

Internal Audit Department
NeighborWorks® America

Audit Review of AP/ ACH Transactions

Project Number: NW.FIN.APACH.2019

Audit Review of AP/ACH Transactions

Table of Contents

Function Responsibility and Internal Control Assessment.....	3
Executive Summary of Observations, Recommendations and Management Responses	4
Risk Rating Legend.....	10
Background.....	11
Objective.....	11
Scope.....	11
Methodology.....	11
Observations and Recommendations.....	12
Conclusion	13
APPENDIX A: Population and Sampling Details.....	14
APPENDIX B: Purchase Order Segregation of Duties Details.....	15

August 2, 2019

To: NeighborWorks America Audit Committee

Subject: **Audit Review of AP/ ACH Transactions**

Attached is our draft audit report for the AP/ACH Transactions review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
S. Rice
R. Bond
R. Simmons

**Function Responsibility and Internal Control Assessment
Audit Review of AP/ACH Transactions**

Business Function Responsibility	Report Date	Period Covered
Finance	August 2, 2019	October 1, 2018 Through April 8, 2019
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations		Generally Effective¹
Reliability of Financial Reporting		Not Applicable
Compliance with Applicable Laws and Regulations		Not Applicable

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

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>Observation #1</p> <p>Segregation of Duties Controls</p> <p>Internal audit observed that there were 34 users with delegation of authority approval who had access to create and approve purchase orders. The range of this approval was between \$3,500.00 and \$350,000. Of the 34 users with the access to create and approve, Internal Audit noted 4 users who created and approved 57 purchase orders totaling \$111,732.64 between 2/26/2019 and 5/28/2019.</p> <p>Internal audit observed 6 purchase orders that were initiated, edited and then approved or in some instances just edited and then approved</p>	<p>Yes</p>	<p>Recommendation #1</p> <p>Ensure that Segregation of Duties Controls are in Place for the Creation and Approval of a Purchase Order</p> <p>We recommend that Finance should review all current users and ensure that their permissions and roles are set up such that they do not circumvent segregation of duties controls. This review should be documented. In addition, an access review should be completed and documented periodically to ensure that no one is able to solely initiate and approve a purchase</p>	<p>Yes</p>	<p>Management agrees with this recommendation. In August 2018, Management implemented a role base workflow access where one person cannot create and approve PO. However, during a later update, NetSuite released a new version of the workflow which accidentally removed this functionality. When the segregation of duties issue was identified, Finance reached out to NetSuite and fixed the workflow immediately.</p> <p>In order to prevent this from happening in the future, on June 28,</p>	<p>6/30/2019</p>	<p>Internal Audit accepts Management's response.</p>

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>by the same individual. The edit function allows an individual with access to change the date, the vendor, and the amount of the purchase order.</p> <p>All purchase orders should be subject to a segregation of duties protocol in which purchase orders are initiated by one individual and approved by another with appropriate delegation of authority. The ability to solely initiate and approve or edit and approve purchase orders in the absence of an independent third party increases the risk of fraud.</p> <p>Internal Audit also noted two consultants who are no longer with the organization that had access to create and approve purchase orders.</p> <p><i>Note: This is a prior year observation. Internal Audit noted that in the prior two</i></p>		<p>order. The nature of this review should be detailed in the Policies and Procedures. The corporation should ensure that contracted Consultants do not have the ability whatsoever to initiate, edit or approve Purchase Orders in the NetSuite financial application when performing contractual work.</p>		<p>2019, Information Technology and Finance formed a testing team. From June 30, 2019, whenever the vendor performs any upgrades or patches, the testing team will check the major modules and the scripts to make sure nothing has been affected in the system.</p> <p>As of June 25, 2019, Finance and Information Technology developed an access review policy and implemented a quarterly system access review process.</p> <p>NetSuite consultants will not have the ability to create or initiate transactions in the Production system.</p>		

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><i>audit reviews the ability to create and approve a purchase order was an observation. In Management's response from the FY18 audit review there were two estimated completion dates. The first was August 2018 and the second, related to documenting the process, was 6/30/2019.</i></p> <p>Risk Rating: (b) (5)</p>						
<p>Observation #2</p> <p>Vendor Maintenance Issues</p> <p>It is important that the quality of the information contained in the Vendor Master File is complete and accurate. This allows for accurate reporting and analysis, assistance in compliance with regulations, and works to facilitate and strengthen internal controls. Internal Audit noted a number of vendor maintenance issues, pertaining mainly to</p>	Yes	<p>Recommendation #2</p> <p>Review Vendor Master File for Completeness and Accuracy</p> <p>During the audit review, Internal Audit was able to obtain and review various forms of documentation indicating that Finance was actively taking steps to review the vendor master file. We recommend that Finance continue to execute its strategy to ensure that</p>	Yes	<p>Management agrees with the recommendation from the Internal Audit. Finance is diligently reviewing and updating the vendor information in the database. There are 1,700 vendors in the database that need review and updating of information. Finance started the process by creating a spreadsheet that identified missing documents and incorrect information on each of the 1700 vendors. Then the vendor category was</p>	3/31/2020	<p>Internal Audit accepts Management's response.</p>

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>incomplete information in the system:</p> <ul style="list-style-type: none"> • Two vendors that were not assigned a vendor category. In addition, the vendor name for one of these vendors was entered into the system incorrectly. • Internal Audit noted instances where the W9 could not be located in the system, there was no address on the W9, or the W9 was not uploaded in the W9 field • Internal Audit identified three instances where the DBA name on the W9 was not entered into the NetSuite system • Internal Audit noted several instances where supporting documentation for ACH set up (voided 		each vendor's file is complete and accurate.		assigned to each vendor to determine the type of goods or services that they provided. This process entails opening one or two invoices per vendor to determine the goods or service provided. The DUNNS numbers were also entered (if any) for the network or non -network organizations. If the DUNNS number is not available, we must search for it in the SAM (System for Award Management) database. The tax identification number (TIN) of 1099 vendors (approximately 500) were also validated against the IRS database. This is a tedious process and the IRS database sometimes shuts down. Email is sent to the vendors to request for updated vendor information which will be transmitted through the secure Finance mailbox. There is a lot of		

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>check, a letter from the bank) per policy was not able to be located in the NetSuite system.</p> <p><i>Note: This is a prior year observation. Internal Audit noted that the estimated implementation date per the FY18 audit report is 9/30/2019.</i></p> <p>Risk Rating: (b) (5)</p>				<p>resistance from vendors to provide this sensitive information due to computer fraud and scam. In cases like this, the Senior Disbursement Manager will contact the vendor directly (via email or phone) to assure them of the security of the process and the importance of updating their information in the system.</p> <p>Once the updated vendor documents are received, it is checked against the information in the system. Modifications are done based on the updated information and the documents are uploaded in the system. The Senior Disbursement Manager checks all vendor updates for accuracy and makes sure all supporting documents are uploaded in the system.</p>		

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>Finance is also collaborating with other divisions in obtaining missing vendor information. We worked with the Field Operation division to request for updated grantee information during the grant application process. They will start this new process in October 2019. As described above, this is a lengthy and tedious process that has multiple layers and requires working with business units, checking against the IRS database, contacting vendors. Due to staff capacity constraints, Finance has recently secured temporary help to assist with this process. For these reasons, the estimated timeline for completion has been extended from 9/30/19 to 12/31/19.</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 control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

Management Responses to The Audit Review of: AP/ACH Transactions		
# Of Responses	Response	Recommendation #
2	Agreement with the recommendation(s)	2
	Disagreement with the recommendation(s)	

Background

The Accounts Payable function is responsible for ensuring timely and accurate payments to internal and external customers of the organization. Departments have designated staff assigned to initiate purchase orders and staff who are delegated to approve the purchase order in accordance with the Delegation of Authority. Upon approval of purchase orders and the creation of vendors in the system, invoices can be received, uploaded, and then reviewed and paid by Accounts Payable. Accounts Payable represents the largest outflow of funds for the organization in terms of volume and frequency and as a result is an auditable activity reviewed annually.

Objective

The objective of this review was:

- To obtain a high-level understanding of the current policies and procedures in place which administer and monitor the Accounts Payable/ACH Transactions
- To obtain assurance that the steps which administer the Accounts Payable/ACH Transactions incorporate the procedures defined in the policies and procedures and are in line with best practices
- To obtain assurance that adequate internal controls exist and are operating effectively over the Accounts Payable/ACH Transactions process

Scope

Internal Audit conducted a review of disbursements between 10/1/2018 and 4/8/2019. Internal Audit also reviewed systemic reporting into June 2019 and the Accounts Payable Aging report along with the corresponding account reconciliation for June 2019.

This review specifically excludes disbursements related to employee expense reimbursement as this was considered a separated activity and is identified as such in the audit universe. In addition, officer expense reimbursements are reviewed quarterly by Internal Audit separate for the AP Audit review.

Methodology

Prior observations and recommendations contained in the FY2018 audit report were reviewed as part of the initial review approach. In addition, Internal Audit obtained and reviewed policies and procedures related to Accounts Payable and performed a walk through to update the narrative as necessary.

Internal Audit analyzed systemic reports from NetSuite to identify voided or deleted purchase orders, duplicate purchase order numbers, and segregation of duties deviations regarding purchase orders. All systemic reports run included all activity for the fiscal year through the date that the report was run. The A/P Aging report and corresponding account reconciliation were also reviewed for the month ending June 2019.

For the review of payments, a listing of payments that occurred between 10/1/2018 and 4/8/2019 was obtained as the population under review. The population data was then grouped by vendor category and analyzed to determine payment amounts and number of occurrences within each category. For the four largest vendor categories (NWO, Non-NWO, Consultant, and Company) were then stratified for the purposes of sampling. The Excel random number generator was used to determine the sample. All other vendor categories were subjected to the internal auditor's discretionary judgement to determine the sample (see Appendix A)

For each disbursement that was selected for detailed testing, Internal Audit reviewed information pertaining to the vendor, payment, approvals/delegation of authority, subsequent reviews, and any supporting documents. Internal Audit also reviewed documentation pertaining to check runs that were completed during the scope of the audit. For the review of the check runs Internal Audit selected 50% of the population for detailed testing.

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

Observations and Recommendations

Observation #1 - Segregation of Duties Controls

Internal audit observed that there were 34 users with delegation of authority approval who had access to create and approve purchase orders. The range of this approval was between \$3,500.00 and \$350,000. Of the 34 users with the access to create and approve, Internal Audit noted 4 users who created and approved 57 purchase orders totaling \$111,732.64 between 2/26/2019 and 5/28/2019.

Internal audit observed 6 purchase orders that were initiated, edited and then approved or in some instances just edited and then approved by the same individual. The edit function allows an individual with access to change the date, the vendor, and the amount of the purchase order.

All purchase orders should be subject to a segregation of duties protocol in which purchase orders are initiated by one individual and approved by another with appropriate delegation of authority. The ability to solely initiate and approve or edit and approve purchase orders in the absence of an independent third party increases the risk of fraud.

Internal Audit also noted two consultants who are no longer with the organization that had access to create and approve purchase orders.

Note: This is a prior year observation. Internal Audit noted that in the prior two audit reviews the ability to create and approve a purchase order was an observation. In Management's response from the FY18 audit review the estimated completion date was August 2018.

Recommendation #1 - Ensure that Segregation of Duties Controls are in Place for the Creation and Approval of a Purchase Order

We recommend that Finance should review all current users and ensure that their permissions and roles are set up such that they do not circumvent segregation of duties controls. This review should be documented. In addition, an access review should be completed and documented periodically

to ensure that no one is able to solely initiate and approve a purchase order. The nature of this review should be detailed in the Policies and Procedures. The corporation should ensure that contracted Consultants do not have the ability whatsoever to initiate, edit or approve Purchase Orders in the NetSuite financial application when performing contractual work.

Observation #2 Vendor Maintenance Issues

It is important that the quality of the information contained in the Vendor Master File is complete and accurate. This allows for accurate reporting and analysis, assistance in compliance with regulations, and works to facilitate and strengthen internal controls. Internal Audit noted a number of vendor maintenance issues, pertaining mainly to incomplete information in the system:

- Two vendors that were not assigned a vendor category. In addition, the vendor name for one of these vendors was entered into the system incorrectly.
- Internal Audit noted instances where the W9 could not be located in the system, there was no address on the W9, or the W9 was not uploaded in the W9 field
- Internal Audit identified three instances where the DBA name on the W9 was not entered into the NetSuite system
- Internal Audit noted several instances where supporting documentation for ACH set up (voided check, a letter from the bank) per policy was not able to be located in the NetSuite system.

Recommendation #2 Review Vendor Master File for Completeness and Accuracy

During the audit review, Internal Audit was able to obtain and review various forms of documentation indicating that Finance was actively taking steps to review the vendor master file. We recommend that Finance continue to execute its strategy to ensure that each vendor's file is complete and accurate.

Conclusion

The audit review of AP/ACH Transactions process identified that there are still opportunities for Finance to strengthen the internal control structure. It is our understanding that the Finance department is actively working to correct these weaknesses. The audit review also highlighted that there has been some progress since the last audit review. Internal Audit noted that there were no findings regarding duplicate purchase order numbers or invoice overpayments. There are also more robust formal policies and procedures that align with actual practice in place. These improvements help to enhance the efficiency and effectiveness of their processes and reduce risk. Our interactions with the Finance team were collaborative and productive. We would like to take this opportunity to extend our thanks to the Controller and team for their cooperation and assistance during this review.

APPENDIX A: Population and Sampling Details

Row Labels	Sum of Amount	Sum of Occurrence	Percent of total
Blanks determined through review to be employees-excluded from population	(646,314.72)	1033	0.43%
Banking Institution	(1,984,671.31)	21	1.32%
Company	(9,166,683.17)	759	6.10%
Consultant	(2,808,576.06)	501	1.87%
Consultant - EXPENSES ONLY	(594.84)	1	0.00%
Expenses Non-Staff	(8,754.87)	22	0.01%
Government	(42,388.85)	4	0.03%
Grantee (NON-NWO)	(12,828,071.71)	196	8.54%
Grantee (NWO)	(116,547,574.38)	829	77.57%
Hotel	(3,612,109.17)	28	2.40%
HR Reimbursements	(25,392.30)	13	0.02%
Rent	(2,571,049.97)	53	1.71%
Retiree	(3,475.92)	5	0.00%
Training Reimbursements/Refund	(1,670.35)	3	0.00%
Grand Total	(150,247,327.62)	3468	

Company
20K and over -76 items totaling \$6,335,111.65
Under 20K - 683 items totaling \$2,2831,571.52
Consultant
20K and over -22 items totaling \$646,035.99
Under 20K - 479 items totaling \$2,162,540.07
Non-NWO
20K and over -121 items totaling \$12,276,743.18
Under 20K -75 items totaling \$551,328.53
NWO
20K and over -395 items totaling \$114,681,355.80
Under 20K - 434 items totaling \$1,866,218.58

APPENDIX B: Purchase Order Segregation of Duties Details

User	# of POs	Total PO amount
A	8	\$31,616.53
B	18	\$20,175.24
C	2	\$1,540.67
D	29	\$58,400.20
Total	57	\$111,732.64