

Inventory/Cost of Sales
Internal Controls Questionnaire

1. Are there *written* Policies & Procedures for the inventory/cost of sales processes [including physical (cycle) inventory counts]?
2. Provide a detailed narrative of the entire Inventory process, furnishing as much detail and explanation as possible of all the activities along the way, and describing who specifically (by name and title) performs which functions in that process. In so doing, be sure to identify (where applicable):
 - Who approves purchase requisitions
 - Who prepares/issues purchase orders
 - Who approves purchase orders
 - Who approves access to vendor (supplier) master files
 - Who maintains/updates vendor (supplier) master files
 - Who receives inventories
 - Who prepares/issues receiving reports
 - Who stores inventories and issues inventories for shipment
 - Who maintains/updates perpetual records
 - Who approves access to perpetual record data files
 - Who issues sales orders
 - Who prepares/initiates shipping documents
 - Who ships inventories
 - Who initiates billings
 - Who approves access to physical (cycle) inventory data files
 - Who conducts the physical (cycle) inventory counts
 - Who supervises the physical (cycle) inventory counts
 - Who reconciles the physical (cycle) inventory to perpetual records
 - Who reconciles the perpetual records to the general ledger
 - Who has custody of the (used & unused) pre-numbered inventory count sheets
 - Who controls the accuracy, completeness of, and access to inventory and cost of sales programs and data files.
3. What procedures are in place to ensure that all inventories purchased/received from suppliers are *recorded*?
4. What procedures are in place to ensure that all inventories *received* from suppliers (price, quantity, product) *agree with or match* inventories *ordered*?
5. What procedures are in place to ensure that all inventories *received* from suppliers are *in acceptable salable/usable condition*?

6. What procedures are in place to ensure that all inventories received are recorded *in the proper period*?
7. What procedures are in place to ensure that all inventories *returned to suppliers* are *properly recorded*?
8. What procedures are in place to ensure that all sales/shipments are *recorded* (including transferring inventory costs from inventory to cost of sales)?
9. What procedures are in place to ensure that *amounts posted to cost of sales represent those associated with inventories sold/shipped*?
10. What procedures are in place to ensure that all sales/shipments are *recorded in the proper period*?
11. What procedures are in place to ensure that all sales/shipments to customers (patients) *agree with or match products ordered/prescribed*?
12. What procedures are in place to ensure that all inventory transactions are *coded/classified correctly*?
13. What procedures are in place to ensure that all products returned to the Company are *only accepted in accordance with Company policies*?
14. What procedures are in place to ensure that all products returned to the Company are *properly recorded and disposed of*?
15. What procedures are in place to ensure that inventories are *adequately safeguarded against unauthorized personnel and properly protected against spoilage or shrinkage*?
16. What procedures are in place to ensure that *inventories that have expired or undergone spoilage or shrinkage are properly identified and segregated*?
17. What procedures are in place to ensure that all *unusable inventories* (e.g., expired or spoiled) *are written-off*?
18. What procedures are in place to ensure *maintenance of appropriate or optimal inventory stock levels*?
19. What procedures are in place to ensure that all inventories *are real or exist*?
20. What procedures are in place to ensure *accurate physical (cycle) inventory counts*?
21. What procedures are in place to ensure that all *inventory count sheets* (used and unused) are *accounted for and secured against alteration*?

22. What procedures are in place to ensure that *the perpetual records and general ledger agree with the physical (cycle) inventory counts*?
23. What procedures are in place to ensure that all adjustments to inventory prices or quantities are *recorded*?
24. What procedures are in place to ensure that all adjustments to inventory prices or quantities are related to *valid* price changes or physical inventory quantity differences?
25. What procedures are in place to ensure that all adjustments to inventory prices or quantities are *recorded timely and in the proper period*?
26. What procedures are in place to ensure that inventories are *valued on a consistent basis using the Company's approved costing method* (i.e., lower of cost or marketing on a FIFO basis)?
27. What procedures are in place to ensure that *only valid changes are made to the inventory management master file*?
28. What procedures are in place to ensure that *all valid changes to the inventory management master file are input and processed*?
29. What procedures are in place to ensure that *all changes to the inventory management master file are processed accurately and timely*?
30. What procedures are in place to ensure that *system access and update capabilities to inventory management master files are limited to authorized personnel only*?

Please provide a specific response to each of these questions, and include as much detail as you can in describing all of the procedures that are in place. Be sure to indicate *when* or *how often* these procedures are performed, and *by whom* they are performed.