

**Customer Credit and Accounts Receivable**

**Gap Analysis:**

POS identifies the following Best Practices as efficient and effective control processes for the above risk. Listed for comparison are the controls currently in place, if applicable.

Best Practices:	Existing Control:	Control Gap:
<b>Customer Credit</b>		
<b><i>Pervasive Controls</i></b>		
<ul style="list-style-type: none"> <li>▪ Credit limits are established for each customer based on customer supplied and relevant third party data.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Established credit limits, the age of outstanding invoices, and prior purchasing activity are considered before accepting orders from or entering into contracts with customers. Either management or the computer system verifies that credit is available on all customer orders before they are accepted into the accounts receivable system. If an order is rejected, company personnel receive immediate feedback at the point of customer contact.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The credit department is independent of the sales department.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Written-off receivables are segregated from active receivables. Individuals who have access to customer payments do not have access to written-off accounts.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The credit department actively follows up on past-due accounts and collection efforts are documented in a chronological record of each contact.</li> </ul>		
<b><i>Detective Controls</i></b>		
<ul style="list-style-type: none"> <li>▪ Significant past due accounts are periodically reviewed by appropriate senior financial and credit management.</li> </ul>		
<ul style="list-style-type: none"> <li>▪</li> </ul>		
<b><i>Pervasive and Detective Controls</i></b>		
<ul style="list-style-type: none"> <li>▪ Write-offs of uncollectible receivables are approved in writing by management in accordance with the company's policies and procedures. Customer accounts receivable write-offs are periodically analyzed to evaluate the effectiveness of credit policies.</li> </ul>		

<ul style="list-style-type: none"> <li>▪ Significant customer base changes such as sales to new markets are monitored and the impact on the company's credit policies (i.e., terms and conditions) is evaluated and communicated to top management in the Company.</li> </ul>		
<p><b>Sales Orders and Shipping</b></p>		
<p><b>Pervasive Controls</b></p>		
<ul style="list-style-type: none"> <li>▪ Individuals with accounts receivable posting responsibility do not 1) extend credit or authorize discounts, sales returns or allowances, 2) prepare sales invoices or maintain sales records or 3) follow up on the collection of receivables or 4) authorize the write off of uncollectible accounts.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Side agreements allowing the return of merchandise or that contain conditions where invoices might not be paid are not allowed by management and are expressly prohibited by company policy.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ C00-00086 - Customer purchase orders meeting management's criteria, as specified in the company's order acceptance policy, are required before a sales order is entered into the account receivable system. In addition, before acceptance, customer orders are reviewed for acceptable price terms and availability of goods. Significant price concessions and discounts (i.e., amounts above specified limits) are approved by appropriate management. The sales application system does not accept orders which are not consistent with the company's order acceptance policy.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Shipments are entered on-line by shipping personnel. Each shipment to customers automatically prompts an entry in the inventory system for the corresponding cost of sales amount and an entry in the accounts receivable system for the corresponding receivable amount. Access to the shipping area and shipping application system are limited to shipping personnel.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ C00-00127 - Information from approved current versions of transaction and master files are used to record appropriate details on invoices (e.g., quantities of goods shipped/services provided, date shipped/provided, customer order information, correct price, etc.).</li> </ul>		

<ul style="list-style-type: none"> <li>▪ The date products are shipped or services are performed is used to cut off sales/service transactions at period-end.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ A written policy for accepting customer orders is approved by management. The policy specifies approved sales terms (i.e., price, credit, delivery, etc.) and the authorization procedures for accepting customer orders.</li> </ul>		
<b>Detective Controls</b>		
<ul style="list-style-type: none"> <li>▪ Sales profitability and price variance reports are prepared periodically and reviewed by appropriate management to evaluate the reasonableness of sales prices and cost of sales and to investigate the reasons for deviations from approved prices.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ C00-00126 - The accuracy and pricing of billings is periodically audited to verify pricing to authorized sources, quantities billed to shipping documents, taxes billed to appropriate tax rates or exemption cards and freight billed to freight records. The clerical accuracy of invoices is also tested. The audit is performed by an individual who is independent of the billing function. Audit results are evaluated by process owners to source the root cause of the errors.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ In instances where billings occur without a corresponding shipment of goods (i.e., delivery on a service contract), the person responsible for initiating the billing understands the billing provisions, as stated in the sales contract or purchase order, and determines whether all conditions of billing have been satisfied.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ For special pricing arrangements, sales management reviews the pricing to ensure consistency with the sales agreement or contract terms.</li> </ul>		
<b>Pervasive and Detective Controls</b>		
<ul style="list-style-type: none"> <li>▪ Reconciliation controls ensure that all shipping transactions are entered into the system if shipping documents are initially used to record shipments of materials and supplies. These controls include the accounting for all shipping documents/logs supplied by the shipping department and the reconciliation of each of the documents or every entry in the logs to billing records.</li> </ul>		

<ul style="list-style-type: none"> <li>▪ Sales orders are prepared by individuals who are independent of the shipping and accounting departments. The individual preparing the sales order is notified when the order is shipped and invoiced. Unfilled sales orders are promptly investigated by the individual preparing the sales order.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ A copy of each shipping record or log, or numerically controlled shipping form is sent directly to the accounting department for recording sales. Billing department personnel account for all shipping documents. Shipping records (i.e., bills of lading, shipping manifests, shipping records or logs, etc.) or control totals are reconciled to recorded sales to ensure that all sales are recorded in the proper period. Used and unused bills of lading and other shipping records or documents are appropriately safeguarded.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Exception reports are generated for invoices that cannot be processed, remittance advices that cannot be applied to customer bills, and sales/service orders that have not been filled. All items on the exception report are resolved on a timely basis.</li> </ul>		
<p><b><u>Sales Returns, Allowances and Adjustments</u></b></p>		
<p><b><i>Pervasive Controls</i></b></p>		
<ul style="list-style-type: none"> <li>▪ For returns from customers, inventory control receives a copy of the receiving document to ensure that returns are entered into the system. Accounting receives a copy of the receiving document to ensure that the accounts receivable and related sales amounts are reversed.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ All customer orders that contain deviations from standard terms or conditions or are for inventory that is not regularly stocked are approved by appropriate management personnel.</li> </ul>		
<p><b><i>Detective Controls</i></b></p>		
<ul style="list-style-type: none"> <li>▪ Sales returns, allowances and adjustments are authorized/approved by a person with no access to cash or returned goods and who is not associated with sales or shipping activities.</li> </ul>		

<ul style="list-style-type: none"> <li>▪ Sales returns, allowances and adjustments are supported in the case of returned goods by a signed prenumbered receiving report, referenced to the invoice that is being adjusted and the amount of the credit memo is coded to a separate line on the income statement (not to sales). Sales returns, allowances and adjustment forms are prenumbered and all forms are accounted for.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Returned goods are physically counted and quantities are compared to customer shipping documents.</li> </ul>		
<p><b><u>Cash Application</u></b></p>		
<p><b><i>Pervasive Controls</i></b></p>		
<ul style="list-style-type: none"> <li>▪ Checks received are restrictively endorsed and a list of the checks received is created by a person who has no accounting department responsibilities.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The bank deposit is prepared by a person who has no accounts receivable or cash book posting responsibilities.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Third parties are used to establish initial control of cash receipts (e.g., lockboxes, electronic funds transfer, etc.). In an environment where a third party is not used to establish initial control of cash, there are adequate physical controls over cash receipts (e.g. work layouts, counters, safes, etc.).</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Individuals with accounts receivable posting responsibilities do not have access to customer checks. Remittance advices are used as source documents to post cash receipts to the accounts receivable records. If a remittance advice is not available, a copy of the check is used for posting.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Remittance advices which cannot be matched against an invoice are recorded as unapplied cash within the customer's account. The disposition of unapplied cash receipts is investigated on a timely basis by the accounts receivable clerk.</li> </ul>		

<ul style="list-style-type: none"> <li>Checks received are deposited daily, by mail or courier if necessary. Each day's cash receipts are deposited intact and are not used for disbursements of any kind. The period-end cutoff of processing cash transactions is followed consistently period-to-period. All checks held as of period-end are identified and recorded in the general ledger to achieve an accurate cutoff.</li> </ul>		
<p><b>Detective Controls</b></p>		
<ul style="list-style-type: none"> <li>Bank reconciliations are prepared by a person who has no cash receipts or disbursements responsibilities and who does not sign checks.</li> </ul>		
<ul style="list-style-type: none"> <li>Bank statements are periodically reconciled to the general ledger and unreconciled differences are investigated on a timely basis. Completed bank reconciliations are reviewed and approved on a timely basis by supervisory personnel.</li> </ul>		
<ul style="list-style-type: none"> <li>The cash receipts book is reconciled to the list of checks received, authenticated duplicate bank deposit slips (or bank statements) and general ledger by a person who has no cash receipts, cash disbursements or accounts receivable records responsibilities. Reconciling differences are investigated and resolved on a timely basis.</li> </ul>		
<p><b>Reserves</b></p>		
<p><b>Detective Controls</b></p>		
<ul style="list-style-type: none"> <li>Allowances for sales returns, credits and doubtful accounts are developed by an employee who 1) is experienced with respect to the particular industry, type of receivables and company, 2) has appropriate and reliable data to developing the necessary estimates, 3) has an established method for developing estimates and the calculation is performed regularly, 4) demonstrates no unreasonable bias with respect to valuation decisions, and 5) performs a comparison of past estimates to actual results and modifies the estimation process accordingly. A supervisor who is knowledgeable about financial reporting requirements reviews and approves the estimates.</li> </ul>		

<ul style="list-style-type: none"> <li>▪ Personnel analyzing the adequacy of allowances for sales returns, credits and doubtful accounts evaluate the reasonableness of current provisions and valuation allowances based on historical and budgeted information (e.g., sales trends, write off trends and days sales in receivable trends).</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Senior non-accounting management reviews the adequacy and reasonableness of reserves and accruals monthly. The accounting department prepares a summary of recorded reserves and accruals, and the range of amounts needed for each reserve and accrual at the end of the reporting period. In addition, the accounting department prepares a summary of income statement charges for reserves and accruals. These summaries are presented on a rolling reporting period basis so that senior management can judge the reasonableness of trends.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Appropriate personnel periodically evaluate the methods and formulas used for realization assessments, accruals, and write-offs.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The Company centrally records reserves for customer discounts and rebates, based on data obtained regularly from contribution channels.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Reserve levels are reviewed centrally and, if significant, by top management. Reserves are evaluated by the appropriate personnel who are knowledgeable of the related financial reporting objectives and the information required to achieve those objectives. These personnel have the necessary internal and external information to evaluate reserve levels.</li> </ul>		
<p><b><u>Processing System Integrity</u></b></p>		
<p><b><i>Pervasive Controls</i></b></p>		
<ul style="list-style-type: none"> <li>▪ The accounts receivable system identifies receivables that have been factored, sold or otherwise assigned to third parties and receivables which are collateral for loan agreements.</li> </ul>		
<ul style="list-style-type: none"> <li>▪</li> </ul>		
<ul style="list-style-type: none"> <li>▪ <b><i>Detective Controls</i></b></li> </ul>		

<ul style="list-style-type: none"> <li>▪ The accounts receivable subsidiary ledger is periodically reconciled to the general ledger and reconciling differences are investigated and resolved on a timely basis. Credit balances in the accounts receivable subsidiary ledger are investigated to determine if they should be reclassified to a liability.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The sales register is periodically reconciled to the general ledger and reconciling differences are investigated and resolved on a timely basis.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Variance reports are generated daily from the system which identify significant selling price and cost changes from the prior day. The integrity of price and cost changes are researched and verified. For example, management assesses whether price concessions given to customers are acceptable or whether cost changes are appropriate.</li> </ul>		
<p><b><u>General Ledger Accounting and Financial Reporting</u></b></p>		
<p><b><i>Pervasive Controls</i></b></p>		
<ul style="list-style-type: none"> <li>▪ The accounts receivable system classifies invoices as current or long-term according to date billed or date due.</li> </ul>		