

Internal Audit Department
NeighborWorks® America

Audit Review of
Contracts & Task Orders

Accounts Payable
&
ACH Transactions

Project Number: NWA.FIN.APACH.2014

Project Number: NWA.FIN.PROSVCS.2014

Audit Review of Contracts & Task Orders, Accounts Payable and ACH Transactions

Table of Contents

Function Responsibility and Internal Control Assessment.....	3
Executive Summary of Observations, Recommendations and Management Responses	4
Risk Rating Legend	7
Background	8
Objective.....	8
Scope	8
Methodology.....	9
Observations and Recommendations – Finance AP	10
Observations and Recommendations – Procurement	11
Conclusion	12

August 11, 2015

To: NeighborWorks America Audit Committee

Subject: Audit Review of Contracts & Task Orders / Accounts Payable & ACH Transactions

Please find enclosed our draft audit report for the Contracts & Task Orders / Accounts Payable and ACH Transactions review. Please contact me with any questions you might have. Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: P. Weech
C. Wehrwein
J. Bryson
L. Williams
S. Slepian

Function Responsibility and Internal Control Assessment

Audit Review of Contracts & Task Orders

Accounts Payable & ACH Transactions

Business Function Responsibility	Report Date	Period Covered
Finance	August 11, 2015	October 1, 2014 Through April 30, 2015
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations		Generally Effective ¹
Reliability of Financial Reporting		Generally Effective ¹
Compliance with Applicable Laws and Regulations		Not Applicable

This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

¹ 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.

Executive Summary of Observations, Recommendations and Management Responses

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><u>Observation No. 1 – Finance AP</u> User Access to the PeopleSoft Vendor Master file</p> <p>Accounts Payable (AP) management stated that new vendors entered for payment, and changes to an existing vendor's profile (separately entered by an Accountant-AP requires the Senior Manager AP's approval in the system before an update could occur to the vendor master file.</p> <p>Given the department's size, the Senior Manager - AP user's profile allows the addition of new vendors, changes to existing vendor profiles, and approval of changes to the PeopleSoft vendor master file.</p> <p>Internal Audit noted that the Senior Manager - AP is designated as the individual who executes the next PeopleSoft processing step requiring the selection and batching of vouchers.</p> <p>Current best practices recommend that this type of functional access be assigned to different individuals.</p> <p>Risk Rating: (b) (5)</p>	Yes	<p><u>Recommendation No. 1 – Finance AP</u> Change Approver's User Access to the PeopleSoft Vendor Master File</p> <p>Internal Audit recommends that management evaluate the need to have the vendor master approver also have the ability to add new vendors or change existing vendor profiles.</p>	Yes	<p>The PeopleSoft system utilizes role based permissioning with each system defined role "customizable" through check boxes. Every person assigned the same role has the same available functionality. The duties of the Senior Manager – AP requires the functionality of many roles.</p> <p>Finance will work with IT&S to determine whether it is possible for the Senior Manager – AP to have the ability to approve changes to the Vendor Master File and not have the ability to initiate changes without eliminating access to other functionality required by her assigned duties</p>	October 31, 2015	Internal Audit accepts Mgt.'s response.

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
		reduce variations on the same name. Also, at least semi-annually, implement a review of the Vendor Master file for the annotation / consolidation of possible duplicate accounts.				
<p><u>Observation No. 3 – All NWSG Procurement Functions are not Managed by the Centralized Procurement Process</u></p> <p>Currently, NeighborWorks Services Group manages their procurement process and is authorized to issue contracts, and purchase, or task orders to their vendors. They obtain the contract, purchase or task order number from Procurement before issuance along with a review of any contracts by OGC. However, NWSG authorizes for themselves goods and services up to their Delegation of Authority limit. Actions \$20K or greater require Procurement approval.</p> <p>Risk Rating: (b) (5)</p> <p><u>Note:</u> This Observation is included in the audit report: <u>Procurement Function (Governance Structure, Policies and Procedures)</u>. Observation #5.</p>		<p><u>Recommendation No. 3 - Plan to Implement Task / Purchase Order Issuance via Procurement Procedures for all Divisions</u></p> <p>Plan to implement Best Practices for the procurement function. The recipient of goods or services should not be authorized to issue contracts, task orders (or purchase orders) on behalf of themselves. Develop a plan to have the Procurement function process all contracts, purchase and task orders for all divisions.</p> <p><u>Note:</u> This recommendation is included in the audit report: <u>Procurement Function (Governance Structure, Policies and Procedures)</u>. Recommendation #5.</p>		<p><u>Note:</u> Please refer to the audit report: <u>Procurement Function (Governance Structure, Policies and Procedures)</u> for resolution of Observation #5 and Recommendation #5</p>		

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 controls and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

Management Responses to The Audit Review of: Contracts & Task Orders Accounts Payable & ACH Transactions		
# Of Responses	Response	Recommendation #
3	Agreement with the recommendation(s)	1, 2A, 2B
	Disagreement with the recommendation(s)	

Background

Originally this combined project was identified as two (2) separate core IA projects in 2014, namely:

- (i) Professional Services - Contracts & Task Orders
(w/ emphasis on Sole Source Contracts) (M)
- (ii) Accounts Payable/ACH Transactions (M)

During the planning phase (Q3-2014) for the first project, Internal Audit determined that a phased approach was required to include certain aspects of data mining of the PeopleSoft eProcurement and Accounts Payable (AP) modules to evaluate selected transactions using (b) (4) (b) (4). This would allow continuous monitoring of task order and payment processing activity and provide Internal Audit with certain exception reports for evaluation. As a result, combining these projects was determined to be an effective use of audit resources since the PeopleSoft / (b) (4) output could be evaluated concurrently by using the same request for supporting documentation.

Objective

The objective of this review was to obtain:

- An understanding of Management's efforts to improve internal controls over the accounts payable and task order process.
- To ensure that management's controls currently in place to monitor accounts payable and task order activity are operating effectively.
- To obtain assurance that task order recommendations issued by the External Auditors are being addressed/implemented.

Scope

The scope of this audit included the following:

- Review Accounts Payable policies and procedures
- Review Task Order activity close to key threshold amounts
- Frequency of task orders to the same vendor for the same project codes
- Processing of payment requests through Accounts Payable during the period of October 1, 2014 - April 30, 2015
- Task Orders issued for selected payments addressed the External Auditors recommendations (FY 2013/FY 2014) related to the issuance of task orders.

Methodology

Internal Audit began this review with an Introductory Meeting, which was held on June 13, 2014 along with a follow-up Phase II meeting on April 22, 2015. These meetings helped to obtain a better understanding of the Contracts / Task Orders and the Accounts Payable ACH processes throughout the organization. Other steps included the development and distribution of a planning questionnaire to Finance, a process walk-through, and a review of the BDO USA, LLP external auditor's report 2013 – 2014 to determine if there was a need for any specifically designed tests for Phase II.

Additionally, Internal Audit solicited the services of an external firm (b) (4) to provide professional services in developing specific queries (scripts) to data mine the PeopleSoft database for use with (b) (4). This process, which was undertaken over a period of 2 months, utilized the Query Manager functionality of PeopleSoft to facilitate the continuous monitoring scripts. Development of these scripts was an important element of the Phase I part of this audit project. The scripts were defined by Internal Audit and designed to generate and deliver periodic exception reports to the Internal Audit Department. Also, Internal Audit used some of these queries to judgmentally select certain transactions for additional review. These selected transactions were evaluated for specific procedures in the task order process which was mentioned in the most recent external auditors' audit recommendations. Separately, the scripts allow the selection of specific PeopleSoft activity on an ongoing basis to potentially identify duplicate payments, [for example using (b) (4)].

Concurrently, Internal Audit utilized these continuous monitoring queries for accounts payable and task order transactions captured within the PeopleSoft eProcurement and Accounts Payable modules for assistance with the sample selections. The scope of this review utilized information from the PeopleSoft eProcurement (Task Order) and Accounts Payable (Invoices, Vouchers, and Payments – Checks/ACH) modules.

Internal Audit selected a sample of twenty-five [25] disbursements to validate for:

- Following policy limits for bidding of purchase orders (>\$5k), or task orders (>\$20k)
- Proper authorization based on authoritative limits as per Delegation of Authority
- General Ledger Coding (account number, project, fund, etc.)
- Supporting Purchase/Task Order or Contract
- Verifying that the payment matches the purchase/task order and vendor invoice
- Posting in the proper accounting fiscal year period
- Using www.sam.gov verify that the vendor is not in a Federal Agency "Exclusion" category

Separately, Internal Audit judgmentally selected sixteen [16] task orders that exhibited the same vendor for more than one of these task orders using PeopleSoft Task Order Data (eProcurement Module). These task orders were then evaluated for the following attributes:

- Documentation evidencing an RFP was issued for services > \$20k
- A vendor selection determination process was executed from the proposals received.

- If a RFP was not issued, confirm that a sole source justification memorandum was issued and approved by an appropriate level of delegated authority.
- Review the documentation to confirm that the highest signing level on the Task Order was within the Delegation of Authority limit for the individual.
- Using www.sam.gov to verify that the vendor is not in a Federal Agency “Exclusion” category.

Below are the observations and recommendations that resulted from the testing performed.

Observations and Recommendations – Finance AP

Observation No. 1 – User Access to the PeopleSoft Vendor Master file

During Internal Audit’s review of the Accounts Payable (AP) process, management stated that new vendors entered for payment, and changes to an existing vendor’s profile (separately entered by a Staff Accountant - AP) requires the Senior Manager AP’s approval in the system before an update could occur in the vendor master file. Given the AP Department’s small size, the Senior Manager - AP user profile allows the addition of new vendors, changes to existing vendor profiles, and approval of changes to the PeopleSoft vendor master file. Also, Internal Audit noted that the Senior Manager - AP is designated as the individual who executes the next PeopleSoft processing step requiring the selection and batching of vouchers.

Current best practices recommend that this type of functional access be assigned to different individuals to the extent that is feasibly possible so that one person/unit does not have the ability to initiate, upload and approve new vendor profiles. The need for segregation becomes more feasible and compelling given the recent establishment of a centralized Procurement function.

Recommendation No. 1 – Change Approver’s User Access to the Vendor Master File

Internal Audit recommends that management evaluate the need to have the vendor master approver also have the ability to add new vendors or change existing vendor profiles. The initiation and introduction of new vendor profiles including changes should be undertaken by the newly formed Procurement function. This would be subject to standard rules for vendor data entry for example physical addresses (must have street number, street name, unit number, city, state and zip) or the use of legal name versus DBA etc.

Observation No. 2 – AP Duplicate Payments – Recovered 2 of the 3

For the period in scope, Internal Audit reviewed three (3) duplicate payments [\$1,571.88; \$950.00; and \$3,000.00] that AP had identified for recovery prior to the audit. As of the conclusion of the audit, AP had been successful in recovering the first two (2) of the three (3) payments. For the third item, AP had attempted but was unsuccessful at recovering the third payment and had forwarded the information to The Office of General Counsel for further efforts at recovering this incorrect payment. AP explained that one payment occurred because of a duplicate account, another occurred because of a keying error due to similar vendor names, and the third occurred because of an in-active vendor account with a similar name.

Recommendation No. 2A – Periodic review of Vendor Master File for removal of inactive accounts

Internal Audit recommends that Management, at least semi-annually, implement a review of the Vendor Master file for the removal of any inactive vendor accounts based on defined departmental policy criteria for inactivity (similar to financial institutions). Preferably, if PeopleSoft allows an automatic ‘inactive flag’ setting based on a given timeframe to be enabled, this would be undertaken automatically. If available, this should be activated going forward otherwise this would have to be done manually.

Recommendation No. 2B – Review policies and procedures for periodic consolidation / removal of Duplicate Accounts

Internal Audit recommends that Management review with keying staff the current “Vendor Input Standards” used for keying fields in the Vendor Master file to reduce variations on the same name. A recommendation and discussion around the need for standard data input rules has been mentioned earlier in Recommendation Number 1 above. Also, at least semi-annually, implement a review of the Vendor Master file for the annotation / consolidation of any possible duplicate accounts.

Observations and Recommendations – Procurement

Observation No. 3 – All NWSG Procurement Functions are not managed by the Centralized Procurement Process

During the audit review period, Management had formed a separate and independent Procurement² process tasked with the independent review and approval of contracts and the issuance of purchase orders and task orders greater than \$15k. For purchases less than \$15k, Management will continue to allow each program / department to process their procurement needs, but require the purchase or task order numbers be provided to them by Procurement for issuance. Management has determined that the Residual Risk created by purchases for less than \$15k is not significant and is manageable given the organization’s internal control environment of monitoring controls (e.g. review of monthly budget / expense reports). Additionally, the NeighborWorks Services Group Training Division is allowed to independently process their divisional purchase or task orders up to their SVP Delegation of Authority limit. Whenever an RFP is required, the NeighborWorks Services Group (NWSG) must contact Procurement to post their RFPs with all other programs’ centralized postings of RFPs. All purchase and task order numbers issued by NWSG must be first obtained from Procurement before issuance. Also, all NWSG contracts are reviewed by The Office of General Counsel before NWSG’s signed commitment. At the end of the procurement process, NWSG is required to provide Procurement with a copy of all final contracts along with the contract’s evaluation and determination documentation for Procurement’s records. The current process for NWSG continues to allow the recipient of the goods or service(s) to

² The establishment of a Centralized Procurement function was initiated in February 2015.

be the authorized issuer of the purchase or task order up to their Delegation of Authority limit with some Procurement interaction.

Best Practices recommends that the recipient of the goods or service(s) should not be authorized to issue task orders (or purchase orders) on behalf of themselves. This should be a separate function in the procurement / purchasing process, to further enhance internal control.

Note: Please refer to the audit report: *Procurement Function (Governance Structure, Policies and Procedures)* at Observation #5 for similar identification of this item.

Recommendation No. 3 – Plan to Implement Task / Purchase Order Issuance via Procurement Procedures for all Divisions

The organization must continue the transition and development of the current procurement function to benefit from separate negotiation, oversight review, and the issuance of contracts that will purchase services for all the corporation's divisions. Going forward, the issue discussed above should be an integral part of the goal for the procurement process.

Note: Please refer to the audit report: *Procurement Function (Governance Structure, Policies and Procedures)* at Recommendation #5 for resolution of this item.

Conclusion

Internal Audit notes that the processing of payments for invoices, contracts, task orders, and purchase orders using Accounts Payable and ACH transactions is heavily paper driven and time consuming. Many important internal controls are associated with this disbursement process. Going forward, the AP function is adjusting to the newly created Procurement Division and policies are being developed to define the new relationship for the processing of documents between the two functional areas. This would require a re-configuration of processes and re-ordering of duties to adjust to this newly instituted function. The results of the review indicate that Management has worked diligently to design and implement processes to provide reasonable assurance that the disbursement process is working effectively and efficiently to prevent inaccurate payments being issued by the organization. Internal Audit notes that the implementation of the recommendations as noted above will further enhance the effectiveness of the process. Thanks again to the Chief Financial Officer and the AP team for their cooperation during this review.