Contents

Introduction to the Internal Controls Toolkit	
Introduction	1
General Standards of Internal Control	7
How This Toolkit Is Organized	8
Chapter 1: Background on Internal Controls	11
The Goals and Challenges of Internal Controls Enterprise Risk Management (ERM) Integrated	11
Framework—2004 and 2013	27
Leveraging the Standards of Internal Control to Implement	
a Controls Self-Assessment (CSA) Program	36
Ethics and "Tone at the Top"	38
Code of Conduct Considerations	41
Entity-Level Controls	41
Roles and Responsibilities for Internal Control	44
Chapter 2: The Order to Cash (O2C) Process	49
Introduction	49
Process Overview	49
Application of Internal Controls	51
Metrics	51
Sub-Processes	53
2.1 Order Entry/Edit	53
2.2 Export Controls	56
2.3 Sales Contracts	60
2.4 Credit	62
2.5 Shipping	64
2.6 Revenue Recognition/Billing	67
2.7 Accounts Receivable (AR)	72

2.8 Collection	75
2.9 Cash Receipts and Application	77
2.10 Price Establishment	79
2.11 Promotional Activities	81
Chapter 3: Treasury Process	85
Introduction	85
Process Overview	87
Metrics	87
Application of Internal Controls	87
Sub-Processes	88
3.1 General Treasury Controls	88
3.2 Financing Operations	91
3.3 Investment of Available Funds	92
3.4 Foreign Exchange	94
3.2 Financing Operations 3.3 Investment of Available Funds 3.4 Foreign Exchange Chapter 4: Procure to Pay (P2P) Process	97
Introduction	97
Consider Automation to Mitigate Risk in the P2P Process	97
Process Overview	103
Application of Internal Controls	103
Metrics	103
Sub-Processes	106
4.1 Supplier Selection and Management	106
4.2 Purchasing/Ordering	108
4.3 Import Controls	111
4.4 Receiving	113
4.5 Accounts Payable	116
4.6 The Payment Process—General	119
4.7 The Payment Process—Travel and Entertainment	123
4.8 Research and Product Development	125
4.9 Procurement Cards (P-Cards)	127
Chapter 5: Hire to Retire (H2R) Process	133
Introduction	133
Process Overview	135
Metrics	135
Application of Internal Controls	136
The Health Insurance Portability and Accountability	
Act (HIPAA) Security Rule	137
Sub-Processes	137

5.1 F	Payroll Preparation and Security	138
	Payroll Payment Controls	141
5.3 E	Distribution of Payroll	144
5.4 (Compensation and Benefits	145
5.5 F	Hiring and Termination	147
	Education, Training, and Development	149
5.7 (Contingent Workforce	149
Chapter	6: The Supply Chain Process	153
Intro	duction	153
Proce	ess Overview	155
Metri	ics	155
Appl	ication of Internal Controls	156
	Processes	156
	Planning and Control	157
	nventory Control	159
	Processes Planning and Control nventory Control nventory Verification nventory Valuation	162
	nventory Valuation	163
	Toddet Cost Management	164
	Original Equipment Manufacturers (OEMs)/Alliance Partners	167
	Supply Chain Security	169
6.8 1	ransportation and Logistics	170
Chapter	7: Record to Report (R2R)	173
Intro	duction	173
	ess Overview	175
Metri	ics	175
Diffe	rences Between IFRS and U.S. GAAP That Impact	
t	he P2R Process	176
Appl	ication of Internal Controls	177
Sub-I	Processes	177
7.1 lr	nternational Transfer Pricing	177
7.2 lr	ntercompany Transactions	178
7.3 A	Accumulation of Financial Information	180
7.4 P	Processing and Reporting of Financial Information (the Final Mile)	182
7.5 F	ixed Assets	186
Chapter	8: Government Contracts	189
Intro	duction	189
	ication of Internal Controls	189
	ess Overview	189

Contents ■ vii

Metrio	CS CONTRACTOR CONTRACT	191
Sub-P	rocesses	191
	S. Government Contracts—General	191
8.2 U.	S. Government Contracts—Non-Commercial Products	197
8.3 U.	S. Government Contracts—Commercial Products	199
8.4 C	ontracts with State and Local Governments and	
Ed	ducational Institutions Within the United States	202
8.5 C	ontracts with Governments Outside the United States	203
Chapter	9: Records and Information Management	207
Introd	uction	207
Proce	ss Overview	207
Metric	CS C	209
Applio	cation of Internal Control and Definitions	209
Gene	ral Data Protection Regulation (GDPR)	210
The H	ealth Insurance Portability and Accountability Act (HIPAA)	211
Sub-P	rocesses	211
9.1 St	andards of Internal Control Respons bilities	211
9.2 St	andards of Internal Record-Keeping Requirements	214
Chapter	10: Computer, Telecommunications,	
•	ems Controls	219
Introd	uction	219
	ss Overview	221
Metric		221
Applio	cation of Internal Controls	223
SAE 1		223
Sub-P	rocesses	224
10.1	Owners, Users, and Service Providers	224
10.2	Physical Security and Environmental Controls	229
10.3	Computer Access Control	232
10.4	Network Operations and Security Controls	242
10.5	Systems Development Methodology	245
10.6	Change Management	248
10.7	Computer and Telecommunications Backup for	
	Production Restart/Recovery	251
10.8	Disaster Recovery and Business Contingency Planning	252
10.9	Input Controls	259
10.10	Output Controls	260
	•	
	Paperless Transactions, Electronic Commerce, and EDI Non-Company Networks and Bulletin Boards	261 264

Chapter 11: Protection of Assets: Human, Physical,	
and Intellectual	271
Introduction	271
Process Overview	271
Metrics	273
Application of Internal Control	273
Sub-Processes	274
11.1 Security Framework	274
11.2 Perimeter Security	276
11.3 Interior Security	279
11.4 Protecting Intellectual Property	281
Chapter 12: The Insurance Process	285
Introduction Process Overview Metrics Application of Internal Controls Sub-processes	285
Process Overview	285
Metrics	285
Application of Internal Controls	287
Sub-processes Sub-processes	287
12.1 Protection Against Physical Damage and Other Accidents	287
12.2 Insurance (Property and Casua ty Risks)	288
12.3 Business Continuity	290
Chapter 13: Environmental, Health, and Safety (EH&S)	291
Introduction	291
Process Overview	291
Metrics	293
Application of Internal Control	293
Sub-Processes	293
13.1 General Controls	294
Chapter 14: Customer Services	297
Introduction	297
Process Overview	297
Metrics	297
Application of Internal Control	299
Sub-Processes	299
14.1 Policy	300
14.2 Call Center Management	302
14.3 Warranty	304
14.4 Support Sales	307

x ■ Contents

Chapter 15: Professional Services (PS)	
Introduction	309
Process Overview	309
Metrics	311
Application of Internal Controls	311
Sub-Processes	312
15.1 General Controls	312
15.2 Opportunity-Bid Process	313
15.3 Program Management	316
15.4 Customer Order Management	321
Chapter 16: Entity-Level Controls	325
Introduction	325
Process Overview Metrics	325
Metrics	327
Application of Internal Controls	327
Sub-Processes	328
16.1 Compliance and Compliance Screening	328
16.2 Internal Controls Roles and Responsibilities	331
16.3 Entity Management Controls	334
16.4 Audit Committee Controls	335
Glossary	341
Addendum—Additional Tools	353
Index	385