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RETAIL STORES

**internal
control systems documentation**

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I. INTRODUCTION

INTRODUCTION

The subject of internal control and its documentation has received increased attention recently, principally as a result of the enactment by Congress of the Foreign Corrupt Practices Act. While it is clear that every business requires controls to carry on its day-to-day activities, the degree of controls and their documentation varies significantly among companies. Further, while certain controls are applicable to all companies, there is no one complete set of specific controls which would be applicable to all industries. In today's environment it is incumbent upon each company to evaluate the thoroughness of its controls and to provide an adequate level of documentation. The *Touche Ross Retail Stores – Internal Control Systems Documentation Manual* is an enumeration of the principal internal controls generally in use by the retail industry. The Manual is designed to be a tool for retail operating divisions to evaluate and document their internal control systems.

The Manual is organized into six business cycles: purchasing/merchandise, purchasing/non-merchandise, selling, electronic data processing, general accounting and internal audit. These cycles are further divided into appropriate sub-cycles as listed in the Table of Contents. Principal internal control objectives are defined for each sub-cycle. Major internal controls are defined to meet the control objectives, and questions are posed to determine if the major controls exist according to company policy. Each question is worded so that a "yes" answer indicates that the specific control is in place. The methods listed are not, of course, the only alternatives for controlling a particular type of transaction. Therefore, a "no" answer could be supplemented by a description of an alternate control designed to accomplish the same objective. It is important to note that a "no" answer does not indicate a violation of the Foreign Corrupt Practices Act. If an alternative control does not exist for a "no" answer, a cost benefit analysis should be made to justify the omission of the control measure.

The Manual can be used as is, or can be tailored to meet specific company requirements. It is merely a guide and not the only set of controls for all circumstances.

It is intended that the questions will be answered by the store control division management. As a check, the answers can then be reviewed by the internal audit group to assure that there is general agreement with the answers.

A part of the evaluation of any system of internal control is the level of compliance with existing policies. This should be continuously monitored by the internal audit activity and remedial actions taken by management where required. This Manual is intended to document store policy as it is conveyed to employees, not the present level of compliance.

Systems and controls vary in their degree of automation. The concepts of the controls and questions in the Manual are generally designed so that they can be answered if either manual or automated processing is used. In circumstances where this was not totally possible, the questions have been differentiated. In addition, the Manual includes a separate cycle on electronic data processing. The section designated for "users" should be completed by each user department serviced by electronic data processing.

Part of the impetus to publish this Manual was the enactment by Congress of the requirements for documentation of internal control under the Accounting Standards Section of the Foreign Corrupt Practices Act. The first step in documentation is to describe the environment for internal control, including the roles of the board of directors, audit committee, the chief executive and other officers, the use of budgets and related exception reporting, and internal and external audit activities. The second step is the evaluation of specific controls and their documentation by use of this Manual.

The total subject of internal accounting controls and their evaluation is a broader subject than is covered by this Manual. Touche Ross has written a book entitled *Controlling Assets and Transactions – Touche Ross Accounting Control Evaluation Program (TRACE)*, which suggests a complete program for evaluation of internal controls of a business. The *Touche Ross Retail Stores – Internal Control Systems Documentation Manual* should be considered an addendum to *TRACE* for the retail industry.

Workbook copies of the *TRACE* program and the *Touche Ross Retail Stores – Internal Control Systems Documentation Manual* are available by contacting Irwin Cohen, Touche Ross & Co., 1633 Broadway, New York, New York 10019.

Irwin Cohen
Peter Derrig
Frank Rieser

II. PURCHASING – MERCHANDISE

BUYING

Control Objectives

1. Commit the company to the acquisition of merchandise at prices and in such quantities that will permit the realization of a satisfactory profit in a competitive market.
2. Administer resolution of noncompliance by vendors with purchase terms.
3. Review retail stock ledger activity for validity.

BUYING

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Merchandise plans should be prepared and approved by appropriate level of management.	A. Are seasonal, departmental merchandise plans prepared and approved by management?			
	B. Is action taken to generally comply with plans?			
2. Complete, legible and authorized purchase orders should be prepared for all merchandise.	A. Is a complete purchase order written prior to the receipt of the merchandise?			
	B. Are purchase orders legible and do they indicate quantities, price (cost and retail for internal copies) and terms?			
	C. Are all purchase orders and changes to orders approved by a divisional merchandise manager?			
	D. Are commitments compared to merchandise plans?			
	E. Are large purchase orders (as defined by store policy) required to have senior management approval?			
	F. Are all current vendors informed that only orders written on specific store purchase order forms will be considered official and honored?			
	G. Are vendors informed as to the ethical policies of the company in the vendor's relations with company employees?			
	H. Is there a set guideline as to what signatures constitute proper authorization?			
3. Buyers should be independent of other functions.	A. Are buyers and other personnel able to commit the company to the purchase of merchandise, independent of the functions of receiving, checking, marking, accounts payable and accounting?			
4. Purchase orders should be distributed on a timely basis.	A. Are the original and copies of the order sent to the order-checking department on a timely basis?			

BUYING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Are all purchase orders reviewed for completeness by the order-checking department when received?			
	C. Are the vendor copies and internal copies of the order distributed from/to the order-checking department?			
5. Cancellation of orders should be performed on a timely basis.	A. Is written notification of cancellation sent to the vendor and to the order-checking department on a timely basis?			
	B. Are cancellations approved by a divisional merchandise manager?			
6. No-order receipts should be properly reported and controlled.	A. Are reports of no-order receipts available to management on a periodic basis?			
	B. Does the report format permit corrective action by trending the department involved, and the percent of no-order receipts to total receipts?			
7. Access to "trouble" files should be by authorized personnel only.	A. Is access to "trouble" files limited to authorized personnel?			
8. "Trouble" files should be cleared promptly.	A. Are "trouble" items brought to the buyer's attention so that they can be resolved promptly, either internally or with the vendor?			
	B. Are all "trouble" items documented?			
	C. Are reports issued for unresolved "trouble" items?			
	D. Are "trouble" files periodically reviewed by management personnel to assure procedures are being followed?			
9. Buyers should review purchase journals.	A. Are buyers required to review purchase journals on a timely basis?			
	B. Are questions brought to the attention of accounts payable clerks?			
	C. Are buyers issued the results of their inquiries in writing?			
	D. Are senior merchandise management required to evaluate the effectiveness of buyers' reviews?			

RECEIVING PLATFORM

Control Objectives

1. Originate receiving documents establishing accountability for incoming merchandise by department and vendor.
2. Provide physical safeguards over merchandise in the platform area.
3. Inspect receipts and notate damage, shortage and resealing.
4. Ensure the timely processing of receipts to the checking and marking area.

RECEIVING PLATFORM

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. All merchandise should be received at only designated locations.	A. Is merchandise received only at specified locations?			
	B. Is the area for the receipt of incoming merchandise separate from the area for outgoing merchandise and trash?			
	C. Is there a policy restricting the delivery of merchandise directly to selling areas?			
	D. If merchandise is permitted to be received on the selling floor, is the receipt properly documented and approved by receiving department personnel?			
2. Security in receiving areas should be adequate.	A. Are security department personnel assigned to the receiving area?			
	B. Are doors closed and locked when not in use?			
	C. Is the receiving area restricted to authorized personnel?			
	D. Are receiving clerks required to wear uniforms or badges?			
	E. Are drivers restricted to the front area of the receiving dock?			
	F. Are movements of goods and individuals monitored by the security department?			
	G. Are trucks inspected before leaving the dock area?			
3. Information on the freight bill should be compared to the merchandise received.	A. Are the quantities of cartons or pieces (hanging garments) determined and verified to the quantities indicated on the freight bill?			

RECEIVING PLATFORM (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
4. All merchandise should be inspected for damage.	A. Are damaged or resealed packages opened at the receiving area at the time of receipt?			
5. All irregularities, including damaged or resealed cartons, should be indicated on the receiving document.	A. Is it policy to note any irregularities on the carrier's receipt?			
	B. Is it policy to note any irregularities on the receiving document (apron)?			
	C. Is the driver required to sign the store's copy of the freight bill for irregularities?			
	D. Is there a standard procedure to follow up on irregularities to ensure that the vendor or carrier is charged?			
6. Special attention should be given to high value and fragile merchandise.	A. Are there special handling procedures for valuable or fragile goods (furs, china, jewelry, etc.)?			
7. Receiving aprons or key-recs should be prepared for all receipts immediately, and should be properly controlled.	A. Is an apron prepared for each receipt of goods, which reflects the number of pieces, vendor and department?			
	B. Is the apron prepared immediately upon receipt?			
	C. Are aprons numerically controlled?			
	D. Are aprons issued only to authorized personnel?			
	E. Are receiving aprons available only at receiving locations?			
	F. Is the blank supply of aprons properly secured?			
	G. Is the receiving apron backing sent directly to the accounts payable department?			
8. All apron numbers should be noted on the driver's copy of the freight bill.	A. Is it standard procedure to record the date, the receiving number, the department number and the number of pieces on the driver's and store's copies of the freight bill?			
9. All items received should be individually identified.	A. In shipping instructions do you require that the vendor clearly label each individual carton in a shipment, noting the number of cartons, the purchase order number and the department number?			

RECEIVING PLATFORM (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
10. Merchandise should be processed promptly.	B. Do clerks check that all cartons in a receipt reflect the purchase order number, receiving apron number or other indication to aid in checking?			
	A. Is it standard policy to move receipts into the checking and marking area immediately?			
	B. Does policy prohibit merchandise from remaining on the dock area overnight?			
	C. Does policy prohibit storing merchandise in the dock area?			
11. Receiving platform employees should be independent of other functions.	A. Are platform employees prohibited from opening cartons on the dock, except for damaged receipts?			
	B. Are receiving platform employees prohibited from checking and marking goods?			
12. Merchandise should be cleared from public areas.	A. Is merchandise not permitted to accumulate on sidewalks or other areas accessible to the general public?			
13. Merchandise marked by outside services or consolidator warehouses should be verified.	A. Is all merchandise received from outside markers and consolidator warehouses recorded on manifests?			
	B. Are receipts counted and compared to the manifest?			
	C. Are discrepancies documented?			
	D. Are all manifested receipts supported by vendors' invoices and/or receiving aprons?			
	E. Is a record retained of total pieces marked for later comparison to the service's bill?			
	F. Are invoice dates compared to manifest dates to determine that receipts are processed timely?			

CHECKING AND MARKING

Control Objectives

1. Perform detailed counts of merchandise receipts, and document results.
2. Inspect merchandise for damage or shortage, and document any so noted.
3. Mark merchandise with retail prices established by buyers, as reflected on purchase orders and/or invoices to provide assurance that the retail values reflected in the departmental stock ledger correspond to merchandise markings.
4. Remark merchandise based upon authorized price changes properly documented.
5. Provide physical safeguards over merchandise in the marking room and warehousing facilities.

CHECKING AND MARKING

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Merchandise should be moved promptly from the receiving platform to the checking and marking area.	A. Is merchandise moved on a timely basis into the checking and marking area?			
2. The design of the checking and marking facility should include adequate security to reduce exposure to merchandise theft.	A. Is the checking and marking facility physically segregated from other areas in the building?			
	B. Is the layout conducive to processing receipts swiftly?			
	C. Is there space to accumulate "trouble" receipts so as not to impede the flow of work?			
	D. Is a secured area available for storing marking supplies, such as tickets and ticketing equipment?			
	E. Are employee lockers situated outside the marking area?			
3. Access to checking and marking areas should be controlled.	A. Is the area restricted to authorized personnel unless accompanied by an authorized supervisor?			
	B. Is the area secure during nonworking hours?			
	C. Are special safeguards available for checking and marking fragile or highly pilferable merchandise?			
4. The checking and marking functions should be independent.	A. Is the checking and marking room the responsibility of the operations division?			
	B. Is the checking and marking function independent of the merchandise division, accounts payable and accounting?			

CHECKING AND MARKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
5. A legible, explicit and approved purchase order should be required for all receipts of merchandise prior to processing.	A. Are purchase orders reviewed to assure proper approval by authorized personnel?			
	B. Does a standard policy exist for notifying departments in writing of no-order receipts?			
	C. Are all no-order receipts documented as such?			
	D. Does management receive a no-order report on a regular basis?			
6. All merchandise should have receiving documentation.	A. Are all merchandise receipts compared to receiving documents prior to the detailed check?			
	B. Are all containers of a shipment assembled before cartons are opened and checking begins?			
7. Receipts should be thoroughly and completely checked.	A. Are checkers required to count all merchandise?			
	B. Are checking and marking independently performed except where specifically stipulated?			
	C. Are markers required to verify the checkers' count except where specifically stipulated?			
	D. Where markers perform the primary quantity check, are adequate spot checks performed to provide assurance that marker counts are accurate?			
8. Irregularities should be verified by a supervisor and documented.	A. Are all discrepancies recounted by a supervisor?			
9. Explicit explanations of overs, shorts and damages should be included on the related receiving documents.	A. Are checkers required to document the nature and extent of overs, shorts and damage on receiving paper work?			
10. Problem vendors should be identified.	A. Are lists of vendors with poor experience maintained?			
	B. Are these lists readily accessible to checking personnel?			
11. "Trouble" merchandise should be cleared on a timely basis.	A. Is there a formalized procedure for handling "trouble" merchandise?			

CHECKING AND MARKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Is there a specific timetable for the resolution of "trouble" merchandise?			
	C. Is there a procedure for notifying management of unresolved "trouble" merchandise?			
12. Access to "trouble" and open-order files should be monitored.	A. Is the buyers' access to "trouble" files closely supervised?			
	B. Are buyers prohibited access to open-order files?			
13. All merchandise should be ticketed based on written authorization.	A. Are tickets prepared promptly and only from written prices recorded on purchase orders, invoices or receiving records (not verbal instructions)?			
	B. Is there a policy that all merchandise to be sold must be ticketed unless specifically excluded in writing?			
14. Price tickets should reflect proper information.	A. Is the first ticket made for each grouping of tickets proofread back to the purchase order, invoice or apron?			
	B. Does the marking room supervisor perform continual checks to determine that merchandise has been properly ticketed?			
	C. Is there a system for feedback when store personnel detect ticket making or marker errors?			
	D. Is the first ticket attached to the accounts payable departmental paper work?			
15. The entire shipment should be marked before release.	A. Is the complete shipment checked and marked before any portion is released, except where specifically allowed by control management?			
	B. Should it be necessary to release part of the shipment in accordance with control management's approval, is there a procedure to assure proper accountability?			
16. Marking supplies and ticket preparation should be controlled.	A. Is the blank supply of price tickets kept in a secure area?			
	B. Is use of ticket marking devices restricted to authorized personnel only?			

CHECKING AND MARKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	C. Are the number of tickets made predetermined and used to verify checker counts?			
	D. Are all price tickets under the control of the marking room supervisor?			
17. Evidence of checking and marking should be in written form.	A. Are checkers and markers required to initial the apron or invoice?			
18. The retail price on the merchandise must be the same as the retail in the purchase journal.	A. Does the system provide assurance that the retail price on the merchandise is the same as the retail in the purchase journal?			
19. Refused receipts should be properly documented.	A. Is there a system for returning merchandise to the vendor directly from the receiving room via the RTV room?			
	B. Is a prenumbered charge-back form used?			
	C. Is it cross-referenced to the invoice involved?			
	D. Is it authorized by the buyer?			
20. Merchandise should be compared to documentation by selling department personnel.	A. Does the selling department manager receive paper work in order to account for merchandise received in the department (quantity, style and retail)?			
	B. Is there a standard procedure for reporting discrepancies?			
21. All invoices, receiving copies of purchase orders and receiving aprons should be sent directly to order checking.	A. Are invoices and related paper work sent directly to order checking after merchandise is marked?			
22. Auxiliary aprons should be controlled.	A. Are checking and marking supervisory personnel required to approve auxiliary aprons?			
	B. Are the auxiliary aprons referenced to the original apron?			
	C. Are auxiliary aprons used only when necessary?			
	D. Are auxiliary aprons prenumbered and their use accounted for?			

CHECKING AND MARKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
23. Reticketing should be closely monitored and season codes observed.	A. Is proper authorization required for reticketed items?			
	B. Are reticketed items reviewed to be sure that the season on the reticketed merchandise is correct?			
24. Invoices and other receiving paper work should be safeguarded.	A. Are invoices and related paper work, including receiving aprons, purchase orders and packing slips, adequately safeguarded in the checking and marking area?			
	B. Are periodic tests made by supervisory personnel?			
25. Periodic spot checks of checking and marking should be made by supervisory personnel.	A. Are periodic tests made by supervisory personnel?			
	B. Is there a standardized procedure for testing the checking and marking function (test counts of merchandise already counted)?			
26. Waste containers should be physically segregated from the marking area and adequate security measures should exist.	A. Are waste containers physically segregated from the checking and marking area?			
	B. Is the trash removal process adequately controlled so that merchandise cannot be removed from the building?			

ORDER CHECKING

Control Objectives

1. Provide assurance that authorized orders for merchandise are received, and that the corresponding vendors' invoices with supporting documentation are processed to the accounts payable department.
2. Bring discrepancies to the attention of buyers and initiate appropriate action where resolutions are not promptly obtained.
3. Safeguard supporting documentation throughout the order-checking activity.

ORDER CHECKING

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. The order-checking function should be independent.	A. Is order-checking performed only by individuals independent of the merchandising department and checking and marking?			
	B. Is order-checking performed only at a central location under the direction of the control division?			
2. Order-checking should receive a copy of all purchase orders.	A. Does the order-checking department receive and distribute the internal and external copies of orders?			
	B. Are systems present to resolve irregularities promptly?			
3. Purchase orders should be screened prior to distribution.	A. Are purchase orders screened for legibility, completeness and proper approvals?			
	B. Are systems present to resolve irregularities promptly?			
4. Receiving aprons should be accounted for.	A. Is the receiving apron control received in order-checking directly from the receiving platform?			
	B. Are clerks required to update the control for receipt of receiving documentation?			
	C. Are unaccounted for receiving aprons reported and investigated promptly?			
	D. Are unaccounted for receiving aprons accrued at the time of the physical inventory at a minimum?			
5. Receiving documents should be compared to the order and invoice, and a determination made that all terms are complied with.	A. Are order-checkers required to: <ol style="list-style-type: none"> 1. Compare the quantity received, per receiving records, to the quantity invoiced, and prepare vendor charge-backs and credits for shortages and overages? 			

ORDER CHECKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	2. Compare the unit cost per the order to the invoice, and notify the buyer in writing of any discrepancies?			
	3. Compare discount and freight terms, per the invoice, to the order, and take the better of the two?			
	4. Verify the style and retail information on the price ticket to the purchase order?			
	5. Initial the receiving documentation when complete?			
	B. Is an original invoice supported by receiving documentation always required for further processing to accounts payable?			
	C. Is it policy to use the date of receipt of merchandise when paying bills as opposed to the invoice date?			
6. A determination should be made that overages are not offset by shortages.	A. Are over and short reports reviewed to determine if offsetting discrepancies exist?			
7. Overs, shorts and damages should be referenced to all source documents.	A. Are over, short and damage claim forms referenced to the original receiving aprons and invoices?			
8. Overages should be charged to the department and reflected as a liability.	A. Are overages charged to book stock and reflected on the accounts payable file, although the vendor will not be paid until an invoice is received?			
9. Control should be maintained over access to documents, and adequate physical safeguards should be present.	A. Is the buyer's access to open invoices and/or orders restricted to a supervised location during specific hours?			
	B. Is the order-checking area secure?			
10. "Trouble" files should be cleared promptly.	A. Are there sufficient safeguard controls over "trouble" files?			
	B. Is there a system to regularly notify management of large or old "trouble" documents?			

ORDER CHECKING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
11. "Trouble" receipts should be accrued monthly and charged to departmental stock.	A. Are "trouble" receipts accrued monthly, and at inventory time?			
12. Unmatched receivers should be under accounting control.	A. Are unmatched receivers accrued until a dummy invoice is prepared?			
	B. Are dummy invoices prepared after a specified time period for unmatched receivers?			
	C. Are dummy invoices posted to the purchase journal and reflected as a liability to the vendor?			
	D. Are dummy invoices withheld from payment until the invoice is obtained?			
	E. Are vendors requested to supply invoices for unmatched receivers?			
13. An open-to-buy system should be maintained based on approved merchandise plans.	A. Do order-checkers maintain an open-to-buy system based on approved plans?			
14. The money copy of the order should be reduced by the amount of the receipt.	A. Do order-checkers reduce the on-order amount on the order, based upon the receipt of goods?			
15. "On-order" values should be determined routinely.	A. Is the open purchase order file periodically totaled to determine the amount on order for open-to-buy control purposes?			
	B. Is a report prepared for management?			
16. Supervisory personnel should periodically review the order-checkers' work.	A. Are supervisors required to review order-checkers' work to determine that:			
	1. Documents are properly matched?			
	2. Documents are being processed on a timely basis?			
	3. Order-checking is performed thoroughly?			
	4. "Trouble" items are promptly reported to buyers and resolutions are obtained on a timely basis?			

MERCHANDISE ACCOUNTS PAYABLE AND DISBURSEMENTS

Control Objectives

1. Verify that the order-checking activity is complete and accurate.
2. Verify the clerical accuracy of vendors' invoices.
3. Develop data for inclusion in the merchandise purchase journals and ascertain that all receipts and charge-backs are accounted for.
4. Process and monitor vendor correspondence.
5. Ascertain that buyers review their purchase journals on a timely basis.
6. Verify the arithmetical accuracy of vendor return forms and assure their inclusion in the purchase journals.
7. Provide physical safeguards to retain supportive documentation in a form that can be efficiently retrieved.
8. Assure that payments for properly authorized invoices are disbursed to bona fide vendors in the proper amounts and accurately recorded in the accounting records in the period disbursed.
9. Maximize discounts earned.
10. Safeguard access to funds in bank accounts.

MERCHANDISE ACCOUNTS PAYABLE AND DISBURSEMENTS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. A determination should be made that order-checking activity is complete and accurate.	A. Are accounts payable clerks required to determine that order-checking activities were properly performed?			
2. The accounts payable and disbursement functions should be independent.	A. Are accounts payable and disbursements personnel independent of the merchandising division, receiving and marking, and accounting?			
3. A determination of the accuracy of the vendor's invoice should be made.	A. Are accounts payable clerks required to determine the arithmetical accuracy of vendor invoices?			
4. Retail extensions should be accurately performed.	A. Are retail extensions determined on a line-by-line basis?			
	B. Are retail extensions double checked at least on a test basis?			
5. Invoices should be recorded promptly.	A. Are all properly documented invoices processed within an established time frame?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Does repayment of discount to a vendor require authorization of an accounts payable supervisor?			
	C. Are there safeguards so that all additions, deletions, or changes in the vendor file are subject to review by an appropriate member of management?			
	D. Are settlements of disputed amounts (i.e., no proof of delivery or written agreement with the vendor) required to be properly authorized?			
6. All receiving documents (aprons) should be accounted for.	A. Is there a system to account for all receiving aprons written by receiving personnel?			
	B. Is there a system to account for all auxiliary aprons?			
	C. Is a periodic listing of open items issued?			
	D. Are open items accrued?			
7. All receipts, including unmatched receivers and "trouble" items should be properly recorded.	A. Are all receipts, including unmatched receivers and "trouble" items, charged to book inventory (or accrued) as of physical inventory and fiscal closings at a minimum?			
8. Independent dollar batch controls should be used to control data processing file updates.	A. Are dollar batch control totals established prior to processing media to data entry?			
	B. Are discrepancies brought to the attention of the accounts payable supervisor?			
9. Accounts payable file updates should be verified.	A. Are edit report totals compared to input controls?			
	B. Are edit reports summarized and compared to:			
	1. Purchase journals?			
	2. Accounts payable reports?			
10. Cancellation of documents should be performed promptly.	A. Are all recorded media cancelled to avoid resubmission?			
	B. Is this done on a timely basis?			
11. Updates to the vendor master file should be carefully controlled.	A. Is documentation originating from and authorized by the merchandising division required to put a new vendor on the master file?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Are accounts payable clerks required to screen the new vendor media for completeness, and approval by the accounts payable manager?			
	C. Are master file maintenance updates verified by independent clerks in the accounts payable department and approved by merchandising personnel?			
12. Direct delivery invoices should require a sales check and evidence of receipt.	A. Is there a system to assure that deliveries direct to customers from vendors are accounted for, and customers are billed before the vendors are paid?			
	B. Is the vendor required to prove delivery to the customer before payment is issued?			
	C. Is a sales check required to accompany the vendor's invoice?			
	D. Is there a system in place to assure that the purchase and the sale are recorded in the same fiscal period?			
13. Consignment invoices should be properly recorded.	A. Is there a policy that all consigned merchandise and locker stock is recorded as inventory?			
	B. Is there a procedure to withhold payment to a vendor on consignment goods and locker stocks?			
	C. Are consignment balances periodically reconciled with the vendor?			
	D. Is there assurance that proper discounts are taken if consignment invoices are subsequently paid?			
	E. Are merchants required to explain why a consignment invoice should not be paid after long duration?			
14. Duplicate invoices should be investigated.	A. Does a system exist to help prevent duplicate payments?			
	B. Are duplicate copies of invoices investigated by accounts payable with order-checking and traffic to determine whether the original invoice has been processed for payment?			
	C. Is payment of duplicate invoice copies not made upon receipt of proof of delivery until the receiving apron close-out sheet has been checked to see that the receiving apron has not already been processed?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
15. "Known shortage" invoice analysis should be performed.	A. Are "known shortage" analyses performed to determine if there are increased amounts of these invoices compared to previous years?			
	B. If there are increases, are these analyzed to learn if they are indicators of serious deficiencies in control over the flow of paper?			
16. An analysis of cost to retail markups in the purchase journal should be made to determine unusual relationships.	A. Are purchase journals examined by accounts payable personnel for items where the relationship of cost and retail differs materially from the average departmental markup, and for items which do not have a retail value?			
	B. Are these items investigated by examining the underlying media?			
17. Numerical control over the issuance and use of claims should be established.	A. Are claim forms prenumbered and controlled by the accounts payable department?			
18. Amounts due from vendors should be properly accounted for and aggressively pursued for collection.	A. Does a system exist to determine if vendor charges are appropriate items before they are recorded?			
	B. Are vendor debits numerically controlled and their use accounted for by accounts payable?			
	C. Is prompt follow-up taken on missing documents?			
	D. Are vendors issued debit balance statements?			
	E. Are aged trial balances of vendor debit balances available and issued to management?			
	F. Are merchants required to respond in writing regarding the disposition of old debits (i.e., greater than 90 days)?			
	G. Has an objective policy been established to write off (or reserve) debit balances as uncollectible after a reasonable period?			
	H. Does senior control division management authorize the write-offs?			
	I. Are excessive vendor debit write-offs investigated to learn if buyers are lax in efforts to collect or "buy out" the debit?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
19. The arithmetical accuracy of vendor return forms should be determined.	A. Are accounts payable clerks required to check the cost and retail extensions of vendor return forms?			
20. A determination should be made that all vendor return forms prepared are reflected in the purchase journal.	A. Does a system exist to assure that all vendor return forms written are accounted for in the purchase journal?			
21. Written agreements for reimbursement items should be maintained on a current basis.	A. Are there written agreements with vendors for demonstrators' allowances?			
	B. Are written agreements obtained for advertising charge-backs where possible to obtain?			
	C. Are adjustments to these agreements approved by authorized personnel?			
22. Vendor checks should be directed to the cashier.	A. Are vendor checks directed to the cash office and not to the accounts payable department?			
	B. If vendor checks are sent directly from the mailroom to the cash office, does accounts payable receive a journal voucher and supporting documents (e.g., remittance advice or photostat of check) for crediting the vendor account?			
	C. If checks are sent to accounts payable, are they restrictively endorsed in the mailroom?			
23. Vendor disputed items should be resolved timely, and with management's authorization.	A. Is vendor correspondence answered promptly and complaints resolved in an efficient, orderly fashion?			
	B. Are vendor correspondence items analyzed?			
	C. Are aged summaries of vendor analysis reports reviewed by management?			
	D. Does the accounts payable manager approve all vendor correspondence adjustments?			
	E. Does senior management approve major vendor correspondence adjustments, including write-offs?			
	F. Is an estimated liability for vendor correspondence recorded when correspondence levels and types of complaints are abnormal?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
24. The controller should review vendor correspondence.	A. Does the controller direct to himself "second requests" and refused checks as a way to measure the effectiveness of internal control?			
	B. Is the work of the correspondence clerks reviewed?			
25. Vendor statements should be reviewed for old items.	A. Are vendor's statements reviewed by accounts payable for items 60 days old?			
	B. Are all open vendor credit memos investigated to determine that a deduction has been properly recorded?			
26. Control over access to documents should be maintained.	A. Is access to the accounts payable documentation limited during working hours to authorized employees?			
	B. Is accounts payable documentation secured after working hours?			
27. Supporting documentation should be safeguarded and retained permitting efficient retrieval.	A. Is supporting media microfilmed or otherwise safeguarded and available for retrieval?			
28. A determination should be made that buyers have reviewed purchase journals on a timely basis.	A. Are buyers required to document their review of the purchase journal?			
	B. Is a report prepared indicating those buyers who have not reviewed their journals on a timely basis?			
29. The accounts payable trial balance should be independently reconciled to the general ledger.	A. Is the trial balance prepared by accounts payable reconciled to the general ledger in the accounting department?			
	B. Is the reconciliation performed promptly?			
	C. Are differences and reconciling items resolved and not permitted to build up or "swing" by large amounts from month to month?			
	D. Are adjustments to the accounts payable control authorized by the controller?			
	E. Are old balances investigated to determine why they have not been paid?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	F. Are old balances written off after a specified period?			
	G. Are the input/output control totals received by the general accounting department from the control clerk in the accounts payable department included in analyzing the change in balances from the previous month?			
30. The check-signing function should be independent.	A. Is the check-signing function performed by personnel not involved in the accounts receivable, accounts payable or cash office functions?			
	B. Do personnel signing checks not have access to blank check stock?			
	C. Is the list of authorized check-signers current?			
31. Controls over the check signing function should be maintained.	A. Is access to the facsimile signature plate restricted to authorized personnel?			
	B. Are safeguards maintained over the supply of blank checks?			
	C. Is signing of blank checks strictly prohibited?			
	D. Are the number of checks signed compared to the machine counter?			
	E. If the checks are computer signed do safeguards exist over the signing process?			
	F. Are checks not made payable to the bearer?			
	G. Are dual signatures (manual) required on checks for large amounts?			
32. Signed checks should be totaled and compared to the check register.	A. Is an adding machine tape of signed checks made and compared to the check register, at least on a "spot check" basis, to detect printing errors or any possible computer fraud?			
33. Signed checks should be mailed promptly to the payee.	A. Are signed checks not returned to accounts payable or other individuals requesting the checks?			
	B. Are signed checks directed to the mailroom and promptly mailed?			

MERCHANDISE ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
34. Cash discounts should be maximized.	A. Do procedures ensure that the greater of the following are taken as a cash discount:			
	1. Vendor terms on the invoice.			
	2. Terms per the purchase order.			
	3. Terms per the vendor terms file.			
	B. Do procedures include adequate provision for the time lag necessary to process invoices without losing discount?			
35. Timely, independent bank reconciliations should be performed.	A. Are bank reconciliations prepared promptly by someone independent of other cash functions?			
	B. Are all differences investigated promptly in order to detect errors?			
	C. Are reconciliations reviewed by a member of management?			
36. A complete listing of outstanding checks should be maintained.	A. Is a current listing of outstanding checks maintained for reference by vendor correspondence clericals and others?			
	B. Are old outstanding checks investigated and periodically reversed?			
37. Prepayments to vendors should be reviewed.	A. Are prepayments reviewed on a regular basis?			
	B. Are all items over 30 days old investigated for possibility of a duplicate payment?			
38. Prepayments should be checked against vendor debits.	A. Are invoices to be prepaid checked against the vendor debit balance file prior to payment?			
	B. Are prepaid invoices clearly marked to prevent duplicate payment?			
39. Delayed payment vouchers should be kept in a separate file.	A. In cases in which buyers or other store executives request that payments be delayed, are payment vouchers held in a segregated file?			
	B. Are delayed payment vouchers periodically reviewed to determine if they should be released?			

VENDOR RETURNS

Control Objectives

1. Verify the accuracy of information reflected on vendor return documentation and determine that all appropriate approvals are included.
2. Safeguard the merchandise and supporting documentation.
3. Ship the merchandise and distribute documentation on a timely basis.

VENDOR RETURNS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Merchandise forwarded to the return goods room should be properly documented.	A. Is merchandise sent to the return goods room properly documented to:			
	1. Prevent delay or loss in transit?			
	2. Assure proper recording of the transaction?			
	B. Is the vendor return room secure to safeguard merchandise?			
2. Vendor return personnel should be independent.	A. Are vendor return personnel independent of the merchandising division, accounts payable and accounting?			
3. Return-to-Vendor forms should be reviewed.	A. Are RTV forms reviewed in the return goods room for proper authorization and completeness of instructions?			
	B. Is the return goods room instructed to hold for investigation any RTV merchandise being shipped to an employee or individual rather than a company?			
4. Price tickets should be compared to retail prices.	A. Are price tickets removed from the merchandise only after the vendor return department checks the retail prices to the accompanying forms?			
	B. Are such tickets then destroyed to prevent misuse?			
5. Buyers should obtain vendors' approvals to return merchandise.	A. Do buyers obtain the required vendors' approvals before returning merchandise to reduce the extent of merchandise refused by vendors?			
	B. Are vendor return forms from departments returning a large amount of merchandise reviewed periodically to ascertain that merchandise is not being "shipped around the block"?			

VENDOR RETURNS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
6. Vendor returns should have "credit" approval.	A. Do store procedures require "credit" approval by the accounts payable department for vendor returns in excess of a stated minimum?			
	B. Is further approval from the controller and general merchandise manager required for returns of unusually large amounts?			
7. Merchandise should be processed timely and shipped to the vendor without delay.	A. Do procedures provide assurance that merchandise is not allowed to accumulate in the vendor return area?			
8. Returns of high value merchandise should be processed separately.	A. Are returns of fragile or valuable merchandise packaged in the selling department by personnel from the vendor return room?			
9. Inspection and control of address labels should be maintained.	A. Is an address label affixed and visible on the outside of all outgoing vendor returns?			
	B. Is merchandise not permitted to leave the store or warehouse without inspection of the return form address label at the delivery docks?			
	C. Are "On-Lot" labels stored in a secure facility and issued only as needed?			
10. RTV forms should be controlled.	A. Is the issuance of charge-back books controlled?			
	B. Are new books issued only upon receipt of the old books?			
	C. Are charge-back forms prenumbered, and are those used checked for entry in the purchase journal?			
	D. Are all missing numbers promptly investigated?			
	E. Are vendor return room personnel prohibited access to blank RTV forms?			
	F. Are shipping copies of voided RTV forms controlled?			
11. Truckers should sign the bill of lading or RTV form.	A. Do truckers sign the accounts payable department's copy of the RTV form or bill of lading as evidence of receipt of merchandise?			

VENDOR RETURNS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
12. The original of the RTV form should be mailed to the vendor.	A. Is the original copy of the RTV form sent promptly to the vendor's accounts receivable department, separate from the shipment, to inform them of the shipment?			
13. Freight charges to vendors should be reviewed.	A. Is the decision of buyers to charge or not charge freight to vendors reviewed by the accounts payable department?			
	B. Since vendors should be charged with both incoming and outgoing freight on defective merchandise, canceled orders, etc., are they so charged?			
14. Owned merchandise out of the store must be controlled and its return verified.	A. When merchandise is out for repairs, is it charged to vendors or the outside repairer?			
	B. Is there adequate follow-up to assure return of merchandise to the store?			
	C. If merchandise out for repairs is recorded only on a memorandum basis, are there controls to guard against improper payments to the vendor when the merchandise is returned?			
15. The terms of RTVs should be periodically reviewed.	A. Are the RTVs periodically reviewed by the accounts payable department to determine that the terms of the return are the same as those of the original purchase and are consistent for a given vendor?			
16. Out-of-store inventory should be included in physical inventory.	A. Is out-of-store merchandise which has not been charged back to a vendor included in the inventory reconciliation?			
17. Sales to jobbers should be treated as returns.	A. Are sales to jobbers and other stores of close-out merchandise routed through the vendor return area?			
	B. Is such a sale recorded on an RTV form?			
	C. Is any return to other than the original vendor approved by the controller's office?			
	D. Is any difference between the retail on the RTV and retail on the merchandise recorded as a markdown with appropriate cross-referencing on the related forms?			

TRAFFIC

Control Objectives

1. Determine the most economical and direct means for shipping merchandise.
2. Determine the propriety of freight charges submitted by truckers and vendors.
3. File and administer the collection of claims.
4. Research proof-of-delivery claims.
5. Safeguard records.

TRAFFIC

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Purchase orders should contain explicit routing instructions.	A. Do purchase orders contain explicit routing instructions, FOB point, and destination?			
	B. Is the traffic department responsible for issuing instructions for proper routing?			
	C. Does the buyer use these instructions in completing his purchase order?			
2. The traffic department should approve all invoices for freight charges.	A. Are freight charges, whether an invoice from a freight carrier or a vendor's invoice showing a freight charge, approved by the traffic department?			
	B. Before giving such approval, does the traffic department refer to the key-rec backing sheet to verify that:			
	1. The merchandise was received without exception?			
	2. The freight is properly payable by the store?			
	3. The freight payment has not previously been approved on some other invoice?			
	A. Is a copy of the key-rec backing sheet directed to the traffic department to serve as a checklist for approval of freight charges?			

TRAFFIC (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
4. The traffic department should verify all invoice calculations.	A. In approving invoices for payment, does the traffic department check whether the appropriate amount has been charged by reviewing the routings, unit base for computation of freight charges (number of pounds, cubic feet, pieces, etc.), the rates charged per unit, and computation of extensions and footings?			
	B. Does the traffic department have an up-to-date reference file of routing guides, published tariffs, conversion tables, etc., for use in this review?			
5. Freight department personnel should be independent.	A. Are freight department personnel independent of other functions?			
6. A control account should be maintained over open claims.	A. Is a control account maintained over open claims in the accounts payable department?			
	B. Does the accounts payable department balance the claims detail to the control account at regular intervals?			
7. Carton shortages and damages noted by the receiving department should be followed up.	A. Is a follow-up made on all shortages and damages reported by the receiving department?			
8. Traffic claims should be cleared promptly.	A. Are transportation claims followed up promptly to minimize write-offs?			
9. Old traffic claims should be reviewed by accounts payable.	A. Does the accounts payable department investigate old claims and determine their status?			
10. Traffic claim write-offs should be approved by the controller.	A. Are freight claims to be written off as uncollectible, approved by the controller?			
11. Vendor proof-of-delivery claims should be investigated by the traffic department.	A. Is the traffic department required to investigate and approve all vendor proof-of-delivery claims?			
12. The traffic department should not receive checks for traffic claims.	A. Are claim remittance checks sent directly to the cashier?			
13. The unallocated freight account should be reviewed.	A. Is the accounting department alert to any unusual buildup in the balance of the unallocated freight account?			

TRAFFIC (Cont'd)

- Desired Control**
- 14. Freight audit results should be reviewed.
 - 15. All supporting documentation should be safeguarded.
 - 16. The traffic department should be reviewed periodically.

- Compliance Question**
- B. Are charges being properly allocated?
 - A. Are the results of freight auditor findings reviewed for corrective action?
 - A. Is supporting documentation properly safeguarded and accessible only to authorized personnel?
 - A. Are freight costs and operations of the traffic department independently reviewed at reasonable intervals?
 - B. Is any unusual concentration of business with specific freight carriers challenged?

✓ N/A	✓ YES	✓ NO

INVENTORY

Control Objectives

Stock Ledger

- 1. Maintain retail stock ledger.

Price Changes

- 1. Remark and document authorized changes in retail prices to ensure that merchandise is marked at prices generally expected to be realized.

Interstore Transfers

- 1. Establish physical safeguards and document control for the interstore transfer of merchandise.
- 2. Separate Stock Stores - Provide controls to ensure proper accounting for transfers by department and location.

Physical Inventory

- 1. By periodic physical inventories, determine an accurate retail value for all merchandise on hand as of a specific date, and that information recorded in the stock ledger corresponds for cutoff purposes to the timing of the inventory counting.

Warehouse and Storage

- 1. Store merchandise in a manner to prevent damage and provide efficient retrieval.
- 2. Maintain records of merchandise stored.

Workrooms and Cost Departments

- 1. Provide efficient service on a cost-effective basis.

Security

- 1. Develop programs for the physical safeguard of assets in accordance with the authority delegated by senior management, and document activities.

STOCK LEDGER

<u>Desired Control</u>	<u>Compliance Question</u>
1. The accuracy of stock ledgers should be verified.	A. Is the accuracy of the stock ledger input from such sources as purchase files, sales files, price change files, and transfer files verified?
	B. Is the stock ledger reconciled to the general ledger by general accounting to assure that information being used to develop merchandise statistics agrees with the general ledger?

✓ N/A	✓ YES	✓ NO

PRICE CHANGES (Cont'd)

Desired Control

- 7. The use of markup cancellations should be carefully controlled.

Compliance Question

- A. Are there policies strictly limiting the use of markup cancellations?
- B. Are markup cancellation documents cross-referenced to original marking documentation?
- C. Does someone in the control division approve markup cancellations?

✓ N/A	✓ YES	✓ NO

INTERSTORE TRANSFERS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. No merchandise should move between locations without accompanying documentation.	A. Is there a policy prohibiting merchandise movement without documentation?			
2. Transfer forms should be signed and the information verified.	A. Are transfer forms completed and signed by the person sending the merchandise?			
	B. Is the information on the form verified?			
✓ 3. Merchandise should be transferred in locked/secured containers.	A. Is merchandise transferred in locked hampers and cages?			
	B. Are locks on hampers and cages operative at all times?			
4. Individual transfers should be manifested.	A. Are manifests prepared listing each transfer separately?			
5. Truck seals should be used to control truck contents.	A. Are truck seals used at the sending location and the seal number recorded on the manifest?			
	B. Does the receiving location check the seal number?			
6. Merchandise should be compared to the listing on the truck manifest.	A. Do receiving clerks verify that all transfers listed on the truck manifest are properly received?			
7. Merchandise should be counted when shipped in unsealed containers.	A. Do receiving clerks verify piece counts of inbound transfers if the transfer unit is unsealed or unsealed?			
8. Selling department should verify receipt of merchandise.	A. Do selling department personnel verify that all merchandise on the transfer form is received?			
	B. Do they verify that the other information on the form is correct?			
	C. Is there a procedure to report and resolve differences?			
9. Unreturned manifests should be investigated.	A. Does the transferring store promptly follow up any manifest forms not promptly returned (receipted copy)?			

INTERSTORE TRANSFERS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Are such items reported immediately to security?			
10. Receiving and shipping platform should be restricted to authorized personnel.	A. Are only authorized personnel allowed in the platform area?			
	B. Are drivers' movements on the dock closely observed?			
11. Manifest forms should be controlled.	A. Are seals and manifest forms available only to authorized personnel?			
	B. Are they numerically controlled?			
	C. Do truck drivers never have access to unused seals or manifest forms?			
12. Any altered document should be investigated.	A. Are any alterations of seal numbers on transfer forms or manifests reported to protection and followed up?			
	B. Are any differences in seal numbers reported and followed up?			
13. Trucks should contain security devices.	A. Are trucks equipped with alarm devices to detect unauthorized entry?			
	B. Are trucks locked?			
	C. Are keys to truck locks controlled and unavailable to drivers?			
14. Test checks should be made on transfer merchandise.	A. Are periodic reviews made to determine that departments receiving merchandise transfers are: <ol style="list-style-type: none"> 1. Counting merchandise received? 2. Comparing the counts to the transfer forms? 3. Reporting differences? 			
15. Transfer discrepancy trends should be reviewed.	A. Are trends in missing transfers accumulated and reported?			
16. Time lags should be reviewed.	A. Are manifest forms dated and time stamped at the sending and receiving locations?			

INTERSTORE TRANSFERS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
17. The calculations on the transfer forms should be verified.	B. Are periodic reviews made of elapsed times to determine if drivers are stopping in transit?			
	A. Is the mathematical accuracy of extensions and footings on transfer forms tested?			
	B. Is the accuracy of posting transfers to the stock ledgers verified?			
18. Store personnel should review transfer journals.	A. Are transfer journals distributed to appropriate store personnel?			
	B. Are store personnel required to document their review of transfer journals?			

PHYSICAL INVENTORY (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
9. Test counts should be made by the controller's office.	A. When the stock has been listed, do representatives of the controller's office make independent test counts of a predetermined percent of the total inventory?			
	B. Are items selected to be recounted in a way to assure the testing of a representative cross section of the entire stock on hand?			
	C. Once the controller's representatives complete the test checks, do they retain control of the inventory sheets and/or tags until they are delivered to the custody of the controller's office?			
10. Predetermined "cutoff" procedures should be established.	A. Are financial documents affecting the inventory "cut off" at a predetermined time according to a schedule prepared by the controller's office for the following areas:			
	1. Receiving?			
	2. Customer delivery?			
	3. Unfilled sales checks?			
	4. Interstore transfers?			
	5. RTVs?			
	6. Customer returns?			
	7. Price changes?			
	8. Sales and credits?			
	B. Are the "cutoffs" noted on the face of the forms as "before" or "after" inventory?			
	C. Are the "cutoff" numbers noted on an "Inventory Cutoff Report"?			
11. The count sheets should be extended under the supervision of the controller's department.	A. Are the count sheets extended either internally or by an outside service, under the control of the controller's department?			
	B. Are computations rechecked on a test basis?			
	C. Are the inventory sheets maintained under the control of the controller's office until the results of the inventory are recorded?			

PHYSICAL INVENTORY (Cont'd)

Desired Control

12. The results of the physical inventory should be reconciled to the stock ledger.

Compliance Question

- A. Are the results of the physical inventory reconciled by department to the stock ledger?
- B. Is the "cutoff" information used in the reconciliation verified?
- C. Are unusual shortage or overage results investigated?
- D. Are shortage results recorded?
- E. Does a reasonable policy exist governing the recording of overages?

✓ N/A	✓ YES	✓ NO

WAREHOUSE AND STORAGE

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. A warehouse locator system should be maintained.	A. Is a warehouse locator system maintained that is integrated with unit record controls designed to aid stockmen in locating merchandise?			
	B. Are controls in place to ensure that stockmen properly identify merchandise locations in the locator system when merchandise is originally stored and if it is later moved?			
2. Not-in-location (NIL) situations should be properly investigated and reported to management.	A. Do supervisors attempt to locate NIL merchandise?			
3. Adequate physical security should be maintained in the warehouse and storage areas.	A. Does the physical security for warehouse and storage areas include: 1. A trained security force? 2. Monitoring devices? 3. Supervision? 4. A security-conscious plant layout?			
4. Control should be maintained for inventory at outside warehouses.	A. Do outside warehouses provide the store with evidence of proper insurance coverage?			
	B. Do outside warehouses periodically provide an inventory of merchandise on hand for comparison with store records?			
	C. Is merchandise in outside warehouses counted and reconciled to book records at physical inventory time?			
5. Receipts should be processed in accordance with normal receiving procedures.	A. See "Receiving Platform."			
6. Transfers should be processed in accordance with normal transfer procedures.	A. See "Interstore Transfers."			
7. Customer sends should be processed in accordance with send procedures.	A. See "Wrap, Pack and Delivery."			

WAREHOUSE AND STORAGE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
8. The warehouse should be clean and orderly.	A. Is the warehouse kept clean to prevent injury and damage to merchandise?			
9. Physical book records should be reconciled.	A. Are unit records compared and adjusted at physical inventory time to actual quantities on hand?			
10. Unit control records should be utilized where appropriate.	A. Are unit control records maintained for "big ticket" departments?			
11. Record keeping should be segregated from merchandise handling.	A. Are clerks maintaining unit records and locator records not involved with handling merchandise?			
12. Unit control records should be maintained independently of selling departments.	A. Are selling departments prohibited from controlling unit control records?			
13. The proper "owned-at" retail should be reflected in the unit control records.	A. Are procedures adequate to ensure the following:			
	1. The "owned-at" retail price per the unit control record agrees to the retail per the purchase order?			
	2. Unit control records are adequately safeguarded to prevent unauthorized alteration of information?			
14. Price changes should be recorded whenever the sales price differs from the "owned-at" amount.	3. All price changes are reflected on the unit control record based upon a properly authorized price change form?			
	A. Are procedures adequate to assure that all "big ticket" sales checks are compared to the unit control records, and a price change prepared when the sales price differs from that shown in the records?			
	B. Is the mathematical accuracy of the price change verified?			
15. The inventory value of the merchandise should be based upon the unit control records, not any marked price.	C. Are procedures adequate to provide assurance that every price change is reported to the statistical department (i.e., comparison of sales for purposes of comparison to the unit control record reconciled to audited sales or numerical control of the price change form)?			
	A. Are physical inventory sheets priced from the unit control records under the direction of the control division?			

WORKROOMS AND COST DEPARTMENTS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Workroom and cost departments should be independent of selling departments.	A. Do the managers of workrooms and customer service departments not report to the related selling department managers?			
2. Sales should be controlled.	A. Are sales checks and customer work orders issued on prenumbered forms?			
	B. Are all sales checks and customer work orders accounted for on a periodic basis to ensure all revenue is recognized?			
3. Registers should be balanced daily.	A. Are cash registers, where used, cleared every day and receipts balanced to the register totals?			
	B. Are these registers controlled the same as retail departments?			
4. Workrooms and cost departments should maintain a perpetual inventory.	A. Do workrooms' and cost departments' inventory control systems include perpetual records of repair parts or other materials on hand?			
	B. Are physical inventories taken or checked by personnel independent of the workroom or cost department?			
	C. Are perpetual records adjusted by physical inventories?			
	D. Are significant differences between perpetual records and physical counts investigated?			
	E. Are goods belonging to customers or to selling departments properly labeled?			
	F. Are controls maintained for parts in servicemen's trucks?			
5. Transfer procedures should be formalized.	A. Does the store prescribe procedures for transferring merchandise between a workroom and the related selling department?			
	B. Do these transfer procedures prevent either the workroom or the selling department from being overcharged for goods?			

WORKROOMS AND COST DEPARTMENTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
6. Statements should be prepared regularly.	A. Are budgets and operating statements for workrooms and cost departments issued, reviewed, and compared regularly?			
	B. Are fluctuations in key figures investigated?			
	C. Are production standards established and monitored?			
7. Workrooms and cost department operations should be reviewed.	A. Are independent reviews made of workroom and cost department operations periodically for compliance with prescribed procedures?			

√ N/A	√ YES	√ NO

SECURITY

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. The store should have a coordinated loss prevention and security activity.	A. Does the store have an overall plan for loss prevention which takes into account the cost benefit considerations for the use of both security personnel and mechanical security measures such as closed circuit television, alarms, "sensomatic" devices, etc.?			
2. A loss prevention training program should be in effect.	A. Are loss prevention techniques emphasized to every employee periodically?			
	B. Are loss prevention techniques taught to new employees during their initial training period?			
	C. Are booklets, films, etc., used in loss prevention training?			
	D. Is a publicity campaign covering loss prevention coordinated with the training department?			
3. Security equipment should be tested.	A. Is anti-shoplifting equipment continually tested?			
	B. Are alarms set off on a test basis, and response times to these alarms analyzed?			
	C. Is new protection equipment tested prior to installation?			
4. Guard coverage should be reviewed.	A. Is the effectiveness of and necessity for uniformed guard coverage periodically reviewed?			
5. Periodic reports should be prepared concerning loss prevention.	A. Are periodic reports prepared summarizing the loss prevention activities of the security department, to include:			
	1. The number of apprehensions?			
	2. The number of prosecutions?			
	3. The amount of merchandise recovered?			
	4. The amount of money received in restitution?			
6. Relationships with internal audit should be reviewed.	A. Are security's relationships with the internal audit department defined and maintained?			
	B. Is a follow-up of audit derived weaknesses conducted?			

SECURITY (Cont'd)

Desired Control

- 7. Merchandise used as evidence should be controlled.

Compliance Question

- A. Is merchandise which is being held as evidence for shoplifting cases under accounting control?

✓ N/A	✓ YES	✓ NO

III. PURCHASING – NONMERCHANDISE

EXPENSE AND CAPITAL

Control Objectives

1. Commit the company to the acquisition of appropriate goods and services at competitive prices.
2. Ascertain that goods and services were received in accordance with terms of authorized purchase orders or contracts.
3. Verify the clerical accuracy of vendors' invoices.
4. Provide assurance that all invoices are properly authorized, promptly recorded and accurately classified.
5. Process payment of invoices to bona fide vendors and maximize discounts.
6. Establish budgetary concepts and standards of efficiency and report against them.
7. Safeguard assets and documentation.
8. Petty Cash – Establish policies and provide controlled cash funds for the disbursement of relatively minor amounts.

EXPENSE AND CAPITAL

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Expense and capital improvements clerks should be independent.	A. Are expense and capital improvement accounts payable clerks restricted from having duties for the following:			
	1. Awarding contracts/selecting vendors?			
	2. Preparing:			
	a. Purchase orders?			
	b. Receivers?			
	c. Vendor checks?			
	3. Mailing checks to vendors?			
2. Expense and capital budgets should be established.	A. Are budgets prepared in reasonable detail for all departments (including capital expenditures)?			
	B. Does senior management approve the expense and capital improvements budgets?			
	C. Are reports maintained detailing variances between budgeted and actual amounts?			
	D. Are explanations for variances obtained and reported?			

EXPENSE AND CAPITAL (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	E. Are special precautions taken where the same department will award contracts, verify the receipt of goods or services, and approve the invoice for payment?			
	F. Is a timely expense report given to each individual for the expenses for which he is responsible?			
7. Vendor invoices should be properly controlled throughout the processing cycle.	A. Are vendor invoices received in the expense accounts payable department through the mail directly from the vendor?			
	B. Is the invoice logged upon receipt and prior to distribution to the appropriate department for authorization?			
	C. Are open invoices accrued at the end of the accounting period based upon the actual amount, not the budgeted amount?			
	D. Are amounts accrued for expenses incurred for which no invoice has yet been received?			
	E. Are invoices and supporting documentation cancelled after processing and filed in a secure manner?			
8. The proper amount for payment should be determined.	A. Is the arithmetical accuracy of the invoice verified?			
	B. Are procedures sufficient to ensure maximum discounts?			
9. Proper input/out control totals should be established.	A. Are invoice batch control totals developed prior to data entry?			
	B. Are output totals reconciled to the batch controls?			
10. Disbursements should be controlled in the same manner as for merchandise accounts payable.	A. See "Merchandise Accounts Payable and Disbursements."			
11. The sale of capital assets or expense related items should be controlled.	A. Is there a procedure for controlling the sale of capital assets or expense related items?			
	B. Is the sale price approved by someone independent of the person arranging the sale?			

PETTY CASH

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Petty cash should be used to pay expenses which are relatively minor in amount.	A. Does a policy exist as to the types and amounts of expenditures that can be made by petty cash?			•
	B. Is petty cash used for the payment of amounts which are relatively minor?			
2. Individuals disbursing petty cash funds should not be approvers.	A. Are cash office clerks not permitted to approve petty cash vouchers?			
3. An up-to-date facsimile signature list should indicate authorized approvers, including limits and account numbers, and should be referred to when disbursing funds.	A. Is the chief financial officer required to indicate levels of approval authority?			
	B. Is an up-to-date facsimile signature list available to cash office clerks indicating:			
	1. Name of authorizer?			
	2. Dollar limit?			
	3. Account numbers?			
4. Adequate supportive documentation should accompany the approved petty cash voucher.	A. Are cash office clerks required to verify the authorization signature to the list as the funds are being disbursed?			
	B. Do cash office clerks review the supportive documentation?			
5. The recipient's signature should be recorded on the petty cash slip.	A. Are clerks required to obtain the recipient's signature on the petty cash slip?			
6. Petty cash should not be used to pay employees' compensation.	A. Is petty cash restricted from being used to pay compensation for company employees?			
	B. If it is used to pay employees, is such compensation included in W-2s?			
	C. If petty cash is used to pay "outside contractors" (e.g. demonstrators' salaries, security), are Forms 1099 issued?			
7. The slip and supportive documentation should be cancelled to prevent resubmission.	A. Are clerks required to cancel the documents?			

PETTY CASH (Cont'd)

Desired Control

- 8. Petty cash disbursements should be reflected on the daily cash report, supported by the cancelled slips and reviewed by general accounting.

- 9. The disbursements should be analyzed, summarized and reported.

Compliance Question

- A. Are petty cash disbursements reported on the daily cash report?
- B. Are the slips required to accompany the cash report?
- C. Does the general accounting department verify that the petty cash disbursements per the cash report are supported by valid petty cash slips?

- A. Are the disbursements analyzed, summarized and prepared for entry?
- B. Is the expense center charged with the appropriate petty cash expenditures?
- C. Is the media adequately safeguarded and filed?

✓ N/A	✓ YES	✓ NO

PAYROLL

Control Objectives

1. Establish and maintain files necessary for the payment of employees' compensation in accordance with management's authorization.
2. Compute and distribute payroll funds to employees on a timely basis for approved time worked.
3. Maintain the information necessary to prepare reports for governmental agencies, insurance carriers and management, and prepare such reports and/or tax returns on a timely basis.
4. Provide assurance that all payroll-related costs are promptly recorded, accurately classified and distributed to the proper accounts.
5. Report payroll and related costs to appropriate managerial personnel on a timely basis.
6. Safeguard payroll records and establish adequate controls to provide assurance that funds are disbursed for all payroll-related items.

PAYROLL

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. The payroll department should be independent.	A. Are all pay rates, rate changes and deduction data communicated in writing to the payroll department?			
	B. Are all such changes properly authorized?			
	C. Are key adjustments initiated by the personnel department?			
	D. Are payroll records periodically checked to personnel department records?			
	E. Are payroll personnel independent of all other departments?			
2. Personnel and pay rate budgets should be prepared for every department.	A. Are staffing and pay rate budgets prepared for each department?			
	B. Are budgets approved by management?			
3. Time sheets should be maintained.	A. Are employees required to sign or "clock" in and out daily?			
	B. Does overtime require supervisory approval?			
	C. Is prior management approval matched to recorded overtime hours, with differences investigated?			
	D. Are time sheets reviewed for authorization?			

PAYROLL (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	E. Are excessive overtime hours challenged?			
4. Payroll changes should be reviewed.	A. Are payroll file changes reviewed for proper approvals?			
	B. Are unusual changes brought to the attention of the personnel department?			
	C. Are terminated employees removed from the file promptly?			
5. Payroll costs should be distributed to the proper department.	A. Are payroll costs charged to departments in accordance with store policy?			
	B. Are payroll costs reported to department managers on a timely basis?			
	C. Are costs compared to predetermined budgets and variances explained?			
6. Salary advances, vacation and sick pay should be controlled.	A. Is there a written policy for salary advances?			
	B. Is the policy followed?			
	C. Are there vacation pay standards?			
	D. Is vacation pay compliance monitored?			
	E. Does a policy exist for sick pay?			
7. Batch control totals should be utilized.	A. Are batch control totals by hours worked or dollars developed prior to preparing payroll checks?			
	B. Are totals for each batch reconciled to the computed payroll?			
	C. Are differences promptly corrected?			
8. Access to signature plates should be controlled.	A. Are signature plates kept in a secure location?			
	B. Are signature plates available to authorized personnel only?			
	C. Is blank check stock controlled?			
	D. Is the number of checks used reconciled to the check register?			

PAYROLL (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
9. Authorized personnel should pick up and distribute payroll checks.	A. Is distribution of payroll checks controlled through department managers or their authorized representatives picking up payroll checks and distributing them to their department?			
	B. Are independent surprise payoffs made?			
10. Unclaimed payroll checks should be reviewed.	A. Are unclaimed payroll checks promptly returned to and held by the payroll department for a specified period?			
	B. After this specified period, is a list of held checks prepared and the list forwarded to the personnel office?			
	C. Are held checks never returned to the personnel office?			
11. Tax returns and other government reports, and reports for other outside purposes should be prepared promptly.	A. Are payroll tax returns prepared and filed timely?			
	B. Are tax payments timely?			
	C. Are reports to insurance carriers and other outsiders timely?			
	D. Are all reports and payments verified to recorded amounts before disbursement?			
12. Payroll records should be safeguarded.	A. Are payroll records secured and made available only to authorized personnel?			

PERSONNEL AND TRAINING

Control Objectives

1. Interview and coordinate the selection of new employees in accordance with management's authorization.
2. Train employees.
3. Maintain and safeguard employee personnel records.
4. Administer compensation and employee benefit programs.
5. Negotiate and maintain relationships with unions.
6. Oversee compliance with relevant government regulations and reporting requirements.

PERSONNEL AND TRAINING

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. The personnel function should be independent.	A. Are job openings and related new hires approved by an authorized individual independent of the personnel department?			
	B. Are personnel clerks independent of processing the payroll?			
	C. Do persons other than personnel clerks distribute paychecks?			
	D. Are personnel department employees independent of all other functions?			
2. Reference and credit checks should be performed for prospective employees.	A. Are prospective employees carefully screened?			
	B. Are reference checks (personal and prior employers) and credit checks made and retained in employees' personnel files?			
	C. Is additional scrutiny given in investigating prospective employees for hire in sensitive areas such as cashiers, porters, and security?			
	D. Is there a policy against hiring relatives, particularly in sensitive positions?			
3. Personnel records should be current.	A. Are personnel records current?			
	B. Are W-4 Forms, payroll deduction authorizations, etc., updated periodically?			
	C. Is access to personnel files restricted?			

PERSONNEL AND TRAINING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
4. Salary changes should be within personnel department guidelines.	A. Does personnel establish pay rate ranges for various jobs?			
	B. Are requests for rate increases tested against the predetermined ranges?			
5. There should be a policy for nonstandard pay.	A. Is a list of paid holidays prepared?			
	B. Is there a policy for jury duty?			
	C. Is there an overtime policy?			
	D. Are there policies for employees who receive tips?			
	E. Are there policies for employees who receive commissions covering:			
	1. Eligibility?			
	2. Qualifying merchandise?			
	3. Returned merchandise?			
6. There should be a written employee discount policy.	A. Is the employee discount policy written and communicated to all eligible employees?			
	B. Is each employee issued a unique identification card and is the issuance of these cards controlled?			
	C. If discount is computed via the employees' charge account purchases are there controls to monitor this activity?			
7. Employee violations should be documented.	A. Are violations of store procedures and policies noted in individual employee folders?			
	B. Are employees with a history of frequent errors retrained?			
8. Personnel training manuals should be current.	A. Are all training and procedures manuals current?			
	B. Are manuals available for all departments?			
	C. Do new employees receive training?			
	D. Are retraining programs conducted regularly?			

PERSONNEL AND TRAINING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO	
9. "Exit interviews" should be conducted.	A. Is an "exit interview" conducted every time an employee is terminated?				
	B. Are the following covered in the exit interview:	1. Return of employee's store I.D. card and discount card?			
		2. Status of employee's charge accounts?			
		3. Status of employee's group insurance policies (covering renewal privileges)?			
		4. Employee's forwarding address?			
10. Records should be maintained to prove compliance with government standards.	A. Are records maintained to prove compliance with government standards, such as:				
	1. Payment of minimum wage?				
	2. Equal employment opportunities?				
	3. Overtime?				
	4. Child labor?				
	5. Equal pay?				
	6. ERISA?				
	7. OSHA?				

IV. SELLING

SELLING FLOOR

Control Objectives

Selling Floor

1. Record sales transactions at the proper prices.
2. Document authorized customer merchandise returns.
3. Obtain authorizations for charge transactions.
4. Safeguard cash receipts and media.
5. Safeguard merchandise on the sales floor, in stockrooms, and other areas (i.e., COD, layaway, central wrap).
6. Properly execute authorized price changes.

Wrap, Pack and Delivery

1. Assure that all merchandise shipped from the store is recorded as a sale.
2. Safeguard the merchandise through the delivery procedures.

COD and Layaway

1. Process and record COD and layaway transactions to assure proper collection for valid sales.

Mail and Telephone Order

1. Control mail and telephone orders so that they are filled in accordance with customer requests and the store collects the proper amounts of the sales.

Leased Departments

1. Determine compliance with lease agreements.

SELLING FLOOR

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. All registers in use throughout the store should be authorized registers.	A. Is a current listing maintained of all registers in the store, active and inactive?			
	B. Are all registers accounted for daily?			
2. Registers should be maintained in good repair, including the printing device.	A. Are selling personnel instructed to report all malfunctioning registers?			
	B. Is a determination made that registers are "franking" properly?			

✓ N/A	✓ YES	✓ NO

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
3. Access to registers should be restricted and controlled.	A. Are the following procedures utilized to control unauthorized access to registers:			
	1. Are register keys required to operate the register?			
	2. Are the keys issued to authorized personnel only?			
	3. Are register keys properly secured at all times to prevent unauthorized use or duplication?			
4. Opening and closing procedures should be adequately controlled.	4. Are registers locked when unattended?			
	A. Are daily opening and closing register readings obtained?			
	B. Is the closing reading obtained by someone independent of operating the register (i.e., entering transactions)?			
	C. Is a special key (e.g., "Z") required to close a register?			
	D. Are the closeout keys adequately secured?			
5. Registers should be equipped with control devices to detect misuse regarding opening and closing procedures.	E. Are the opening and closing readings recorded on the journal log and are the throw-outs directed to the sales audit department?			
	A. Are transaction numbers and accumulators in a sequence which cannot be altered?			
	B. Are there counters which record the number of times a total has been cleared?			
	C. Are there counters which record the number of times a special key is used to reset the register?			
	D. Are there counters which record the number of times a register has been read?			
6. Sales transactions should be recorded at the proper amount.	E. Are registers restricted from having "non-add" and "non-print" keys?			
	A. Are salesclerks required to enter sales information based upon the marked price?			
	B. Are adequate procedures established to obtain price checks when the price is questionable?			

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
7. A proof-of-purchase should be provided but duplicate proofs-of-purchase should never exist.	A. Does the register always provide a "throw-out" or "franked" sales transaction?			
	B. Are registers engineered to prevent a "franking" and a "throw-out" simultaneously?			
8. Proofs-of-purchase should be for valid sales only.	A. Are procedures adequate to prevent a proof-of-purchase being produced without a valid sales transaction occurring?			
	B. Are training registers or media equipped to prevent valid proofs-of-purchase?			
	C. Are registers under repair adequately altered to prevent misuse (i.e., removing the imprinting logo)?			
9. The register display should be in full customer view.	A. Are register displays in full view of the customer?			
10. Sales checks should be complete.	A. Are sales checks prepared completely and legibly?			
11. Sales checks should be written only when merchandise is in stock.	A. Are sales checks written only when merchandise is in stock?			
	B. Are special forms used in lieu of a sales check when merchandise is not in stock?			
	C. Are special orders for items not in stock not recorded as sales?			
12. The shipping label portion of a sales check should be cancelled for all "take" transactions.	A. Do sales checks for all "take" transactions have the address label portion crossed out or otherwise made inoperative?			
13. The issuance and use of sales books should be numerically controlled.	A. Is the issuance and use of sales books numerically controlled by the sales audit department?			
14. Sales books should be safeguarded.	A. Are salespeople restricted from leaving sales books unattended and accessible to the public or other employees?			
15. Missing sales checks should be investigated.	A. Are missing sales checks researched on a timely basis?			

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
16. Void transactions should be properly approved and directed to the sales audit department.	A. Are voided transactions approved by authorized personnel?			
	B. Are all copies of void sales checks sent to the sales audit department in the media envelope?			
17. The issuance and use of customer credit forms should be numerically controlled.	A. Are customer credit forms (those used for issuing refunds, charge credits, and mail check refunds) numerically controlled?			
	B. Are customer credit forms inventoried periodically?			
	C. Are missing books and forms investigated promptly?			
	D. Are additional customer credit forms issued only after the old books are returned and all forms accounted for?			
18. The customer credit forms should be adequately secured.	A. Are customer credit forms locked at night to prevent loss or misuse?			
19. Customer credits for merchandise returns should be properly approved.	A. Is an authorized individual required to approve customer credits after examining the goods and obtaining the proof-of-purchase?			
	B. Are authorized approvers issued an identifiable badge (i.e., red pencil, yellow flower, etc.) designating them as approvers?			
	C. Are approvers restricted from approving customer credits they may have prepared?			
20. Merchandise returns should be verified before issuing the credit.	A. Is the return of merchandise verified before customer "pickup" credits are recorded?			
21. Credit amounts should be written to prevent alteration.	A. Does the customer credit form contain the amount of credit written in words and numbers?			
	B. Is the customer credit form written in ink?			
	C. Does the credit form contain the following protective features: <ul style="list-style-type: none"> 1. Customer's name, address, and signature? 			

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	2. Reference to original sales check?			
	3. Reason for refund?			
	4. Space to indicate type of original transaction (charge or cash)?			
	5. Space to indicate maximum limit of refund form?			
22. Honored credit and refund documents should be cancelled.	A. Do cancellation procedures adequately prevent re-submission?			
23. Statistical reports for returns should be reviewed by management.	A. Does management receive statistical reports regarding customer returns?			
24. Cash refunds should be closely reviewed.	A. Are mail check refunds used to reduce fraud?			
	B. Can refunds be cashed only at the cashier's office?			
	C. Is the volume of cash refunds reviewed for abnormal fluctuation?			
25. Register over and shorts should be determined on a timely basis.	A. Are procedures established to determine register over and shorts?			
	B. Are register over and shorts determined on a timely basis?			
	C. Where separate drawers are used, are register over and shorts determined by salesperson or cashier?			
26. Sales personnel should obtain appropriate authorization for all charge sales.	A. Do sales personnel have appropriate instructions and proper training regarding authorization for charge sales?			
	B. Are adequate authorization tools available to sales personnel?			
	C. Do salespeople document authorization on the sales check?			
	D. Are procedures adequate to deter salespeople from completing a charge sales transaction for a customer not granted authorization?			
	E. Are sales personnel trained in credit referral procedures?			

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
27. Safeguards should exist for the acceptance of customer bank checks.	A. Is identification required for customers paying by check?			
	B. Is the identification information listed on the back of the check?			
	C. Are checks matched to a negative "bad check" list?			
	D. Is approval required for large checks?			
28. Cash and media should be adequately safeguarded.	A. Are customer receipts secured during the day?			
	B. Do procedures require media to be placed in locked drawers throughout the day?			
	C. Are tissue copies of sales checks retained by the selling department?			
29. Point of sale registers should be properly controlled.	A. Does an authorized store representative "bring-up" the computer system each day?			
	B. Does the authorized person complete a log indicating that required procedures were followed?			
	C. Are registers inoperative unless a proper identification code is entered?			
	D. Do salesclerks enter transactions in the registers as they occur and not allow them to accumulate for later entry?			
	E. Are transaction number sequences checked by the computer?			
	F. Are prenumbered forms used to record transactions when the system is temporarily "down"?			
	G. Are these forms accounted for?			
	H. Does the register retain transactions in the event of a power failure?			
30. The store controller for POS should be located in a secure place and accessible to authorized personnel only.	A. Is the store controller located in a secure place?			
	B. Are procedures adequate to restrict the area to authorized personnel?			

SELLING FLOOR (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
31. Adequate attention should be given to the safeguarding of merchandise on the sales floor, stockrooms and other areas.	A. Are personnel required to adhere to merchandise display standards (i.e., chained merchandise, etc.)?			
	B. Are employees required to wear identification badges?			
	C. Are only authorized personnel allowed in nonpublic areas and all others challenged?			
	D. Are mysterious disappearances of merchandise reported to the security department?			
	E. Do fitting rooms have adequate coverage?			
	F. Are customers greeted promptly?			
	G. Is security notified promptly of unusual activities?			
32. Sales personnel should properly execute authorized price changes when required to do so.	A. Are marking room personnel present to supervise price changes made "on the selling floor"?			
	B. If salespeople are allowed to execute price changes without marking room supervision, are the following controls exercised:			
	1. Are changes in price based upon written authorization properly approved?			
	2. Are all price changes documented on the proper price change form?			
	3. Does a supervisor check the remarker's work, including the accuracy of information recorded on the price change form?			
	4. Are the checker and marker required to initial the price change form?			
	5. Are adequate safeguards present to provide assurance that completed price change forms will be directed to the central office?			

WRAP, PACK AND DELIVERY

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Merchandise should be safeguarded.	A. Is merchandise moving from the selling departments to the delivery areas properly protected and controlled?			
	B. Is merchandise left overnight in central wrap stored in a locked facility?			
	C. Does security merchandise (i.e., highly pilferable items) receive special handling, such as locked facilities, to move and hold goods?			
	D. Are customer sends on the shipping platform inspected to detect irregularities?			
	E. Are the delivery platform areas cleared of all merchandise daily?			
	F. Is any merchandise left in these areas overnight locked up?			
2. Sales checks should be agreed to merchandise wrapped and packed.	A. Do central wrap clerks compare merchandise to register validated sales checks?			
	B. Do central wrap clerks ascertain that the contents of packages being wrapped agree with items listed on the sales checks with respect to:			
	1. Quantity?			
	2. Price?			
	3. Department number?			
	C. Is gift-wrapped merchandise spot checked to determine that it is a valid sale?			
3. Error slips should be prepared when central wrap clerks note discrepancies in package sends.	A. Are errors recorded on an error slip which is attached to the merchandise and sent back to the selling department?			
	B. Are such error slips summarized for trends and reported to management?			
4. "No cost" deliveries should be approved.	A. Do all deliveries of "no cost" (customer's own goods) have an authorized signature?			
	B. Is a list of all such authorized signatures accessible to wrapping and packing personnel?			

WRAP, PACK AND DELIVERY (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
5. The address label should be validated.	A. Is each address label validated by register franking?			
	B. Is each label inspected by delivery department personnel to determine the validity of the sale?			
6. "On Lot" labels should be controlled and available to authorized personnel.	A. Are "On Lot" labels strictly controlled and issued only to authorized personnel?			
7. "Customer sends" should be manifested.	A. Do stores using "shuttle" operations for customer sends include the sales check number and number of packages on the truck manifest?			
8. A validated sales check should initiate a big ticket send.	A. Is a validated sales check used to initiate a big ticket send?			
9. Unit control should pull the locator card and update the unit records.	A. Does the unit control clerk verify that the merchandise is in-house according to locator records?			
	B. Are the unit control records updated for the transaction?			
10. The merchandise should be pulled, inspected and readied for delivery, notating any NILs.	A. Are pick slips directed to stockmen directly from the unit control department?			
	B. Is merchandise pulled, inspected and readied for delivery, notating any NILs?			
	C. Are NILs investigated?			
11. Delivery should be documented and follow-up procedures established.	A. Are truck manifests utilized?			
	B. Is a signed receipt obtained from the customer for merchandise delivered?			
	C. Is the return of nondelivered merchandise controlled?			
12. Exchanges should be controlled.	A. Are procedures involving even or uneven exchanges adequate to prevent exchange merchandise from being sent out of the store without the customer being charged?			
	B. In an exchange, is the new merchandise sent on a sales check that indicates the merchandise to be returned?			
	C. Are procedures adequate to ensure that pickup merchandise is properly received?			

COD AND LAYAWAY

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. COD sales checks should be independently controlled.	A. Is a separate COD sales check used to avoid failure to collect for COD deliveries?			
	B. Is recognizing revenue for COD merchandise not in stock the same as special orders?			
	C. Is a special form used for customer's special orders?			
	D. Are COD sales checks reviewed by sales audit clerks to determine if salesclerks are complying with store policy?			
2. An aged trial balance of CODs should be reconciled monthly to the general ledger.	A. Is an aged trial balance made each month of open CODs?			
	B. Is the trial balance reconciled to the general ledger?			
	C. Are differences investigated?			
	D. Does the store have a system for promptly following up open CODs?			
3. Cash collected on CODs should be deposited promptly.	A. Is cash collected by the store's drivers and outside carriers promptly deposited?			
	B. Do outside agencies deposit receipts directly to the store's account?			
	C. Are receipts for the store kept separate from the carrier's funds?			
4. COD credit documents should be cancelled.	A. Are COD credit documents used to reduce the outstanding receivable, cancelled to prevent their re-use?			
5. Return merchandise should be verified to supporting paper work.	A. Is the return of merchandise verified to the driver's manifest by the shipping manager and returns clerk before issuing the customer credit?			
	B. Is returned merchandise and cash collected reconciled to the delivery manifest?			
6. The COD file clerk should not receive any payments or issue credits.	A. Is the clerk maintaining the open file of CODs restricted from handling payments and issuing credits?			

COD AND LAYAWAY (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
7. Layaways should be centralized.	A. Is a centralized (i.e., not in the individual selling departments) layaway department used for layaway sales when there is a large volume of layaway transactions?			
	B. Are procedures adequate to determine whether layaways are being followed up and whether merchandise is being segregated?			
8. The layaway department should be independently reviewed.	A. Are the following procedures followed by someone other than the layaway clerk:			
	1. Preparing an aged trial balance and reconciling it to the general ledger control account?			
	2. Tracing the trial balance to merchandise, accounting for all merchandise?			
	3. Reconciling old items, unmatched items, and investigating the differences?			
	4. Checking compliance with store policy?			
	B. Are selling department personnel denied access to merchandise in the central layaway storage room?			
9. The sales check and validated additional payments should serve as supporting documentation for the individual ledger card.	A. Is a validated copy of the sales check and additional payment form attached to all ledger cards?			
	B. Are the opening balances on the ledger cards agreed to the sales checks by someone other than the layaway clerk?			
10. Storage facilities should be neat and orderly.	A. Is merchandise securely and neatly stored?			
	B. Is merchandise protected from damage?			
	C. Is a locator system used to facilitate the location of merchandise?			
11. Layaway items should be controlled during physical inventory.	A. Is a determination made at the time that selling departments take inventory that layaway merchandise is not included in the physical?			
12. Dunning procedures should be followed for layaway accounts and proper cancellation procedures should exist for aborted layaway sales.	A. Are regular dunning procedures used for delinquent layaway accounts?			

COD AND LAYAWAY (Cont'd)

Desired Control

Compliance Question

13. Supportive documentation for COD and layaway transactions should be adequately safeguarded.

- B. Does the last notice sent to the customer inform him that the merchandise is being returned to stock?
- C. After a predetermined period of time, is the layaway sale cancelled?
- D. Is a special form used to authorize the return of the merchandise to stock?
- E. Does the layaway department obtain a receipt from the selling department for the merchandise?
- F. If the merchandise is not salable at the original value, is a markdown taken?
- G. When a refund is authorized, is the refund form prepared for the proper amount?
- H. Are records of deposits not refunded maintained to allow adequate follow-up?
- A. Are adequate safeguards utilized for the preservation of COD and layaway supportive documentation?

✓ N/A	✓ YES	✓ NO

MAIL AND TELEPHONE ORDER

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Mail and telephone order sales checks should be register validated and the registers properly controlled.	A. Is a sales check prepared for each mail order?			
	B. Is the sales check validated?			
	C. Do individuals independent of the mail and telephone order department read and clear the mail order register?			
	D. Are register controls the same as the controls over the registers on the selling floor?			
2. Mail order payment policies should be established.	A. Does the store have predetermined limits as to the maximum amount a payment can be short and still have the order filled?			
	B. Are all overpayments repaid to the customer?			
	C. Are mail order refunds checked for authorization and propriety?			
3. Orders should be processed promptly and adequate follow-up procedures should be made.	A. Are mail and telephone orders processed promptly?			
	B. Does the mail and telephone order department review files of unfilled sales checks for old items?			
	C. Do clerks contact the selling department for reasons why such orders are still open?			
	D. Are customers notified if an order is to be held for more than a few days?			
4. Charges for mail and telephone orders should be subject to credit authorization.	A. Prior to processing mail and telephone orders that are to be charged to customer accounts, is proper credit authorization received?			
5. Telephone orders should be documented.	A. Are telephone order-board clerks instructed as to information required by the selling department to fill the order?			
6. Throw-outs should be distinctive to avoid duplication.	A. If a cash register throw-out is used as a cash substitute, is the throw-out sufficiently distinctive so that it cannot be duplicated elsewhere in the store?			

LEASED DEPARTMENTS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Lease agreements should be in writing.	A. Are leased department agreements documented and signed by appropriate personnel?			
2. Leased departments' selling activity should be reviewed.	A. Are leased departments' sales checks reviewed to determine if the lessee is selling merchandise of other departments?			
	B. Is the leased department examined to determine if it has accepted customer returns from another department?			
	C. Are customer adjustments scanned for recurring complaints applicable to a leased department?			
3. Lessee advances should be approved.	A. When stores advance money to lessees for operations or leasehold improvements, are these advances approved?			
	B. Do such advances have reasonable payment terms?			
4. Common charges to leased departments should be reviewed.	A. Are common charges to leased departments reviewed, including the following:			
	1. Supplies and display items?			
	2. Bad checks and bad debts?			
	3. Cash register shortages?			
	4. Leasehold improvements?			
	5. Part-time employees and supplementary benefits?			
	6. Freight?			
	7. Special services?			
5. Lessee insurance should be adequate.	A. Do lessees file certificates of insurance with the store showing that they have adequate insurance?			
	B. Are special risk areas considered in evaluating the adequacy of coverage?			
6. Lessee statements should be issued promptly.	A. Are statements issued to lessees promptly?			
	B. Are problems presented by the lessee quickly resolved?			

CASH OFFICE

Control Objectives

1. Safeguard funds from store receipts, funds for operations (i.e., general fund), and documents which constitute monetary value (i.e., gift certificates).
2. Verify the salesperson's cash report and ascertain that all register funds are properly turned in.
3. Prepare and document the bank deposit.
4. Account for the issuance and use of monetary documents.
5. Safeguard records.

CASH OFFICE

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Cash register receipts throughout the store should be properly controlled, accounted for and reported to the sales audit department and security when appropriate.	A. Does the cash office have knowledge of all registers in operation throughout the store?			
	B. Is a determination made that a deposit is received for all registers?			
	C. Are all funds counted?			
	D. Are counted funds compared to recorded amounts on the cash envelope?			
	E. Are discrepancies in excess of a predetermined minor amount reported to security for investigation?			
2. Cash office receipts should be deposited promptly.	A. Do procedures exist to provide assurance that the cash office receipts are promptly deposited?			
	B. Is a copy of the deposit ticket forwarded to the general accounting office?			
	C. Is the deposit balanced to register activity and sales for the day?			
3. All cash office funds should be controlled.	A. Are all funds in the cash office, including the blank supply of gift certificates and other negotiable media, included in the daily cash reports?			
	B. Is the custodian of each fund required to sign a receipt at the time that the fund is issued?			
	C. Is the general fund balance increased or decreased in accordance with changes in weekly or seasonal needs?			

CASH OFFICE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	D. Is an independent surprise cash count made periodically?			
4. The cashier's funds should be counted daily.	A. Are the cashier's funds counted daily?			
	B. Does the count include all negotiable media?			
	C. Are overages and shortages determined and investigated?			
	D. Are overages and shortages included on the daily cash report?			
5. The cash office should have appropriate safeguards.	A. Is the cashier's office protected against unauthorized access by an effective entry control and alarm system?			
	B. Is a double door access system, whereby both doors cannot be opened simultaneously, used?			
	C. Is the alarm switch readily accessible to cashiers?			
	D. Is access to safe combinations limited?			
	E. Are alarm systems used for all safes holding receipts overnight?			
6. Cash office register activity should be entered in the customer's presence.	A. Are window cash receipts rung on the register in the presence of the customer?			
7. Register readings should not be made by the cashier.	A. Are cash registers read and cleared by someone other than the cashier?			
8. Cash office registers should be audited.	A. Are cash office registers audited using standard register audit procedures?			
9. The cash office should control miscellaneous receipts.	A. Are checks from miscellaneous sources received in the mail sent to the cash office and deposited?			
	B. Does the cash office notify the department for which the remittance was intended?			
	C. Are correspondence or remittance advices received with the checks sent to the department with the notification?			

CASH OFFICE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	D. Is currency received in the mailroom extracted and recorded in a log book?			
10. Vending machine receipts should be reviewed periodically.	A. Are receipts from vending machines collected periodically by someone other than the regular collector?			
	B. Are the receipts of this collection compared to other collections for reasonableness?			
11. Checks sent to departments should be restrictively endorsed.	A. If checks from miscellaneous sources or unidentified checks are sent to departments, are they restrictively endorsed and dated?			
	B. Are salesclerks and cashiers instructed to notify the security department of any checks which have a restrictive endorsement presented in payment for merchandise or on account?			
12. All negotiable documents should be controlled.	A. Is the issuance and redemption of negotiable documents (e.g., gift certificates, scrip, holiday money) controlled?			
13. Cashiers should be independent.	A. Are all accounts receivable media controlled by personnel other than clerks handling cash?			
	B. Is the processing of customer mail payments performed by personnel who do not have access to cash funds?			
	C. Are cashiers not allowed to prepare customer credits?			
	D. Are cashiers not permitted access to accounting records?			
14. Cash media should be prepared in a way that makes alteration of amounts impossible.	A. Is a machine or an indelible pencil used to validate amounts?			
	B. Are cash media effectively cancelled to prevent reuse?			
15. Cash office personnel require special consideration for reference checks and bonding.	A. Are cash office personnel and window cashiers bonded?			
	B. Are cash office personnel carefully screened before hiring?			

CASH OFFICE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
16. Accounting controls should be exercised for customer remittance checks and deposits.	A. Are checks batched and dollar control totals developed?			
	B. Does the deposit agree to the total dollar value of all the batches?			
	C. Is the deposit amount reported to the general accounting department and the accounts receivable cycle control clerk?			
	D. Is the deposit amount matched with the bank's deposit slip and the amount reported to the accounts receivable control clerk?			
	E. Does the dollar update to the financial master file agree to the amount of the deposit?			
17. Remittance advices and checks should be referenced.	A. Do media reflect the date, batch number, or some other reference number, for audit trail purposes?			
18. Adequate security precautions should be maintained over customer checks.	A. Are security measures over customer checks adequate to minimize exposure to loss or alteration?			
	B. Are checks deposited promptly?			
	C. Are postdated checks stored separately and properly controlled until they can be deposited?			
	D. Are payments received without a remittance advice processed promptly?			
	E. Are checks forwarded for look-up restrictively endorsed and listed?			
	F. Are all checks in look-up cleared promptly?			

SALES AUDIT

Control Objectives

1. Determine and report departmental audited sales data.
2. Determine cash register over/short.
3. Control the issuance and use of forms relevant to selling operations.
4. Safeguard records.

SALES AUDIT

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Departmental sales should be determined and reported on a timely basis.	A. Are procedures adequate to provide assurance that departmental sales are properly accumulated?			
	B. Are final audited sales developed on a timely basis according to a schedule?			
	C. Is a status report submitted daily?			
2. A complete list of all registers should be maintained and accounted for daily.	A. Is an up-to-date list of all active and inactive cash registers maintained?			
	B. Are salesclerk media envelopes compared to the register list to detect missing envelopes?			
	C. Are missing envelopes immediately investigated?			
3. Adequate controls should exist for point-of-sale (POS) terminals.	A. Are all sales transactions at the cash registers which are not transmitted to the host computer controlled and accounted for?			
	B. Are all void entries accounted for?			
	C. Are voids reviewed for proper approval?			
	D. Are customer credits reviewed for proper approvals?			
	E. Are all adjustments by sales audit clerks documented and approved?			
	F. Are there controls to assure that all register audit adjustments are processed?			
	G. Do dollar limits exist for adjustments which require supervisory approval?			
	H. Are control totals developed for the update to the audited sales files and the accounts receivable financial master file?			

SALES AUDIT (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	I. Are output reports reviewed to determine that all registers are properly balanced?			
	J. Does a control clerk compare output totals to input dollar control totals?			
	K. Does the control clerk also determine that all sales for the day which are transmitted to the host computer, plus sales audit adjustments, equal the output control totals?			
4. Control of register transactions should be maintained (register audit).	A. Are registers read by employees independent of the selling departments and working under the supervision of the sales audit department?			
	B. Are register transaction numbers checked as follows:			
	1. Is the beginning transaction number or other key control number for the current day compared to the ending number of the prior day?			
	2. Are journal log tapes scanned for numerical sequence, at least on a test basis?			
5. For stores using a tally audit system, the numerical sequence of sales checks should be controlled.	A. Are the beginning numbers of each day's sales check compared to the ending numbers of the preceding day?			
	B. Is the sequence of numbers reviewed?			
	C. Are missing sales checks listed and reported to the selling department?			
	D. Are large numbers of missing sales checks reported to the protection department for investigation?			
	E. Are partially used books which are not in use returned to sales audit?			
	F. Are sales books locked up when salespersons leave the selling floor and at night?			
6. A determination should be made that the proper department is credited with a sale (tally audit).	A. Are procedures adequate to provide assurance that the correct department is credited with a sale?			

SALES AUDIT (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
7. Access to sales books should be controlled (tally audit).	A. Are the blank supplies of sales books secured and only accessible to authorized personnel?			
	B. Are sales books issued in sequence?			
	C. Are sales books issued only to authorized personnel who sign for the books?			
	D. Are periodic inventories of unissued sales books made by persons independent of sales audit?			
	E. Are missing sales books reported to sales audit and protection?			
	F. Are sales checks that turn up from missing books immediately traced?			
8. A current listing of authorized approvers for various selling transactions should be maintained and approvals on the media should be periodically checked.	A. Is a current list of persons who can approve customer credits, COG sales checks, "no sale" rings, voids, bill adjustments, etc., maintained in sales audit?			
	B. Is there a facsimile signature list of all authorized approvers?			
	C. Is a periodic review made of sales media for completeness, legibility and, where applicable, authorization?			
9. Customer credits should be carefully reviewed.	A. Are tests (i.e., confirmations) made to detect fictitious cash refunds?			
	B. Are charge accounts of "sensitive employees" reviewed to see if they contain large numbers of credits?			
	C. Are customer credits confirmed to detect fictitious refunds?			
	D. Are "adjustment" or policy credits accumulated separately for reporting?			
10. Voids should be accounted for and reviewed.	A. Are all copies of voided sales checks sent to sales audit?			
	B. Are they accounted for in balancing the cash register?			
	C. Are void transactions reviewed to determine that all voids are documented and on a spot check basis proper approval has been obtained?			

SALES AUDIT (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
11. The cash report should agree to sales audit's totals.	A. Is the daily cash report from the cash office compared with figures developed in the sales audit department by register and in total?			
12. Audited sales should be compared to flash sales.	A. Are daily audited sales by department compared to flash sales as reported by the selling departments?			
	B. Are large differences investigated and reconciled as a reasonableness test of the proper accumulation of audited sales?			
13. Sales and charge accounts receivable should be compared.	A. Is a daily comparison made between the total of audited net charge sales and the accounts receivable cycle controls?			
	B. Are differences investigated above an established minimum?			
14. If applicable, sales checks should be compared to tally envelopes.	A. When tally envelopes are used rather than actual sales checks to compile sales by department, are sales checks compared, on a test basis, to accumulations on the tallies?			
	B. Are differences reported to training?			
15. Sales audit changes by register should be documented.	A. Is there a complete record by register of the adjustments made during the audit process?			
16. Over/short reports should be prepared and reviewed on a timely basis.	A. Are over and short reports promptly prepared for each register?			
	B. Are significant variations investigated by sales audit, security, and/or training?			
17. Media should be secure.	A. Are all media locked up overnight?			
	B. Are unauthorized persons not permitted in the area unless supervised?			
18. The status of unfulfilled transactions should be reviewed regularly.	A. Are the following types of transactions regularly followed up to see that the merchandise is either delivered or the sale cancelled:			
	1. Special orders for merchandise "sold" but not received from vendor or delivered to the customer?			

SALES AUDIT (Cont'd)
Desired Control

Compliance Question

		✓ N/A	✓ YES	✓ NO
	2. Hold orders for merchandise sold but not delivered?			
	3. Sales checks which are not processed or billed to the customer awaiting credit approval (tally audit stores)?			
19. Calculations of sales checks and credits should be verified on a spot check basis.	A. Are additions and extensions of sales checks and credits of "big ticket" departments rechecked?			
	B. Are sales checks of other departments tested?			
20. Customer deposit documents should be compared to sales checks and a determination made that the sales check is validated at the time of delivery.	A. When deposits taken on merchandise are recorded on prenumbered forms, are these forms matched to sales checks when the final sale is made?			
	B. Are such sales checks not validated until the merchandise is delivered to the customer?			
21. Sales-on-approval files should be reviewed.	A. Are sales-on-approval and loaned merchandise records maintained by sales audit?			
	B. Are older items followed up?			
22. Employee discount totals should be determined.	A. Are separate totals established for employee discounts?			
	B. If employee discounts are computed by data processing are they periodically tested for reasonableness?			

ACCOUNTS RECEIVABLE

Control Objectives

Accounts Receivable

1. Provide customers with timely and accurate billing statements.
2. Safeguard accounts receivable records.

New Accounts

1. Approve new account applications for credit based on uniform criteria.
2. Control chargeplate issuance.

Authorization

1. Authorize credit to appropriate customers.

Collection

1. Collect accounts which are not paid according to standard credit terms.

Bill Adjustment

1. Respond to customers' bill inquiries on a timely basis.
2. Process adjustments to customers accounts.

ACCOUNTS RECEIVABLE

<u>Desired Control</u>	<u>Compliance Question</u>
1. The accounts receivable trial balance should be reconciled to the general ledger control account and activity should be analyzed.	A. At the end of the month, are the general ledger controls promptly reconciled with the accounts receivable control records? B. Are differences investigated and resolved on a timely basis? C. Is an analysis performed whereby the current month's balance is analyzed as to the following changes since the previous month's closing balance: 1. Charge sales? 2. Customer payments? 3. Credits? 4. Adjustments? 5. Finance charges? 6. Write-offs?

✓ N/A	✓ YES	✓ NO

ACCOUNTS RECEIVABLE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
	D. Are hold bill requests effective for only a minimum period?			
	E. Does the collection department review hold bill forms to determine if any are currently in collection status?			
	F. Are "permanent" holds prohibited?			
7. Mail function should be independent.	A. Are statement mailing activities performed by personnel independent of accounts receivable, credit, or the cashier's departments?			
8. Undeliverable customer billing statements require attention to obtain a proper address.	A. Are undeliverable customers' statements returned to the credit department for research?			
	B. Is the status of such returned statements or correspondence reflected on the authorization file on a timely basis?			
	C. Is the customer stopped from shopping until a proper address is obtained?			
9. The cycle control clerk should be independent of initiating or processing any accounts receivable transactions.	A. Is the control clerk prohibited from creating any of the control figures?			
	B. Is the control clerk prohibited from having any duties which require processing updates to the accounts receivable file (i.e., bill adjustments, unapplieds, etc.)?			
	C. Is there a periodic, detailed check of the control clerk's functions?			
10. Transfer and adjustment procedures should be formalized.	A. Are there written procedures for transfers and adjustments?			
11. Transfers and adjustments should be documented, approved and the form controlled.	A. Is a form used for transfers and adjustments?			
	B. Are all transfers and adjustments approved by a supervisor?			
	C. Are transfer books controlled and issued only to authorized personnel?			

ACCOUNTS RECEIVABLE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO	
12. Unapplied transactions should be identified, independently controlled, investigated and properly applied or otherwise resolved.	A. Are cash and credit media that cannot be identified with a customer's account (i.e., unapplieds) independently dollar controlled?				
	B. Are unidentified media balanced and reconciled to the dollar control at least monthly?				
	C. Are transfers from the unapplied account into active or P/L account made only on the basis of a form approved by an authorized person?				
13. Bona fide employees should receive the proper employee discount.	A. Is appropriate store-issued identification required for floor employees' discounts?				
	B. When an employee is terminated, does the personnel department obtain this identification?				
	C. When an employee is terminated or leaves, is accounts receivable notified that the employee is no longer with the store so that, if applicable, his account can be transferred from the employees' cycle to the regular files, thereby halting any further employee discounts?				
	D. Are employees' charge accounts periodically reviewed to detect the following:				
	1. Sales with discounts in excess of that allowed by store policy?				
	2. Discounts not taken off returns where the original sale was at a discount?				
	3. Credits on returns where the account was not charged for purchase of the item?				
	4. Employees buying in excess of their estimated ability based on their earnings?				
	14. Special discounts for employees should be properly authorized and reviewed.	A. Are executive discounts authorized by senior management?			
		B. Are special discounts controlled by the controller's office?			
15. Review should be made for the accounts of employees in sensitive positions.	A. Are special tests performed on accounts of employees who have involvement in the processing of accounts receivable media?				

ACCOUNTS RECEIVABLE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
	B. If an employee's account becomes badly delinquent, are special collection procedures instituted?			
16. The conversion of accounts receivable transactions should be independently controlled.	A. Are the control totals established independently by user departments?			
	B. Are the personnel involved in the control of the data entry process independent of processing accounts receivable transactions and data processing operations?			
	C. Is the daily input of customer accounts receivable transactions balanced with predetermined totals before update to the financial master files?			
	D. Is the balancing based on type of transaction and account?			
17. File maintenance should be independently controlled.	A. Is the control for input of customer file maintenance performed by individuals not involved in data processing?			
	B. Is the update determined properly by comparison to the source documents or predetermined hash totals, etc.?			
	C. Are all source documents and input accounted for?			
	D. Are these documents properly approved?			
18. A master file search should be performed periodically for automated systems.	A. Is an independent master file search made periodically to total the file, isolate large and abnormal transactions, balances or conditions?			
	B. Are the results of the search thoroughly investigated?			
19. Computer generated entries should be reviewed.	A. Are entries generated by the system, such as service charges, write-offs, etc., periodically checked for accuracy and compliance with guidelines?			
	B. Are automatic agings, customer account status, dunning, etc., periodically verified for accuracy?			

ACCOUNTS RECEIVABLE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
<i>Manual Billing</i>				
20. Access to the accounts receivable area should be controlled.	A. Are customers' account files located in a separate area?			
	B. Is access to this area restricted to authorized personnel?			
21. All unbilled media should be secured.	A. Are accounts receivable media always protected during nonworking hours?			
	B. Are all such media in all departments placed in locked, fireproof files or vaults at night?			
	C. Is access to customer files restricted?			
22. Statistical reports should be maintained of billing errors.	A. Are statistical reports maintained as to the number and source of billing statement errors?			
	B. When problems are identified, is remedial action taken?			
23. The opening and closing balances should agree.	A. Is the opening balance of a tray agreed with the closing balance of the previous month?			
	B. Are small differences not tolerated?			
24. Monthly comparisons should be made of billing balances and control totals.	A. Is a monthly comparison of billing balances and control figures by type of transaction (charge, cash, credit, etc.) maintained?			
	B. Are batches of unbilled media controlled by cycle billing date to prevent billing cutoff errors?			
25. Accounts receivable should verify totals of all media received.	A. At least on a test basis, does the accounts receivable department verify that the dollar value of media batches received from sales audit agrees with the figures for such media as entered in the control accounts?			
26. A production schedule should be established and maintained.	A. To avoid billing delays are measures in place to ensure that production flow through the department is on schedule?			

ACCOUNTS RECEIVABLE (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
27. Billing machines should always be attended.	A. Are billing machine operators not permitted to leave a billing machine unattended for an extended period of time while trays are in the process of billing?			
	B. If the billing machine must be left unattended, do billing machine operators take steps such as the following to see that no unauthorized entries are made:			
	1. Clear the machine by total or subtotal?			
	2. Initial the tape at the point of last entry?			
28. All billing media should be cancelled.	A. Are all media cancelled after billing to minimize the possibility of duplicate processing?			
29. Billing totals should be agreed to control totals before mailing.	A. Are billing totals agreed to control totals before mailing to ensure that all media are billed?			
	B. Is the quality of the microfilm checked before the billed media is released for mailing?			
30. Media stuffing should be controlled.	A. Is stuffing media into customers' accounts the sole responsibility of particular personnel?			

NEW ACCOUNTS

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
1. Credit granting should be performed centrally.	A. Is new account credit granting done centrally to provide assurance that the granting of new credit is consistent?			
	B. When applications for new accounts are received at a branch store, are they sent to a centralized function for credit granting?			
2. Applicants should complete an application form and sign a waiver enabling a request for a credit bureau report.	A. Is the acceptance of credit risk based upon information recorded on the customer's application form?			
	B. Are credit bureau reports required?			
3. Application forms should be screened.	A. Where point scoring is used:			
	1. Do clerks assign predetermined scores for selected items on the application?			
	2. Do supervisory personnel screen all marginal and accepted applications?			
	3. Do supervisory personnel spot check refusals?			
	4. Are point scoring techniques challenged periodically?			
	B. Where point scoring is not used:			
	1. Do guidelines exist for new account clerks?			
	2. Do supervisors adequately review the work of new account clerks?			
	3. Do supervisors approve all new accounts?			
	4. Employee applications should be reviewed.	A. Are applications for charge accounts by employees reviewed by a credit office supervisor?		
5. Blank chargeplates should be controlled and safeguarded.	A. Are blank chargeplates controlled, periodically counted, and compared to perpetual records?			
	B. Is access to the chargeplate-making machine limited?			
	C. Is the number of blank chargeplates sent to the addressograph department logged?			

NEW ACCOUNTS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	D. Is the use of blank chargeplates sent to addressograph accounted for, including damaged or incorrect plates?			
	E. Is the quantity of damaged or incorrect plates verified by someone independent of their preparation?			
	F. Are damaged or incorrect plates destroyed using adequate security precautions?			
6. Responsibility for mailing chargeplates should be segregated from the accounts receivable department.	A. Are chargeplates mailed to customers by employees who have no access to accounts receivable records?			
	B. Is the number of chargeplates mailed reconciled to the number of blank plates released?			
7. Mailed chargeplates should be safeguarded and controlled.	A. Is the envelope containing the plate imprinted with an instruction not to forward and to return it to the store?			
	B. Is the mailroom instructed to forward the undeliverable envelopes to the controller's office or security?			
	C. Are undeliverable plates investigated?			
	D. Are customer complaints of nonreceipt, or receipt of fewer than the requested number of chargeplates, investigated by the credit manager?			
	E. Is confirmation of the proper receipt of chargeplates by the customer performed by either:			
	1. A mailing under separate cover that requests the customer to confirm receipt (usually negative)?			
	2. A "hold" status on the authorization file which requires the customer to present proper I.D. the first time the card is used?			
8. Returned chargeplates should be mutilated.	A. Are instructions given to employees to alter returned cards as soon as they are received?			
	B. Is the entire chargeplate forwarded to the credit office?			

NEW ACCOUNTS (Cont'd)

Desired Control

- 9. Charge sales volume should be reviewed.

- 10. All application forms for credit should be retained.

Compliance Question

- A. Does store management periodically review charge sales volume to determine if the store ratio is competitive?

- B. Are statistics on the number of accounts opened monthly and declination rate compiled?

- A. Are both accepted and rejected application forms retained?

- B. Are applications retained on file for a period as required by applicable laws?

✓ N/A	✓ YES	✓ NO

AUTHORIZATION (Cont'd)

Desired Control

- 5. A nonfinancial change report should be maintained.

Compliance Question

- A. Is a statistical report maintained to control nonfinancial changes?
- B. Are nonfinancial changes which affect aging authorized by senior credit management?
- C. Are account transfers authorized by supervisory personnel?

✓ N/A	✓ YES	✓ NO

COLLECTION (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
7. Overdue employee accounts receivable should be processed as usual.	A. Are employee accounts processed by the collection department in the usual manner?			
	B. If accounts of store executives become delinquent, are they reported to the corporate office by the controller?			
8. Collector results should be determined.	A. Are statistics maintained for individual collector's activity and results?			
9. Monthly collection statistics should be reviewed.	A. Is the effectiveness of the collection effort measured by compiling monthly statistics on the percentage of collections by age group?			
10. The store should have a formal policy for accounts turned over to attorneys.	A. Does the store have a definite policy regarding when an account is to be turned over to an attorney?			
	B. Do collection clerks have a minimum degree of latitude in this area?			
	C. Do collectors, however, review accounts to determine good accounts before they are turned over to attorneys?			
11. Active P&L accounts should be physically segregated and separately controlled.	A. Are active P&L accounts physically segregated and a separate dollar control maintained?			
	B. Is a trial balance of P&L accounts reflecting the collection agency taken periodically?			
	C. Is this trial balance balanced to the control account?			
	D. Are statements mailed to all P&L accounts at least once or twice a year?			
12. Uncollectible attorney accounts should be turned over to a second attorney.	A. Are accounts which are returned from an attorney as uncollectible <i>always</i> turned over to a second attorney for additional collection efforts?			
13. Accounts turned over to collection agencies or attorneys should be reviewed.	A. Are accounts turned over to collection agencies or attorneys reviewed periodically to determine the effectiveness of their efforts?			
	B. Are statistics maintained for each agency or attorney?			

COLLECTION (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	C. Are dun letters sent to customers to verify that funds collected by the agency or attorney were remitted?			
14. The aging formula should be independent of accounts receivable personnel.	A. Are personnel in collection, credit, and other accounts receivable unable to change the formula by which the aging is determined?			
	B. Is a summary of the aging cures made to the "credit aging" reviewed by management?			
	C. Are abnormal conditions challenged?			
	D. If aging is performed manually is it checked by personnel independent of accounts receivable?			
	E. Is the aging used as a management tool to monitor the collection effort?			
15. The aging prepared to determine the bad debt provision should not be alterable.	A. Are credit and collection personnel unable to cure accounts for the "financial aging" used for financial statement purposes?			
16. Write-offs of customer accounts should be controlled by formal policy.	A. Is write-off of customers' accounts made only on the basis of proper authorization?			
	B. Is the write-off always performed in accordance with the store's formal policy?			
	C. Does the write-off show:			
	1. Name/account number?			
	2. Amounts?			
	D. Is the write-off approved by the head of the collection department or by the credit manager?			
	E. Are the people authorizing write-offs independent of other accounts receivable functions?			
	F. Is the write-off entry approved by the controller?			
17. Statistics concerning write-offs and recoveries should be analyzed.	A. Are statistics prepared on accounts written off and on recoveries?			
	B. Are overall trends analyzed for indication of areas requiring additional attention?			

BILL ADJUSTMENT

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
1. Customer bill inquiries should be responded to promptly.	A. Are customers notified to direct their inquiries to a specific location?			
	B. Are customer inquiries logged?			
	C. Is the log reviewed to determine that responses are prompt?			
2. Adjustment forms should be controlled.	A. Are adjustment forms (refund and charge credit books) prenumbered and accounted for?			
	B. Are supplies of books controlled?			
	C. Are all adjustments approved?			
3. Statistics concerning complaints should be maintained.	A. Are statistics kept by type of complaint and reported to management?			
	B. Are statistics reported on unprocessed complaints?			
	C. Are statistics reported on unprocessed complaints aged?			
	D. Are these reports analyzed to determine that complaints are processed promptly?			
4. Billing adjustment clerks' work should be reviewed.	A. Is there a periodic review of adjusters' work to see that adjustments are:			
	1. Valid?			
	2. Property documented?			
5. Customer records should be checked before resolving a complaint.	3. Made in accordance with store policies?			
	A. Is a customer's account checked prior to an adjustment being processed to prevent duplicate adjustments?			
6. Price changes should be recorded for adjustments when necessary.	B. Are bill adjustments never prepared on the selling floor?			
	A. Are merchandise policy adjustments reported properly?			
	B. Is a price change recorded to avoid distortions in retail inventory?			

BILL ADJUSTMENT (Cont'd)

Desired Control

- 7. Customer complaints should be handled in accordance with applicable laws.

- 8. Records should be properly safeguarded.

Compliance Question

- A. Are customer complaints handled in a manner which complies with applicable laws?

- B. Is documentation retained to support such compliance?

- A. Are procedures adequate to safeguard records and permit reconstruction if necessary?

✓ N/A	✓ YES	✓ NO

V. ELECTRONIC DATA PROCESSING

ADMINISTRATION (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
8. Computer operators should not have access to information not deemed necessary for operation.	A. Are computer operators excluded from access to documentation other than necessary operating information?			
9. Job descriptions should be documented.	A. Are there formal job descriptions for systems analysts, programmers, computer operators, the control group, and data conversion personnel which are current?			
10. Training programs should be available.	A. Are there formal training programs within the department for new persons or persons transferred to new functions?			
	B. Are periodic staff meetings, on-the-job training or other ongoing procedures used to routinely correct deficiencies, communicate changes to policies, procedures, operating priorities, etc.?			
11. The Standards Manual should be current.	A. Is there an up-to-date Standards Manual?			
12. An EDP steering committee should be established.	A. Is there a steering committee for EDP planning?			
	B. Do the steering committee's responsibilities include:			
	1. Applications?			
	2. Hardware?			
	3. Software?			
13. Adequate insurance should be in force.	4. Budgetary control?			
	A. Is insurance for the following adequate and in force:			
	1. Equipment damage?			
	2. Program or software destruction?			
	3. Business interruption?			
	4. Fidelity insurance on EDP personnel?			

ADMINISTRATION (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. If equipment is leased, has consideration been given to the extent of the company's liability if the equipment is destroyed or damaged?			
14. Data dictionary should be used for data base systems.	A. Is data dictionary or its equivalent used for data base systems?			
15. Reconstruction procedures should be formal.	A. Are reconstruction procedures for data files, program files and operating systems documented and up-to-date?			
16. Offsite locations should be used to store data.	A. Are copies of the following stored in an offsite location:			
	1. Critical files?			
	2. Transactions needed to update the files?			
	3. Application programs (source and object)?			
	4. Operations documentation?			
	5. Program documentation?			
	6. Operating systems, supervisory programs, systems resident programs, libraries, other special software?			
	7. Log of the above?			
	B. Can current files, particularly master files, be reconstructed from files stored in the offsite location?			
	C. Are up-to-date logs maintained of materials stored offsite?			
17. Backup copies should reflect up-to-date information.	A. Are backup copies of operating systems programs, data files and documentation current and up-to-date?			
18. Standard procedures should be followed for restarts.	A. Are standard procedures used for restarting processing of:			
	1. Long processing and/or multfile runs?			
	2. On-line applications?			

ADMINISTRATION (Cont'd)

Desired Control

19. Backup facilities should be available and operable.

Compliance Question

- A. Have arrangements been made for the use of backup facilities in the event of equipment failure, fire, or other lengthy interruption?
- B. Has a determination been made that such facilities are compatible and procedures operational?
- C. Can the normal operating schedule be transferred to and maintained by the backup facilities without interruption?
- D. If any applications are on-line, is adequate network switching equipment available at the backup location?

✓ N/A	✓ YES	✓ NO

ELECTRONIC DATA PROCESSING

SECURITY

Control Objectives

1. Provide assurance that unauthorized persons are denied access to data, programs and the processing function, whether by physical entry to the facility or electronic entry via remote terminal.
2. Maintain coverage to protect against material losses arising from insurable events.
3. Assure that the company does not assume potentially material risks in connection with the performance of service for outside users.
4. Determine that data files, programs and operating systems destroyed by error or disaster can be reconstructed without incurring losses which would adversely affect the company's financial position or its ability to continue operations.
5. Assure that the processing of vital applications can be maintained despite loss or incapacity of the EDP department without incurring losses which would adversely affect the company's financial position or its ability to continue operations.

SECURITY

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Only authorized personnel should be allowed in the computer room.	A. Is access to the computer room restricted to authorized personnel?			
	B. Are the programmers and systems analysts, tape library personnel, and computer room operators restricted to their own area?			
2. Adequate precautions should be taken when outside users have access to the installation.	A. If the installation rents computer time to, or performs work for, outside users:			
	1. Are outside operators prohibited from running the equipment?			
	2. Is there a contract that describes the company's obligations and responsibilities to such outside organizations, particularly with regard to user programs, data files, reports, etc.?			
	3. Are additional precautions taken to protect the installation's equipment, programs, operating systems, and files when outside users are in the facility?			
3. Adequate environmental and alarm devices should be utilized.	A. Do the rooms have:			
	1. Fire and smoke detectors?			

SECURITY (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	2. Temperature and humidity devices?			
	3. Alarm systems?			
	4. Firefighting devices?			
4. Critical information should be stored in an application documentation library.	A. Are the following stored in an application documentation library (not including offsite storage):			
	1. Copies of operations documentation, e.g., run manuals?			
	2. Source listings?			
	3. Record layouts?			
	4. Other detailed program documentation?			
5. Documentation for application programs and systems software should be under the custody of someone independent of other operational responsibilities.	A. When not in use, is application program documentation and systems software documentation kept in the custody of an individual who is independent of programmers, analysts, and computer operators?			
6. Documentation should be accessible only to authorized personnel.	A. Is there a current list of persons who are authorized access to specific types of documentation?			
	1. Are systems analysts and application programmers permitted access only to documentation for which they are responsible?			
	2. Are computer operators authorized to have operations documentation (e.g., run manuals) for applications on an "as needed basis" only?			
7. Library documents should be returned promptly.	A. Do procedures require follow-up on documentation not returned to the library on time?			
8. Library documents should be inventoried periodically.	A. Are the items kept in the documentation library compared and reconciled periodically to library records?			
9. Lost documentation should receive management's attention.	A. If application or systems documentation is lost, is the loss investigated by management?			

SECURITY (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	√ N/A	√ YES	√ NO
10. Computer based libraries should be controlled.	A. If all or part of the documentation library is computer based, are all changes to the library centrally controlled and documented?			
	B. If the library can be accessed and modified by terminal, are authorization and identification procedures adequate?			
11. Files should be safeguarded.	A. Are systems, programs, and data files stored in:			
	1. Vaults?			
	2. The computer room (other than on-line)?			
	3. A fireproof area?			
	B. Are the following stored in the library (not including offsite storage):			
	1. Current data files?			
	2. Scratched files?			
	3. Source decks?			
	4. Object decks?			
	5. Backup copies of operating systems?			
	6. Program files?			
	7. Previous generation data files?			
12. Only authorized personnel should be allowed access to library records.	A. Do library records indicate who is authorized to obtain a file?			
	B. Do procedures require follow-up on files not returned to the library on time?			
	C. Are the items in the library compared and reconciled periodically to library records?			
13. Library files should be current.	A. Are the program and systems files in the library periodically checked for unauthorized or out-of-date versions?			
	B. Are library records established immediately for new tapes and disks?			

SECURITY (Cont'd)

Desired Control
 14. The use of "live" data should be restricted.

- Compliance Question**
- A. Are application programmers and systems programmers prohibited from using "live" data files from the library?
 - B. Is special authorization required to duplicate:
 - 1. Data files?
 - 2. Program files?
 - C. Do procedures restrict access to and use of data and program files on all operating shifts to authorized personnel?

✓ N/A	✓ YES	✓ NO

SYSTEMS AND PROGRAMMING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	C. Are users involved in the testing process, i.e., do they use the application as it is intended during the testing process?			
	D. Do user departments perform the final review and signoff on projects before acceptance?			
6. Testing procedures and techniques should be standardized.	A. Are testing procedures and techniques standardized?			
7. Program revisions require testing.	A. Are program revisions tested stringently as new programs?			
	B. Are tests designed to uncover weaknesses in the links between programs, as well as within programs?			
8. Authorization procedures should be established for putting new or modified programs into production.	A. Is responsibility to authorize an operator to put a new or modified program into production in compliance with policy?			
	B. Is management approval for the conversion of files in compliance with policy?			

ELECTRONIC DATA PROCESSING

OPERATIONS

Control Objectives

1. Assure that electromechanical errors are automatically and routinely detected and corrected.
2. Assure that hardware and software controls provided by the manufacturer are not bypassed or suppressed without proper authorization and, where necessary, adequate compensating controls.
3. Provide that only the current authorized version of the operating system is used.
4. Protect programs during processing.
5. Assure that messages transmitted and received via terminals are complete, accurate, authorized and recoverable.
6. Assure that operating statistics and control data are available, adequate and reviewed by supervisory personnel.
7. Assure that negotiable documents and negotiability validation devices are protected and controlled before, during and after processing.

OPERATIONS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. Operator actions should be logged.	A. Does the operating system log all operator actions (ignoring labels or deleting files, responding to application requests, etc.)?			
2. System actions should be logged.	A. Does the operating system log all system actions (e.g., tape or disk writes or read errors, data checks, etc.)?			
3. Manufacturer error detection and correction capabilities should be used.	A. Are the hardware error detection and correction capabilities provided by the manufacturer being used (e.g., automatic read after write, etc.)?			
	B. Do all programs use the standard software routines provided by the manufacturer to read from and write on peripheral devices?			
4. Processing more than one program simultaneously requires additional controls.	A. If processing more than one program simultaneously:			
	1. Is each program protected from interference with or by the other programs by standard hardware or software features (e.g., storage protection is used)?			
	2. Are data files updated by one program at a time?			

OPERATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
5. Software should be used to control library data.	A. Is software employed to: <ol style="list-style-type: none"> 1. Monitor changes to source program libraries? 2. Force recompilation of source programs when changes are made? 3. Automatically supply a report of changes to resident program libraries? 4. Enforce proper authorization for systems programs to have access to resident application modules or subroutines, particularly sensitive or proprietary routines? 			
6. Communications software obtained from outsiders should contain the standard options.	A. If communications software is obtained from outside sources, has it been modified only in accordance with standard options available in the package? B. Are the control techniques for terminal-oriented applications adequate to assure that all messages are received without modification or duplication? C. Are message (transaction) logs maintained that provide sufficient data to locate errors or to restart an application when the computer or communications network malfunctions?			
7. Management reports to monitor potential misuse of the terminals should be prepared.	A. Are periodic reports prepared showing: <ol style="list-style-type: none"> 1. Message activity by major category? 2. Number of errors or rejected messages? 3. Attempts at unauthorized activity? 			
8. Supervision should be adequate.	A. If more than one shift of operations is utilized, are responsible supervisory personnel on duty during all shifts?			
9. Records should be kept to identify operating personnel.	A. Are records maintained that make it possible to determine which operating personnel were on duty at any given time?			
10. The EDP department should operate based upon schedules.	A. Does the EDP department operate with formal schedules?			

OPERATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	B. Are there specified procedures for scheduling program testing and "on request" production runs?			
	C. Is there a review by supervisory personnel of the following to detect operator problems, unauthorized interventions or unauthorized use of computer time?			
	1. Console log?			
	2. Processing log on tape or disk?			
11. Operating statistics should be maintained.	A. Are operating statistics available which show time for production testing and maintenance?			
	B. Are statistics and reasons for errors and halts maintained?			
12. Unusual occurrences should be analyzed.	A. Is there a procedure for isolating unusual error volumes and halts?			
	B. Are records kept of all abnormal job processing?			
13. The operations log should be numerically controlled and available to authorized personnel.	A. Do control procedures for the operations log include:			
	1. Sequentially numbered console sheets?			
	2. Making the logging file available only to a supervisor?			
14. Proper safeguards should exist for negotiable documents and sensitive paper.	A. Is access to sensitive documents limited to those forms necessary for applications only?			
	B. In the EDP department is access to, or authority over, any negotiability execution device, such as signature facsimile plates, check protection machines, etc. adequately supervised by personnel independent of the department?			
	C. Are procedures established for ensuring that blank check stocks and other negotiable paper are properly stored, controlled and accounted for?			
	D. Are schedules established and followed for computer runs requiring sensitive paper?			

OPERATIONS (Cont'd)

Desired Control

Compliance Question

- E. Are two or more people present whenever negotiable documents are processed?
- F. Is all negotiable paper prenumbered and its issuance and use numerically controlled?
- G. Are procedures which require proper handling of negotiable documents after processing, complied with as follows:
 - 1. Reconciliation of forms used to blank stock controls?
 - 2. Mutilation and/or disposition of "spoiled" stock?
 - 3. Distribution to authorized persons?

✓ N/A	✓ YES	✓ NO

ELECTRONIC DATA PROCESSING

APPLICATIONS

Control Objectives

1. Assure that data received for processing by EDP are properly authorized and converted.
2. Provide that no data, including data transmitted via communications lines, are lost, suppressed, added, duplicated, or otherwise improperly modified.
3. Determine that output is complete, accurate and restricted to authorized personnel.
4. Assure that processing is performed as intended, i.e., all transactions are processed as authorized, no authorized transactions are omitted, and no unauthorized transactions are added.

APPLICATIONS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
1. The control function should be established and its duties should be clear.	A. Is there a person or group charged with the responsibility of the data control function in the EDP department?			
	B. Do the duties include controls over input, output, reconciliation and authorization?			
2. Data should be adequately secured.	A. Are procedures adequate to prohibit unauthorized personnel from correcting errors or bypassing the data control function?			
3. Transactions should be clearly identified.	A. Are input transactions appropriately identified by type, source or date?			
4. The receipt of input should be scheduled.	A. Are input schedules established so that missing input would be noticed?			
5. The status of applications should be known throughout the processing function.	A. Are applications individually logged and controlled so their status is known at all times?			
6. The control group should determine that all data sent from the user department is received intact.	A. Do procedures ensure that the EDP department has received all data sent from the user department (including the use of transmittals)?			
	B. Does the control group keep a log reflecting the date sent to and received from:			
	1. The conversion process (keypunch, optical scan, etc.)?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	2. Computer operations?			
7. Restricted transactions should be monitored.	A. Are transaction types or codes which the user is prohibited from using screened to determine that prohibited transactions are not being used?			
8. Output should be screened before distribution to users.	A. Is all output from computer operations reviewed for reasonableness, accuracy, and legibility before distribution to users?			
	B. Are totals on output reconciled to predetermined totals?			
	C. Are carbon paper and extra reports destroyed?			
9. The output produced by the processing function should be scheduled.	A. Is a schedule maintained of the due dates of reports, documents, or other output produced by EDP?			
	B. Is there a written procedure for the distribution of output including a list of authorized recipients?			
	C. Is a log maintained to record the distribution of all output?			
	D. Are all copies of confidential or sensitive reports distributed using special procedures to ensure confidentiality?			
10. Program-initiated transactions require output report for user departments.	A. When transactions are initiated through program logic, are listings or reports prepared and sent to the user department?			
11. Errors and rejected media require adequate control to ensure proper entry.	A. Are errors and rejected media controlled to provide assurance that such transactions will be properly entered?			
12. Procedures should include provisions for the safeguarding of documents while in the EDP department and assurance that all data received from the user department is processed and returned.	A. Are source documents adequately secured until returned to the user department?			
	B. Do the procedures used in the control group assure that all data received from the user department is processed and returned?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
13. Source data should be directed to the conversion group without interruption.	A. Is all data to be converted, received directly from the control group?			
14. Instructions for conversion of transactions should exist.	A. Does the conversion department have up-to-date written instructions for each transaction type?			
	B. Is the conversion department prohibited from guessing at illegible handwriting or making other decisions about how to key any document?			
15. The accuracy of the conversion process requires specific logic techniques and converted data should reflect that conversion is complete.	A. Are important fields verified?			
	B. Are check-digits verified mechanically as part of the data conversion process?			
	C. Are all source documents cancelled after conversion?			
16. Converted data should be directed to computer operations without interruption.	A. Are the converted data delivered or transmitted directly to computer operations?			
17. Source documents should be secured.	A. Are source documents adequately secured?			
18. Machine-readable data should be received directly from the control group.	A. Are all machine-readable input data for this application received directly from the control group or authorized terminal users?			
19. A determination should be made that all data is received intact.	A. Are one or more of the following procedures employed to ensure all data sent was received: 1. Record counts? 2. Control totals? 3. Batch accountability?			
	B. Is a proof list or log prepared for all transactions received?			
	C. Is batched input zero-balanced to each transmittal?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
20. Edit routines should be utilized to detect errors.	A. Does each application include edit routines to check each transaction for completeness, validity and accuracy?			
	B. Does each application include edit routines to check each applicable field in each transaction type for:			
	1. Missing date?			
	2. Value in excess of a limit?			
	3. Value outside a range?			
	4. Valid check digit when used?			
	5. Valid codes?			
	6. Proper sequence?			
	7. Proper structure (e.g., date, format), when applicable?			
	C. Where applicable, does each application include edit routines to check each character (byte) in a transaction for:			
	1. Numeric?			
	2. Sign?			
	3. Alphabetic?			
	4. Special characters?			
5. Blanks?				
D. Are fields that have been key-verified subjected to the above editing procedures?				
21. Errors should be adequately identified and corrected.	A. When errors are detected by any of the previous means, is each error printed on a report that:			
	1. Identifies the specific error using an error code or briefly worded explanation?			
	2. Provides information for facilities follow-up and correction?			
	B. Are there written instructions for correcting all errors detected?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
22. Resubmitted data should undergo the routine editing procedures.	A. Are resubmitted transactions processed identically, including edit checks, to those submitted for the first time?			
23. Adequate controls over erroneous transactions retained on a suspense file should be present.	A. Where erroneous transactions are kept on a suspense file:			
	1. Are batch totals adjusted for erroneous transactions?			
	2. Is the file printed daily or more frequently?			
	3. Is an aged listing prepared?			
24. The control over processing should provide assurance that the proper program is being used and instructions for production runs are adequate.	A. Are procedures adequate to assure that the proper versions of programs are processed at all times?			
	B. Is there an operator's run manual for each production run?			
	C. Do operator's run manuals include:			
	1. Description of input files?			
	2. Description of set-up procedures?			
	3. Definition of halt conditions with action to be taken?			
	4. Description of expected reports and files?			
	5. Definition of output and file disposition on completion of runs?			
	6. Application of run chart?			
	7. Description of probable console messages, and replies or other action to be taken?			
	8. Description of recovery procedures in the event of processing error or disaster?			
	D. Do operator's run manuals exclude:			
	1. Program logic charts or block diagrams?			
	2. File layout specifications (input and output)?			
	3. Copies of program listings?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
25. Software labels should be used and procedures adequate to assure compliance.	A. Are internal and external labels used on all magnetic tapes and disks?			
	B. Do the internal labels contain standard label information?			
	C. Are the internal labels checked by all programs using the files?			
	D. Are operators authorized to override label checks for only prescribed conditions?			
	E. Are authorized override conditions specified in writing?			
	F. Are overrides reviewed by supervisors?			
26. File protection rings should be properly used.	A. Are file protection rings removed from magnetic tape files after they are created (i.e., "no ring, no write")?			
27. Computer operators should not initiate transactions or alter data.	A. Are computer operators prohibited from initiating or altering transaction data?			
28. Security of master files should include procedures to exclude unauthorized file duplication.	A. Are procedures established for controlling the unauthorized duplication or printing of sensitive master files?			
29. The normal operating system should be adhered to.	A. Are all programs run under the normal operating system?			
30. Utility functions require controls to exclude unauthorized use.	A. Is the availability of utility functions (e.g., IBM, DITTO or DEBE) which can circumvent normal controls and be used to alter data or programs restricted and adequately controlled?			
31. Master files require adequate controls to assure their accuracy.	A. When processing transactions against a master file for applications:			
	1. Does the program prevent duplicate master records from being established?			
	2. Is there an adequate hard copy audit trail for major master file changes?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	3. Does the program check for illogical conditions prior to changing the master record (e.g., record to be deleted still has a balance; inventory quantity would become negative, etc.)?			
	4. Is a transaction that changes a key field in a master record checked for proper authorization when appropriate?			
	5. Are all transactions not processed:			
	a. Reflected on a report?			
	b. Placed in a suspense file?			
32. Corresponding records in various files should be identical, accurate and current.	A. When corresponding records exist on more than one file, are there routines that assure accuracy, completeness, and consistency of those records?			
33. Master file updates should be scheduled and priorities established to provide accuracy.	A. If master files used by applications are "shared" with other applications (generally in an on-line environment), is there a priority for updating the file in the event of simultaneous update?			
34. Master files require review for accuracy, completeness and being current.	A. Do master file update programs use record counts, hash totals, or control totals for processing?			
	B. Are master files used by applications periodically purged of obsolete records?			
	C. Does each application include routines to check the results of calculations for reasonableness?			
	D. Is each application processed in accordance with an established schedule?			
35. Library procedures should be followed.	A. Are the installation's standard library procedures followed for all applications?			
	B. Are all files returned to the library immediately after use?			
36. "Live" data files should not be used for test purposes.	A. Are programmers prohibited from using "live" data files from all applications for test purposes?			

APPLICATIONS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
37. Operating systems should include a catalogue of current programs for all applications.	A. If an operating system is used:			
	1. Are programs for all applications catalogued by application on the operating system's library?			
38. Terminal access to files should be restricted to authorized personnel.	2. Are the programs catalogued for applications periodically checked (e.g., against a standard program) to ensure they are the authorized versions?			
	A. Are there controls or procedures that effectively prevent persons outside the company from having access, via the terminals, to the files for all applications?			
	1. Are the standard call-up and sign-off procedures as set up for the installation used in this application?			
	2. Are the standard installation transmission controls applied?			
	B. Does each application use hardware controlled identification (such as physical terminal address, machine-readable badge for authorized users, physical lock and key)?			
	C. Are users further identified to:			
	1. Access the application?			
	2. Access the files?			
	3. Process transactions that:			
	a. Read the files (retrieve)?			
b. Change the controls of the file (update)?				
39. Processing transactions should be restricted to authorized personnel.	A. Is the keyboard "locked" if unauthorized entries are attempted, and is a report generated reflecting the attempt of unauthorized entries, which is received by senior EDP management?			

APPLICATIONS (Cont'd)

Desired Control

Compliance Question

✓ N/A	✓ YES	✓ NO

40. Adequate documentation should provide accountability for terminal activity.

- A. Is a computer-generated log kept that includes adequate transaction identification information?
- B. Is log entry created for each message?
- C. Is the log periodically reviewed and summarized for unusual activity?
- B. Does the internal audit department report directly to the financial vice president or other independent individual?

USERS

Control Objectives

1. Provide that transactions and corrections to previous transactions are processed in a consistent and timely manner.
2. Provide that all transactions are recognized and move completely through this activity one time.
3. Assure that each transaction is properly authorized and data are recorded accurately.
4. Assure that recorded transactions are transmitted to authorized persons or operations for further processing.
5. Assure that transactions lost or destroyed can be accurately reproduced and reprocessed.

USERS

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO	
1. User procedure manuals should be current and available to authorized personnel.	A. Are user procedures manuals up-to-date?				
	B. Is access to the following items restricted to authorized persons within your department?	1. User manuals?			
		2. Detailed program documentation?			
	C. Do written instructions for preparing source documents include:	1. Procedures for resolving errors and inconsistencies?			
		2. Purpose and nature of the source document (including approvals)?			
		3. What to do with the completed document?			
	2. An accountability record should be developed throughout the processing stages of source documents.	A. Does the document require initials or signatures of the preparer and approver for further processing?			
	3. Procedures should exist to control the movement of source documents to the EDP department.	A. Does the transmittal document used to submit this document to the EDP department include:	1. A preprinted number?		
			2. Use for this source document only?		
			3. The following information:		
a. Transmittal number ("batch number")?					
b. Date?					

USERS (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
8. User department personnel preparing source documents should be independent of the EDP department.	A. Are all persons who prepare source documents restricted from the EDP department?			
9. User department should check computer-generated transactions for reasonableness.	A. When transactions are initiated through program logic (e.g., finance charges): 1. Can they be predicted by information kept in the user department? 2. Does the user department subsequently review and approve them?			
10. Control over errors and rejected media should provide assurance that the items will be properly entered.	A. Are errors and rejected media controlled to provide assurance that such transactions will be properly entered?			

VI. GENERAL ACCOUNTING

GENERAL ACCOUNTING (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	D. Does the controller review these statements for reasonableness prior to their issuance?			
	E. Are operating statements prepared and compared to budgets?			
	F. Does a system exist to explain variances?			
5. Standard journal entry forms should be used.	A. Are standard journal entries used for recurring items?			
	B. Are these journal entry forms prepared in advance?			
	C. Do these forms detail:			
	1. Entry number?			
	2. Account distribution?			
	3. Entry description?			
	D. Do these entries require approval?			
6. Journal entries should have supporting documentation.	A. Are support documents carefully filed?			
	B. Is documentation for all journal entries easily accessible?			
7. Accounts should be reconciled on a regular basis.	A. Are bank reconciliations and other account reconciliations such as accounts receivable and accounts payable completed on a timely basis?			
	B. Are reconciliation differences promptly investigated and adjusted?			
	C. Are all reconciliations approved by supervisory personnel?			
	D. Are personnel responsible for preparing the reconciliations independent of personnel providing and recording input to the accounts?			
8. A formal chart of accounts should be prepared and maintained.	A. Is a formal chart of accounts prepared and maintained?			
9. Financial records should be safeguarded.	A. Are accounting and financial records safeguarded and made available only to authorized personnel?			

VII. INTERNAL AUDIT

INTERNAL AUDIT

Control Objectives

1. Assist members of management, including members of the audit committee, in the effective discharge of their responsibilities by furnishing them with independent objective analyses, appraisals and recommendations concerning store activities.
2. Provide assurance that systems and procedures are complied with as intended and documentation performed.
3. Make recommendations to improve internal control and operating methods, with the intent of improving profit.
4. Coordinate activities with external auditors and the security department.

INTERNAL AUDIT

<u>Desired Control</u>	<u>Compliance Question</u>
1. The store should have an independent internal audit activity which should make recommendations for improved controls and operating efficiencies.	A. Does the store have an independent internal audit activity?
	B. Is the audit department used only to perform audits and not for any "line" functions?
	C. Are recommendations made for the improvement of internal controls?
	D. Are recommendations made for increased operational effectiveness?
	E. Are departments reviewed required to respond in writing to recommendations made by internal audit?
	F. Does someone in a senior management capacity evaluate the department's response against the internal audit recommendation?
2. Internal and operational audits should be performed according to a prescribed schedule.	A. Are internal and operational audits performed according to a prescribed schedule agreed to by management?
	B. Does the schedule provide full coverage over a reasonable time period?
	C. Does the audit schedule cover all significant operating and financial departments?
	D. In addition to cycle audits, is a continuing surveillance of key control areas performed?
	E. Is the audit schedule adhered to so that full coverage is obtained?

✓ N/A	✓ YES	✓ NO

INTERNAL AUDIT (Cont'd)

<u>Desired Control</u>	<u>Compliance Question</u>	✓ N/A	✓ YES	✓ NO
	F. Is the audit staff adequately trained and is their work supervised and reviewed?			
3. Audits should be documented.	A. Is a general guide as to the steps to be performed in an audit prepared and followed?			
	B. Are all steps enumerated covered?			
	C. Are working papers complete?			
	D. Do working papers clearly reflect the extent of the work performed?			
	E. Do working papers clearly reflect the results of the tests?			
4. The data processing department should receive special attention.	A. Is the data processing department periodically audited?			
	B. Due to the complex nature of most retail EDP environments, is a person with advanced computer auditing skills on the staff?			
5. The internal audit department should not report to the controller.	A. Does the internal audit department not report to the controller?			
6. Internal audit should maintain relationships with the security department.	A. Does the internal audit department maintain relationships with the security department?			
	B. Are appropriate weaknesses noted during audits conveyed to security for follow-up?			
7. Internal audit reports should be available to the audit committee.	A. Does the internal audit department directly or indirectly report to the audit committee?			
	B. Are internal audit reports made available to the audit committee?			