly authorized.

Business risks

- Billing records will not be created in a timely manner.
- Standard contracts and shipping terms will not be used and will require interpretation between departments.
- Unauthorized personnel will have access to the billing system.

Control practices

1. Configure billing systems to create billing records routinely as soon as they have been notified that the sales order has been shipped or the service has been performed.
2. Base the creation of billing records on authorized notifications that goods have been shipped or services have been performed.
3. Use standard contracts and/or shipping terms to the extent possible.
4. Implement computer security controls that preclude unauthorized access to billing information.

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G. Billings are accurately and completely recorded on a timely basis.

Business risks

- Sales invoices will be prepared incorrectly.
- Sales invoices do not represent actual goods shipped within the proper period.
- Shipments made or services rendered will not be recorded or billed.
- Revenues and cost of sales will be incorrectly recorded and/or recorded in the wrong accounting period.
- Lost revenues and reduced customer respect will result from failures to bill customers for goods shipped or services provided.
- Incomplete or inaccurate inputs for preparation of journal entries will result in non-value-added activity to correct the errors and omissions.
- Incorrect data will be used to prepare accounting entries.
- Sales transactions will not be correctly coded.
- Shipments will be invoiced but not recorded.

Control practices

1. Configure the billing system to generate invoices automatically based on the record of shipments made or services provided.
2. Ensure that the billing system uses detail from correct and authorized files to record transaction information, such as quantities, product codes, transaction dates, customer order details, and prices.
3. Implement controls to match sales order data, shipment data, and invoice data within the billing systems.
4. Ensure that sales personnel reconcile control totals of the invoices generated for the day with the total shipments per the shipping system.
5. Configure the billing system to identify any exceptions on the invoices and produce an exception report for accounts receivable personnel.
6. Prepare and review exception reports for invoices over a specified amount and invoices containing unusual prices, terms, and discounts in a timely manner.
7. Require management approval of invoices over specified amounts or with unusual prices, terms, and discounts.
8. Generate reports automatically for shipments that remain unbilled for an unreasonable length of time.

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H. Billings are reliably processed and reported.

Business risks

- 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, and/or incorrect processing of transactions.
- Unauthorized access to the accounting records will cause unauthorized processing results.

Control practices

1. Implement controls to maintain the integrity of the programs used to process transactions (for example, for authorization of all program changes and access security controls).
2. Use only authorized versions of programs and master files.
3. Segregate the billing function (including computer based aspects) from the shipping and accounts receivable function.
4. Require formal approval by the billing application owner for access to specific records.
5. Ensure that access controls such as user IDs and passwords are used and are specific to the billing application.

Compliance with applicable laws and regulations

A. Invoices submitted to customers comply with laws and regulations.

Business risks

- The company will incur fines or other penalties.
- The company will incur bad publicity and loss of reputation.
- Inadequate documentation supporting tax-exempt status will increase the company's exposure to unbilled sales tax or value-added tax.

Control practices

1. Require that management reviews periodically all relevant laws and regulations pertaining to invoicing customers.
2. Use a compliance checklist to ensure that the billing group complies with laws and regulations.
3. Consult with industry organizations and regulatory bodies to understand all the laws and regulations that may affect billing.
4. Ensure that all billed sales or value-added taxes comply with local laws.
5. Obtain and file documentation to support the customers' tax-exempt status, in instances where taxes are not billed.