

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

## WAREHOUSE OR STORE PRODUCTS

### Control practices

The following control objectives provide a basis for strengthening your control environment for the process of warehousing or storing 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. Products are stored in an efficient manner.
- B. Products are protected from damage.
- C. Employees and management are given the information they need to control the warehouse and storage process.
- D. Relevant management information is given to managers and empowered employees on a timely basis.
- E. Records of finished goods are complete and accurate.
- F. Performance measures used to control and improve the warehouse and storage processes are reliable.

### Compliance with applicable laws and regulations

- A. Materials are handled and stored in compliance with applicable laws and regulations.

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## WAREHOUSE OR STORE PRODUCTS

Effectiveness and efficiency of operations

### **A. Products are stored in an efficient manner.**

#### **Business risks**

- Storage facility will be improperly organized.
- The company will maintain inadequate or excessive storage space.
- The lead-time for delivery to customers will be longer than necessary.

#### **Control practices**

1. Consider the possibility of outsourcing the finished goods warehousing facility.
2. Identify the appropriate number and location of warehouses.
3. Design storage areas to minimize distribution distances. Consider high volume and low volume items, complementary products, key customer requirements, and standing orders.
4. Consider advanced inventory storage and retrieval systems, such as high-rise warehousing and the use of bar codes and scanners.
5. Use relevant performance measures to monitor the efficiency of storing and retrieving finished goods. (Examples include the average time taken to fill an order and the number of orders filled per day or per hour.)

### **B. Products are protected from damage.**

#### **Business risks**

- Employees will be careless.
- Handling and storage procedures, including storage containers, facilities and maintenance, will be inappropriate for the nature of the products.
- Employees will not be familiar with handling and storage requirements or procedures.

#### **Control practices**

1. Monitor damage caused by employee carelessness.
2. Store products in containers and facilities designed with consideration for product features.
3. Create maintenance procedures and schedules that are appropriate for the nature of the storage facility.
4. Communicate handling and storage policies and procedures clearly to employees.

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**C. Employees and management are given the information they need to control the warehouse and storage process.**

### **Business risks**

- Employees will fail to improve process performance on a timely basis.
- Plans to improve the process will be based on incorrect perceptions of process performance.
- Information provided to employees and management about the warehouse and storage process will conflict with the company objectives.

### **Control practices**

1. Identify and understand customer expectations.
2. Ensure that the company's goals in relation to reducing storage costs and compressing cycle time in delivering goods to customers are identified and understood.
3. Select quantifiable and controllable performance measures to link the warehouse and storage process to company goals and customer expectations.
4. Select quantifiable and controllable performance measures that stimulate continuous improvement.
5. Identify relevant performance measures by determining what data needs to be collected and the most effective way to measure it.

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**D. Relevant management information is given to managers and empowered employees on a timely basis.**

### **Business risks**

- Information used to support business decisions will not be relevant.
- Users and managers will make poor decisions because the information they use will be incomplete, out-of-date, or irrelevant to the decision.
- Performance measures will not align with strategic plans. Measures will focus on the wrong things and provide incentives for actions that are inconsistent with the strategy.
- The results of the information process will be data rich and information poor if the available data is not synthesized, summarized, and reported at the proper level and in a useful form that supports management decisions.

### **Control practices**

1. Develop relevant performance measures that help management and empower employees to understand how critical business processes align with company objectives.
2. Identify the nature, frequency, and depth of information that must be communicated to various personnel.
3. Ensure that the employees empowered with the responsibility to control and improve the warehouse and storage process understand the relevance of the performance measures to customer satisfaction.
4. Ensure that management understands and communicates the relationship between performance measures and company objectives.
5. Implement procedures to calculate and report performance measures on a consistent basis in accordance with management's plan.
6. Use integrated systems for effectively and efficiently processing and disseminating relevant information.
7. Design control procedures into the integrated systems to provide reliable measurements.
8. Monitor performance measurements over time against desired performance levels.
9. Analyze reasons for variations between performance measures and desired performance levels.
10. Assess the effectiveness of the performance measures as a catalyst for continual movement in the warehouse and storage process.
11. Update performance measures as appropriate.

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## **E. Records of finished goods are complete and accurate.**

### **Business risks**

- The company will not meet delivery dates communicated to customers.
- Warehouse resources will be used inefficiently if employees are asked to pick products that are not available or are stored in the wrong locations.
- The company will incur additional time and expense reconciling the inventory on hand with the inventory records at the time of the physical inventory.

### **Control practices**

1. Use the computer to generate a list of long-outstanding production order numbers, either periodically or after each processing run of completed production orders to finished goods records.
2. Ensure that the computer system matches information about completed production orders with the original production orders.
3. Configure the system to generate exception reports showing any discrepancies between completed and original production orders.
4. Require that the computer or employees reconcile the results of processing production orders with predetermined control totals, and investigate and resolve any differences.
5. Require management review of production order investigations.
6. Design the computer system to price finished goods records by referring to appropriately authorized price master files.
7. Install adequate physical and logical security controls to ensure the integrity of price master files.
8. Configure the computer system to update the finished goods perpetual records online when shipping personnel enter the product information to generate shipping documents.
9. Establish an electronic interface between inventory records and the billing system to automatically update the finished goods records when shipping documents are processed for billing purposes.
10. Reconcile the general ledger control account for finished goods with the perpetual finished goods records periodically, investigate and resolve any differences.
11. Require that management reviews the reconciliations and results of finished goods investigations.

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**F. Performance measures used to control and improve the warehouse and storage processes are reliable.**

### **Business risks**

- Inaccurate measurements will produce erroneous perceptions about process performance, resulting in inappropriate decisions.
- Measures calculated using inaccurate data will drive behavior that is inconsistent with company objectives.

### **Control practices**

1. Install procedures to automatically calculate and process performance measures based on data captured at the transaction source, such as the number of shipping delays and number of orders filled per day.
2. Require that production personnel periodically review performance measures to ensure they reflect performance in the warehouse and storage process.
3. Capture relevant information about the warehouse and storage process using customer surveys and other sources, such as data on percentage of on-time deliveries.
4. Communicate relevant information about the warehouse and storage process that is gathered using customer surveys and other sources to all responsible employees on a timely basis.
5. Employ cross-functional teams to identify potential improvements in the warehouse and storage process.
6. Ensure that management and employees understand the link between performance measures and customer satisfaction.
7. Ensure that management and employees accept the use of performance measures as tools to improve performance in the warehouse and storage process.

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT WAREHOUSE OR STORE PRODUCTS

Compliance with applicable laws and regulations

## **A. Materials are handled and stored in compliance with applicable laws and regulations.**

### **Business risks**

- Employees will not be aware of applicable laws and regulations.
- Handling and storage policies and procedures will be inappropriate.

### **Control practices**

1. Monitor compliance with handling and storage policies and procedures.
2. Require that legal counsel or other qualified personnel provide information regarding applicable laws and regulations.
3. Provide periodic training regarding legal and regulatory requirements.
4. Ensure that legal counsel or other qualified personnel review handling and storage procedures.
5. Monitor accidents or problems due to inappropriate handling or storage policies or procedures.
6. Store products in containers and facilities designed with consideration for legal and regulatory requirements.