



To: Ken Wade, Jeff Bryson, Eileen Fitzgerald and Michael Forster

From: Frederick Udochi

cc: Zewdneh Shiferaw, Tes Casumbal, Mia Sowell

Date: June 23, 2010

**Subject: Review of Accounts Payable/ ACH Wire Transfers Process**

Enclosed is a copy of the recently concluded review of the Corporation's Accounts Payable/ ACH Wire Transfers process. Please review and let me know if you have any comments or questions. Thanks.

**Executive Summary**

**Audit Review of Accounts Payable/ ACH Wire Transfers Process**

**Business Function and Responsibility**

**Report Date**

**Period Covered:**

Finance

May 12, 2010

October 1, 2009 through  
February 28, 2010

**Assessment of Internal Control Structure**

**Effectiveness and efficiency operations**

**Generally effective.<sup>1</sup>**  
Recommendations in specific areas are noted below.

**Reliability of Reporting**

**Generally effective.**  
Recommendations in specific areas are noted below.

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<sup>1</sup> **Legend for Assessment of Internal control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

**Summary of Observations and Recommendations<sup>2</sup>:**

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received on 8/20/10)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p><b>Disbursements:</b> 1. It was observed that the financial system (Navision) does not currently have the capability to run ACH registers for a specific source code.</p> <p><b>RISK RATING:</b> ██████</p>	<p><b>Yes</b></p>	<p>We strongly recommend that the ability to produce specific source code reports should be rated as a priority requirement in any specifications considered in the selection of a future financial system.</p> <p><i>Note: This is a prior year recommendation. Internal Audit is aware that the implementation of the new financial system is scheduled for the end of FY'10.</i></p>	<p><b>Yes</b></p>	<p><b>Management agrees with the IA's recommendation</b></p>	<p>The Finance Division and the OCFO are currently in the process of working with IM &amp; consultants to implement ██████████ which is scheduled to be available for the second quarter of FY2011. Within the ██████████ the A/P module design incorporates functionality to generate ACH registers by different source/fund codes. This was a defined requirement for the new system.</p>	<p>Internal Audit accepts Management's Response.</p>

<sup>2</sup> The observations and recommendations in this section are summarized at a high level for informational purposes. To obtain a full, detailed explanation of each, please refer to the "Observations and Recommendations" section. Management's response is directly related to the detailed observations and recommendations noted in the "Observations and Recommendations" section.

**Risk Rating Legend:**

**Risk Rating: HIGH**

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation's reputation.

**Risk Rating: Moderate**

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

**Risk Rating: Low**

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

<b>Management Response to Audit Review Recommendations Accounts Payable/ ACH Process</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
N/A	Disagreement with the recommendation(s)	N/A

## **Audit Review of Accounts Payable/ ACH Wire Transfers Process**

### **Objective**

This review focused on disbursements made under: (1) the annual congressional appropriation (source 6); and (2) the National Foreclosure Mitigation Counseling Program (NFMC) appropriations (source 8).

The objective of this audit was to obtain assurance on the systems and controls in place that would ensure the validity and integrity of data entry; and that payments are properly supported by original invoices and approved in accordance with authority limits. An additional objective, as related to the NFMC-related disbursements, focused on ensuring that non-grant expenditures were executed in accordance with budgets and respective contracts.

### **Scope**

The scope of the source 6 and 8 review focused on the processing of expenditures, grants, employee and Officers time and expense reimbursements; with the exception of payroll, for expenditures incurred between the period **October 1, 2009 – February 28, 2010**. It did not include an evaluation of the activities prior to final approval of purchase orders, task orders, or service agreements. Similarly, petty cash transactions were also excluded from the review because they were not considered material during the audit period.

### **Methods**

Internal Audit met with the Accounts Payable Manger and reviewed the Accounting Procedural Manual (Updated in 2009) in order to obtain an understanding of the various integrated processes. Details involving invoice processing, check storage, check printing and voided checks were discussed to determine any recent or undocumented changes to the current processes of internal controls or functions performed by the team.

Transaction patterns were reviewed on historical information for the five month period being tested. The disbursements during the audit period were divided into four categories:

- $\geq$  \$100,000;
- \$50,000 - \$99,999;
- \$5,000 - \$4,999
- $<$  \$5,000

The Internal Audit team randomly selected samples from each of these categories for a total of 160 samples totaling \$18,601,971, representing 72.6% of the \$25,623,866 in total disbursements for the period. Each of the sample sizes were then subjected to a review and verification process based on the audit procedures. Lastly, documentation supporting the payment method (check or ACH) was also reviewed.

## **Observations and Recommendations:**

1. It was observed that the financial system (Navision) does not currently have the capability to run ACH registers for a specific source code. For example, the Internal Audit team requested separate ACH registers of expenditures for sources 6 and 8, respectively. While determining sample selections, it cost the Internal Audit team a considerable amount of time to determine which samples should be selected, in efforts to have a good representation of NFMC-related disbursements (designated as sources 1 and 8), as well as the annual appropriation-related disbursements (designated as source 6). This system capability may not have been necessary in the past, but since implementation of the NFMC program, the need for this system capability becomes critical. This may also create challenges for external auditors, when performing their sample-based testing, as well as processing some accounts payable reports which may be useful for Finance and Management. Navision does not have enhanced reporting capabilities, which has also been problematic in the past.

*Note:* This observation was noted in the FY'09 Internal Audit report for Accounts Payable/ACH Transactions. Internal Audit, however, notes that the corporation has in process the planned implementation of a new Enterprise Resource Planning (ERP) system at the end of FY'10, which would ultimately address these concerns.

*Recommendation:* During the FY'09 Internal Audit review of Accounts Payable, we recommended that a system upgrade be considered by the Corporation. It is our understanding that the implementation of the new ERP system was initially planned for the fourth quarter of FY'10, but deployment is currently being rescheduled to the end of the first quarter of FY'11. Furthermore, we were informed by Management that the FY '09 recommendation has been included as part of the new financial tool requirements. Internal Audit has included, as part of the annual audit plan, the conduct of a post-implementation review on the new ERP system. Based on the rescheduling timeline referenced above, this internal audit would in all likelihood be rescheduled as part of an FY 11 audit plan.

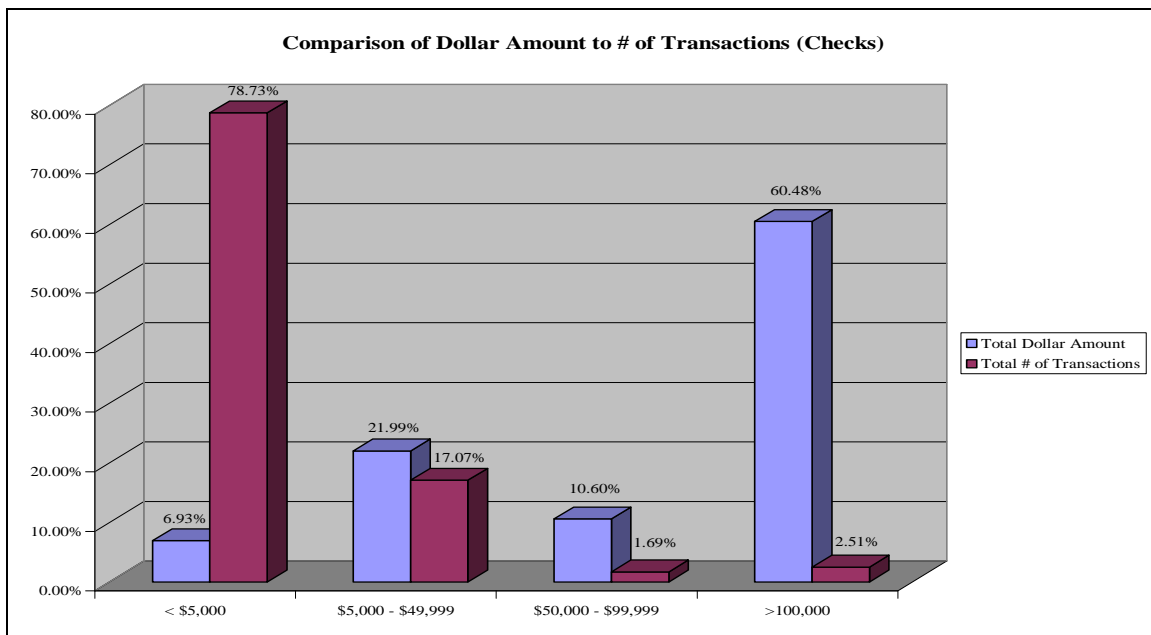
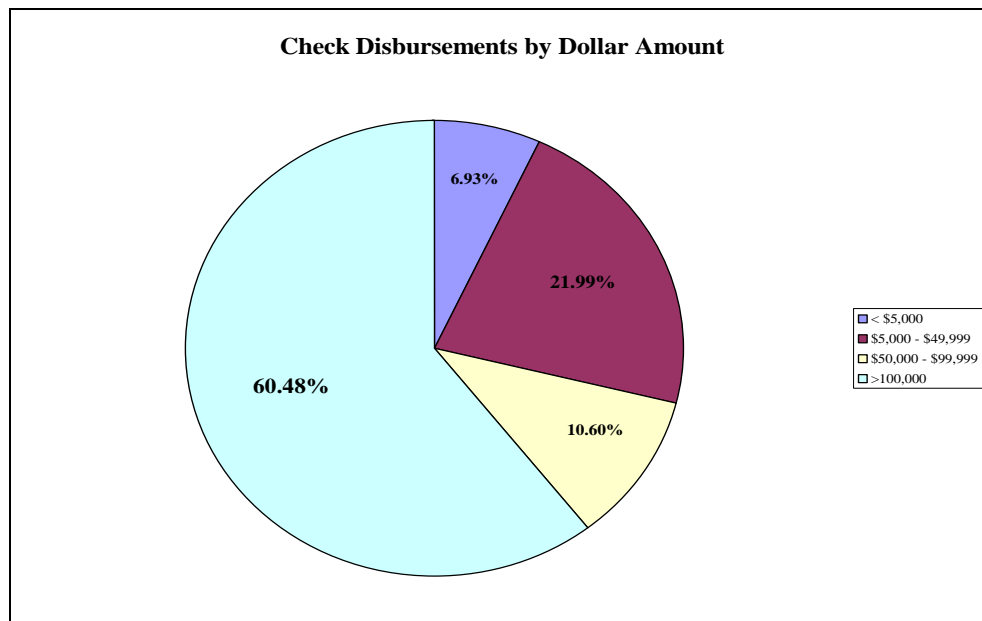
## **Conclusion**

The Accounts Payable process is managed by highly skilled and conscientious staff. We would like to extend special thanks to the Finance staff for supporting our work during this review.

## Appendix A

A grand total of approximately \$146.1 million was disbursed through 4,296 disbursement transactions during the period beginning October 1, 2009 through February 28, 2010. The 160 selections made represented a total disbursed amount of \$18,601,971 (72.6% of the total \$25,623,866 in disbursements throughout the period tested). The following charts provide a detailed breakdown of the total population between checks and ACH:

Category:	Disbursement Amount		Transactions		
	Checks	\$	%	#	%
> \$100,000		\$15,496,289.18	60.48%	55	2.51%
\$55,000 to \$99,999		\$ 2,714,895.12	10.60%	37	1.69%
\$5,000 to \$49,999		\$ 5,635,779.19	21.99%	374	17.07%
< \$5,000		\$ 1,776,902.17	6.93%	1,725	78.73%
<b>TOTAL</b>		<b>\$25,623,865.66</b>	<b>100.00%</b>	<b>2,191</b>	<b>100.00%</b>



Category:	Disbursement Amount		Transactions		
	ACH	\$	%	#	%
> \$100,000	\$	109,489,243.49	90.85%	224	10.46%
\$55,000 to \$99,999	\$	3,868,671.56	3.21%	56	2.66%
\$5,000 to \$49,999	\$	5,548,009.10	4.60%	346	16.44%
< \$5,000	\$	1,612,136.58	1.34%	1,479	70.26%
<b>TOTAL</b>	<b>\$</b>	<b>120,518,061.10</b>	<b>100.00%</b>	<b>1,784</b>	<b>100.00%</b>

