

State of Vermont
Department of Finance and Management

Financial Process:	Accounts Payable	Issue Date:	July 2006
		Number:	BP- 03
Topic:	Internal Control - Best Practices	Revision Date:	N/A
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Objective

Departments shall devise techniques and procedures for the proper approval and payment of expenditures of public monies for goods and services incurred to support its programs. Proper internal controls effectively and efficiently minimize the risks associated with accounts payable and purchasing activities, reduce the risks of fraud and costly errors, and protect the assets of the state.

Risks

- Unauthorized or fraudulent purchases/payments. (*high degree of inherent risk*)
- Duplicate payments to vendors.
- Payments to vendors prior to vendor terms which negatively impact the state's cash flows.
- Late payments to vendors resulting in late fees and loss of goodwill.
- Inefficient processing of payments.

Definition

The term "accounts payable" refers to processing payments for invoices and contracts for goods and services incurred by the State of Vermont.

(This document does not address "Petty Cash" disbursements which are discussed separately under [Best Practices # 2 – Petty Cash](#).)

Best Practices Include

- ❖ Written procedures should be established regarding the initiation, review and approval of all accounts payable expenditures. [\[Documentation\]](#)
- ❖ Invoice handling procedures should include written documentation of the processes for routing and forwarding of invoices for payment and the methods used to manage exceptions. [\[Documentation\]](#)

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- ❖ Payables, disbursements and expenditures are properly accumulated, classified and summarized in the accounting records. [\[Documentation & Reporting\]](#)
- ❖ All invoices should be received in a central location, such as the business office. [\[Monitoring & Separation of Duties\]](#)
- ❖ Require date stamping of invoices indicating actual time of receipt. This can help to identify “bottlenecks” and process weaknesses. [\[Reconciliation & Documentation\]](#)
- ❖ Invoices must be billed to a responsible agency or department of the State of Vermont. [\[Authorization & Verification\]](#)
- ❖ Payments are made upon receipt of original invoice only. [\[Verification & Documentation\]](#)
- ❖ Invoices should be presented in a format which allows for the detailed examination and comparison of invoice quantities, prices and vendor terms and discounts. [\[Authorization & Verification\]](#)
- ❖ Invoices should be matched to a requisition, purchase order, and receiving documents such as bill of lading or packing slips. [\[Verification\]](#)
- ❖ When an invoice presented for payment is incorrect, notify the vendor immediately and request that it be corrected and re-submitted by the vendor. [\[Verification & Monitoring\]](#)
- ❖ All invoices must be reviewed and approved by an authorized person prior to payment. Organizations should maintain a listing of those persons who may authorize and approve invoices with a dollar limit assigned based on the person’s level of responsibility within the organization. [\[Authorization and Approval\]](#)
- ❖ Appropriate segregation of duties and responsibilities must be considered. Responsibilities for performing ordering/purchasing, receiving of goods, approval of invoices, and posting to the accounting records should be segregated and assigned to different persons (if practicable). [\[Separation of Duties & Safeguarding of Assets\]](#)
- ❖ Perform monthly reconciliation of the subsidiary payables module to the accounts payable control account in the general ledger. [\[Reconciliation\]](#)
- ❖ Encourage vendors to use ACH and receive direct electronic payment. Using ACH eliminates the time and expense of printing, mailing and processing paper checks. [\[Reconciliation & Safeguarding of Assets\]](#)

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- ❖ Use the state’s purchasing card program. Purchasing cards are best suited for streamlining the payment of small dollar invoices. Purchasing cards can limit who may make purchases, control what types of goods and services can be purchased, and control authorized expenditure limits.

[\[Authorization & Monitoring\]](#)

➤ **VISION RELATED BEST PRACTICES**

- ❖ Duplicate payment avoidance. “There will be a 1 to 1 relationship between a vendor’s invoice and VISION Voucher. That is, each invoice will become a separate voucher.” The one to one relationship rule seeks to provide and facilitate duplicate invoice checking across all state units on the VISION accounting system. This helps to mitigate the risk of paying a vender invoice more than once.

[\[Verification & Safeguarding of Assets\]](#)

Notices

- These best practices are intended to support the internal control framework as presented in the [Internal Control Standards: A Guide for Managers](#).
- In consideration of these best practices, the objective should be on adherence and not on rationalizing ways and means for circumvention.
- Nothing in this document shall limit or supersede any applicable Federal or State laws, statutes, bulletins, or regulations.