

Case 17-10— Handout 1
ABC Retailers — Internal Controls
Control Deficiency Evaluation

Identified Risks of Material Misstatement	
Cash Disbursement 1	Incorrect vendor set up in the system submits invoice without providing goods for services.
Cash Disbursement 2	Invoice is received for goods or services never received; therefore, a liability and expense are recorded when ABC has no obligation.
Cash Disbursement 3	Payments are not appropriately authorized and accurate.

Controls in Cash Disbursement Process	
CD1C	Bank statements are reconciled to the general ledger regularly and differences are investigated and resolved on a timely basis.
CD2C	Cash disbursements are generated through the ERP system. The ERP system automatically records the journal entry for cash disbursements to the accounts payable and cash sub-ledgers.
CD3C	All manually generated checks, including supporting documentation and the related journal entry, are reviewed and approved by management before the journal entry is recorded.
CD4C	Finance personnel record bank account activity to the general ledger on a daily basis; management reviews recorded entries and cash position regularly for unusual activity and investigates and resolves issues on a timely basis.
CD5C	Each Vendor Change Form requesting a bank account change, the accounts payable department is required to complete the following for each Vendor Change Form requesting a bank account change: 1. Obtain a previously processed and paid invoice from the vendor requesting the bank account change 2. Call the vendor using the contact information from the obtained invoice 3. Verify the authenticity of the requested bank account change request Attach all relevant information obtained in steps (1) – (3) to the Vendor Change Form for review and approval.
FR1C	At month-end, corporate accounting performs variance analysis for all financial statement line items as compared to prior month and prior year to identify variances in excess of \$5 million or 10 percent period to period. All variances in excess of this threshold are to be explained.