Internal Audit Department
NeighborWorks® America

Audit Review of

AP/ ACH Transactions & Professional Services: Contracts & Task Orders

Project Number: NW.FIN.APACH.2018
NW.FIN.CONTO.2018

Audit Review of AP/ACH Transactions
& Professional Services: Contracts & Task Orders

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August 27, 2018

To: NeighborWorks America Audit Committee

Subject: **Audit Review of AP/ ACH Transactions & Professional Services: Contracts & Task Orders**

Attached is our draft audit report for the AP/ACH Transactions & Professional Service: Contracts & Task Orders review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
       T. Chabolla
       R. Bond
       R. Simmons

Function Responsibility and Internal Control Assessment

Audit Review of AP/ACH Transactions & Professional Services: Contracts & Task Orders

Business Function Responsibility	Report Date	Period Covered
Finance	August 27, 2018	October 1, 2017 Through April 4, 2018
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations		**Generally Effective[1]**
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).

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[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
Observation #1 Inadequate Current Approver Status We observed that the Current Approver field, located in the Primary Information of the Purchase Order is currently configured to default to the approver with the highest delegation in that work flow process whenever a transaction showing the approver for a PO is performed. See Appendix C. Internal Audit determined that this was caused due to the way the system was designed and configured. The current system configuration provides a system that presents information regarding approvers of a PO that might be misleading. **Risk Rating**: (b) (5)		**Recommendation #1 Define "Current Approver" Field to Reflect Last Approver** With regard to work flow process approvals for PO's the system should clearly indicate the final approver for any given purchase order. At a minimum the current approver field on the Primary Information tab of the Purchase Order should be reflective of the actual final approver. In addition, Internal Audit was informed that NetSuite has Approval Log capabilities[2], however NeighborWorks does not currently use this feature. Management should consider adding this feature to the system.	**Yes**	Management agrees with the recommendation. Originally, the system was set-up to show the next approver under the current approver header field. However, the system log information reflects the final approver of the PO. During the audit, management noted IA's suggestion by changing the current approver header to reflect the final approver. Based on IA recommendation, management implemented the Approval Log capabilities in NetSuite to show the final approver of purchase order in the system.	Completed September 2018	Internal Audit accepts Management's response

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[2] According to NetSuite during a meeting with Internal Audit (7/23/2018), the Approval Log details the workflow of the purchase order approval.

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
Observation #2 Duplicate Purchase Order Numbers Internal Audit noted two instances where duplicate PO numbers were generated and assigned to separate purchases and vendors. Internal Audit observed that this was an issue with the configuration of the system where provided with an option ability to utilize duplicate numbers. This feature notified end users that a duplicate PO number is about to be created and then given the option to override and proceed with the duplicate number. Purchase order numbers should be uniquely identifying reference numbers that aid in matching and minimizing the risk of incorrect payments and duplicate purchase orders **Risk Rating**: (b) (5)		**Recommendation #2 Reconfigure NetSuite Purchase Order Options Such that Duplicate Purchase Orders are Not Allowed** We strongly recommend that Finance immediately disable this option of providing an override that results in allowing a duplicate Purchase Order number. This feature should no longer be entertained as an option in the system configuration.	Yes	Management agrees with the recommendation. During the system configuration this override feature was unchecked. This came to management's attention during the audit and management took action to correct this. Currently, the budget managers or the central purchaser cannot override the system generated purchase number. This has been communicated to IA and documents were provided to reflect the resolution.	Completed on July 16, 2018.	Internal Audit accepts Management'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
Observation #3 One Person was Able to Create/Enter and Approve a Purchase Order Internal Audit observed one instance where a purchase order was created and approved by the same person. The purchase order was in the amount of $5,000. Internal Audit however noted that based on the supporting documentation the PO appeared to be valid. All purchase orders should be subject to a segregation of duties protocol in which Purchase Orders are created by one individual and approved by another with appropriate delegation of authority. Upon further investigation Internal Audit identified an additional instance that occurred where a PO was created and approved by the same person. The amount of the PO was $4,212.60. Internal Audit again noted that based on the supporting documentation the PO appeared to be a valid transaction. Nonetheless the ability to solely		**Recommendation #3 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 on a periodic basis to ensure that no one is able to solely create and approve a purchase order. The nature of this review should be detailed in the Policies and Procedures.	Yes	Management agrees with the recommendation. Management implemented a role base workflow access where one person cannot create and approve PO. However, the workflow does not restrict if one person has two roles to perform as central purchaser and a budget manager. For the small departments/Divisions with limited staff, Finance provided two roles (budget manager and central purchaser) to one person assuming these two roles are independent of each other. When the issue of segregation of duties came to management's attention, Finance requested NetSuite to review the workflow scripts and modify it so	Completed August 2018	Internal Audit accepts Management's response subject to a subsequent validation of implementation as confirmed by Management.

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
create and approve purchase orders increases the risk of fraud. **Risk Rating**: (b) (5)				that if one person has two roles that person should not be able to perform both tasks without going through the next approver After further investigation, NetSuite identified and made a change so that the same person will not perform both tasks. Subsequently, Finance communicated these changes to Internal Audit. Finance will work with IT&S to document the access review process as well as the policies and procedures relating to it.	6/30/2019	
Observation #4 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		**Recommendation #4 Review Vendor Master File for Completeness and Accuracy** We recommend that Finance should develop and execute a strategy to review the complete vendor master file and ensure that each vendor's file is accurate and	Yes	Management agreed with the recommendation. Finance did a vendor purge for any vendors without payment activity in February 2017. All vendors that were moved to NetSuite were reviewed and then those with the last payment	9/30/2019	Internal Audit accepts Management'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
controls. Internal Audit noted a number of vendor maintenance issues in the system: • One instance where there was no EIN number in the system for a vendor; there was also no W-9 in the system. • Two instances where the W-9 and/or ACH Form had an EIN number that was different from what was in the system. • One instance where the EIN, address, and the name do not match the W-9. The name on the W-9 is very similar to the name in the system • One instance where the W-9 on file is blurry and barely legible. • Internal Audit noted instances where the Legal name per the W-9 was not in NetSuite. Only the DBA name was in NetSuite **Risk Rating:** (b) (5)		complete in respect of their profiles. This review should be documented. Formally documented Policies and Procedures should be inclusive of language that requires the review of vendor profiles for completeness and accuracy.		activity of December 2016 were deactivated during the cleanup process. However, some of the deactivated vendors in NetSuite had to be activated due to subsequent payments. Finance did not review the vendor information and the documentation for these activated vendors since these vendors were paid before the purge and clean up. Finance acknowledges the issues and will review and update any missing information or documents in the vendor database. Finance will update the policy and procedures for vendor set, activate and maintenance in the accounting manual.		

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
Observation #5 Supporting Documentation Not Consistently Stored Within NetSuite Internal Audit noted that supporting documentation (W-9's, voided checks, Vendor Add/Creation Forms, ACH forms); information that can be electronically maintained or archived was not consistently stored within NetSuite, the organization's system of record. As NetSuite is the system of record all supporting documentation for payments and vendors should be stored within the system. Upon request, some of the documentation was pulled from the Finance folder on the Shared drive and made available for review. Although some of the requested documentation was made available, there were several instances where the documentation was not available. The majority of the sampled vendors that were created prior to NetSuite (vendors created in the		**Recommendation #5 All Supporting Documentation for Accounts Payable Should Be Stored in NetSuite** We recommend that management require that supporting documents be maintained in the system of record which is NetSuite i.e. in one location (spaces provided in NetSuite). Policies and procedures should contain language as to who should have access to these files and criteria as to how access is granted or determined. Requiring the location of vendor documents in one location provides consistency and increases efficiencies that could otherwise be lost to time and effort wasted locating documents that may already be on file or requires being updated. Policies and procedures should dictate the location of the various types of documentation and provide	Yes	Management agrees with the recommendation. Finance will upload all the required documents for vendors in NetSuite. Effective June 1, 2018, Finance is no longer storing any vendors document in the Finance shared drive. Currently, only Finance staff has access to the vendor information in NetSuite. Other staff can only see the vendor name, address and payment history. Finance will update the accounting manual to indicate where the documents are stored and who has access to these documents, as well as guidance for handling updated documentation.	Completed 8/31/2018 12/31/2018	Internal Audit accepts Management's response subject to a subsequent validation of implementation as confirmed by Management.

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
previous PeopleSoft system) did not have supporting documentation that could be provided for review. The risk of having incomplete vendor information most especially pertinent info can result in not being able to validate the existence of a vendor. **Risk Rating:** (b) (5)		guidance for the handling of updated documentation.				
Observation #6 Invoice Overpayment Internal audit observed one instance where an invoice was overpaid and the cause apparently ascribed to human error. Even though the amount in question was negligible the failure of effective input validation controls contributed to this error. It was determined that subsequent reviews failed to identify the error. The processing of invoices is manual and as such is subject		**Recommendation #6 Provide Additional Training and Determine if the System Supports Web Portals** Internal Audit recommends that Management explore the feasibility of utilizing customer web portals, third party websites or other electronic data interchange systems that would facilitate the electronic delivery and input of invoices, thus further minimizing the	**Yes**	Management agreed with the recommendations. Currently there is a system control in NetSuite whereby payments cannot go over the purchase order amount. In addition, we also have several layers of reviewer during the payment process (staff accountant, disbursement manager, senior disbursement manager and controller). Purchase Order may have multiple invoices that may be received against it. During IA's audit it was identified that there was	9/30/2019	Internal Audit accepts Management'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
to the risk of human error with regard to data entry. **Risk Rating**: (b) (5)		manual aspect of the process and improving efficiency and quality.		one invoice with an over payment of $0.50. The budget manager who received the invoice incorrectly entered $0.50 more than the invoice amount. However, the cumulative total after this incorrect entry is still less than the approved purchase order amount. All the reviewers overlooked the fifty cent overage when they compare it to the invoice amount. Finance has previously explored using a third party web portal but all these systems are not 100% accurate; however management will revisit and explore electronic and other alternatives to enhance efficiency and quality.		

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
Observation #7 Policies and Procedures that do not align to actual practice Internal Audit noted some instances where the policies and procedures were inconsistent with actual practice. Some examples include: • Per the policy all vendors are required to have a W-9 on file. However, in practice there appears to be circumstances (government entities, certain reimbursements) where exceptions are allowed. • Conflicting statements within the policy that may cause some confusion as the voided check or letter from the bank is not required per policy at the time that the vendor add request is made/received by accounts payable.		**Recommendation #7 Review, Update, and Re-align Current Policies and Procedures with Current Practice** Policies and Procedures should be reflective of the entire business process formally documented, and in alignment with current practices. Finance should formally document the nature of their review over Accounts Payables including the visual Compliance check and implement procedures to ensure that the review is inclusive of all vendors that are paid for each pay run. All payments should be processed and documented consistently. Any exceptions to this process should be explicitly identified and documented in the formal written policies and procedures. Furthermore, exceptions	**Yes**	Management agrees with this recommendation. Finance will update the accounting manual to reflect the policies and procedures according to the current practice. Any policy and procedure updates will be communicated to staff and training will be provided accordingly.	9/30/2019	Internal Audit accepts Management'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
• There are no formal policies or procedures around the documentation of the check runs that include the corresponding check list and creation of the folder that documents this portion of the process. There are also no formal policies that address emergency or last minute payments. Internal Audit noted that some of the folders that were used to store supporting documentation from the check runs were missing documentation. In addition the check list was not consistently completed. • Some aspects related to the nature of review that is completed by Finance at various stages within the Accounts Payable		should be subject to a controlled alternate process to prevent real or fake emergencies from facilitating corrupt payments. Once policies and procedures have been updated they should be formally communicated to all relevant staff member and training provided as necessary.				

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
process are not formally and completely documented. Internal Audit noted instances where there was no evidence to support that a debarment check had been completed by Finance prior to making payment. In most of these cases, this seemed to be the case when emergency or last minute payments occurred. Risk Rating: (b) (5)						

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.

<table>
<tr><td colspan="3">Management Responses to
The Audit Review of:

AP/ACH Transactions & Professional Services: Contracts & Task Orders

</td></tr>
<tr><td># Of Responses</td><td>Response</td><td>Recommendation #</td></tr>
<tr><td>7</td><td>Agreement with the recommendation(s)</td><td>7</td></tr>
<tr><td></td><td>Disagreement with the recommendation(s)</td><td></td></tr>
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Background

This project had originally been scheduled as two (2) separate core IA projects For FY2018, namely:

(i) Professional Services - Contracts & Task Orders
(ii) Accounts Payable/ACH Transactions

Due to the Procurement Redesign at the time of this project, Internal Audit was unable to extend the audit of the Procurement cycle aspect of Professional Services - Contracts & Task Orders audit review. We however did review the vendor, payment and approval process of this cycle.

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 10/1/2017 and 4/4/2018. This review is not inclusive of disbursements related to employee expense reimbursement.

Methodology

Prior observations and recommendations contained in a FY2015 and FY2017 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.

A listing of payments that occurred between 10/1/2017 and 4/4/2018 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. The four largest vendor categories were then stratified for the purposes of sampling. Vendor categories with a frequency of occurrence greater than 50 had the Excel random number generator 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, subsequent reviews, and any supporting documents. Internal Audit also reviewed documentation pertaining to check runs that were completed during the scope of the audit.

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

Observations and Recommendations

Observation #1 – Inadequate Current Approver Status

In order to determine the most recent approval, line items must be reviewed to identify where the old value is equal to "pending supervisor approval" and the new value is equal to "pending receipt". The column labeled "set by" for this line item will identify the approver.

We observed that the Current Approver field, located in the Primary Information of the Purchase Order is currently configured to default to the approver with the highest delegation in that work flow process whenever a transaction showing the approver for a PO is performed, see Appendix C. In one of our observations the actual approver for the transaction was the SVP (Procurement) but instead the system defaulted to the highest approving authority who in this case was the CFO. Internal Audit determined that this was caused due to the way the system was designed and configured. We rely on the system to provide timely and accurate information in order to make business decisions. The current system configuration provides a system that presents information regarding approvers of a PO that might be misleading. This can cause users to make assumptions and decisions in error.

Recommendation #1 – Define "Current Approver" Field to Reflect Last Approver

With regard to work flow process approvals for PO's the system should clearly indicate the final approver for any given purchase order. At a minimum the current approver field on the Primary Information tab of the Purchase Order should be reflective of the **actual** final approver. In addition, Internal Audit was informed that NetSuite has Approval Log capabilities[3], however NeighborWorks does not currently use this feature. Management should consider adding this feature to the system.

Observation #2 – Duplicate Purchase Order Numbers

Internal Audit noted two instances where duplicate PO numbers were generated and assigned to separate purchases and vendors. Internal Audit observed that this was an issue with the configuration of the system where provided with an option ability to utilize duplicate numbers. This feature notified end users that a duplicate PO number is about to be created and then given the option to override and proceed with the duplicate number. Purchase order numbers should be uniquely identifying reference numbers that aid in matching and minimizing the risk of incorrect payments and duplicate purchase orders.

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[3] According to NetSuite during a meeting with Internal Audit (7/23/2018), the Approval Log details the workflow of the purchase order approval.

Recommendation #2 – Reconfigure NetSuite Purchase Order Options Such that Duplicate Purchase Orders are Not Allowed

We strongly recommend that Finance immediately disable this option of providing an override that results in allowing a duplicate Purchase Order number. This feature should no longer be entertained as an option in the system configuration.

Observation #3 – One Person was Able to Create/Enter and Approve a Purchase Order

Internal Audit observed one instance where a purchase order was created and approved by the same person. The purchase order was in the amount of $5,000. Internal Audit however noted that based on the supporting documentation the PO appeared to be valid. All purchase orders should be subject to a segregation of duties protocol in which Purchase Orders are created by one individual and approved by another with appropriate delegation of authority.

In the Internal Audit Review of Accounts Payable & General Ledger Report that was issued on October 26, 2017, observation number four identified that a central purchaser was able to create and approve a purchase order. Management had responded with the following:

> "We agree and the workflow is designed to accommodate the segregation of duties. All Purchase orders must be approved at minimum by the Budget Manager and Budget Owner. We know of no instances where a PO was created and approved by the same person."

Management also stated in a follow up to the open recommendation on 4/4/2018:

> "The workflow is designed to ensure that one person cannot initiate and approve PO in the system"

Upon further investigation Internal Audit identified an additional instance that occurred on 4/25/2017 where a PO was created and approved by the same person. The amount of the PO was $4,212.60. Internal Audit again noted that based on the supporting documentation the PO appeared to be a valid transaction. Nonetheless the ability to solely create and approve purchase orders increases the risk of fraud.

Recommendation #3 – 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 on a periodic basis to ensure that no one is able to solely create and approve a purchase order. The nature of this review should be detailed in the Policies and Procedures.

Observation #4 – 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 in the system:

- One instance where there was no EIN number in the system for a vendor; there was also no W-9 in the system.
- Two instances where the W-9 and/or ACH Form had an EIN number that was different from what was in the system.
- One instance where the EIN number, address, and the name do not match the W-9. The name on the W-9 is very similar to the name in the system
- One instance where the W-9 on file is blurry and barely legible.
- Internal Audit noted instances where the Legal name per the W-9 was not in NetSuite. Only the DBA name was in NetSuite

Recommendation #4 – Review Vendor Master File for Completeness and Accuracy

We recommend that Finance should develop and execute a strategy to review the complete vendor master file and ensure that each vendor's file is accurate and complete in respect to their profiles. This review should be documented. Formally documented Policies and Procedures should be inclusive of language that requires the review of vendor profiles for completeness and accuracy.

Observation #5 – Supporting Documentation Not Consistently Stored Within NetSuite

Internal Audit noted that supporting documentation (W-9's, voided checks, Vendor Add/Creation Forms, ACH forms); information that can be electronically maintained or archived was not consistently stored within NetSuite, the organization's system of record. As NetSuite is the system of record all supporting documentation for payments and vendors should be stored within the system. Upon request, some of the documentation was pulled from the Finance folder on the Shared drive and made available for review. According to Finance, these documents were being stored outside of NetSuite to prevent unauthorized access to documentation that contained Personally Identifiable Information (PII) by staff. However, Internal Audit was able to locate some of the documentation that was requested within the system that contained PII. During the audit review it was determined that it is possible to store this documentation within the NetSuite system and restrict access.

Although some of the requested documentation was made available, there were several instances where the documentation was not available. The majority of the sampled vendors that were created prior to NetSuite (vendors created in the previous PeopleSoft system) did not have supporting documentation that could be provided for review. This would include vendor creation forms, W-9's, voided checks and/or ACH support for payment. The reason for this we determined was that PeopleSoft (legacy financial system) did not have the capability to have vendor creation supporting documentation stored within the system. Upon the implementation of NetSuite the documentation was sent to storage without first being uploaded to the new system. The risk of having incomplete vendor information most especially pertinent info, can result in not being able to validate the existence of a vendor. In the event that the organization no longer has the supporting documentation for vendors, this should be obtained in order to ensure completeness of information.

Recommendation #5 – All Supporting Documentation for Accounts Payable Should Be Stored in NetSuite

We recommend that management require that supporting documents be maintained in the system of record which is NetSuite i.e. in one location (space provided in NetSuite). Policies and procedures should contain language as to who should have access to these files and criteria as to how access is granted or determined. Requiring the maintenance of vendor documents in one location provides consistency and increases efficiencies that could otherwise be lost to time and effort wasted locating documents that may already be on file or requires being updated. Policies and procedures should dictate the location of the various types of documentation and provide guidance for the handling of updated documentation.

Observation #6 – Invoice Overpayment

Internal audit observed one instance where an invoice was overpaid and the cause apparently ascribed to human error. Even though the amount in question was negligible the failure of effective input validation controls contributed to this error. It was determined that subsequent reviews failed to identify the error. The processing of invoices is manual and as such is subject to the risk of human error with regard to data entry.

Recommendation #6 – Provide Additional Training and Determine if the System Supports Web Portals

Internal Audit recommends that Management explore the feasibility of utilizing customer web portals, third party websites or other electronic data interchange systems that would facilitate the electronic delivery and input of invoices, thus further minimizing the manual aspect of the process and improving efficiency and quality.

Observation #7 – Policies and Procedures that do not align to actual practice

Internal Audit noted some instances where the policies and procedures were inconsistent with actual practice. Some examples include:

- Per the policy all vendors are required to have a W-9 on file. However, in practice there appears to be circumstances (government entities, certain reimbursements) where exceptions are allowed. It appears as if this may have been included in the policy at one time, but was removed as the most recent copy of the policy obtained during the audit review revised 4.30.2018 did not have any references to W-9 exceptions. Internal Audit also reviewed the 3.29.2018 and the 2.28.2018 revisions and noted that no reference was made regarding exceptions.
- Per policy, if the vendor is requesting ACH payments, ACH forms are optional but preferred. A letter from the vendor's bank verifying routing and account numbers or a voided check is required. Internal Audit noted instances where the vendor was set up for ACH payments, but there was no voided check or letter from the bank verifying the bank account information. In these cases the option but not required ACH form was completed instead. The policy also states
    - A new vendor record is created when:

1. A request is made to Accounts Payable Staff Accountant to add a new vendor
2. A secure fax or email to financecustomerservice@nw.org is received by accounts payable with a minimum of a W9 form and an ACH authorization form if vendor chooses to enroll.

These conflicting statements may cause some confusion as the voided check or letter from the bank is not required per policy at the time that the vendor add request is made/received by accounts payable.

- There are no formal policies or procedures around the documentation of the check runs that include the corresponding check list and creation of the folder that documents this portion of the process. There are also no formal policies that address emergency or last minute payments. Internal Audit noted that some of the folders that were used to store supporting documentation from the check runs were missing documentation. In addition the check list was not consistently completed. In the absence of formally documented policies there is increases chance that controls will not be performed or will be circumvented and thereby increases the risk of fraud exposure.
- Some aspects related to the nature of review that is completed by Finance at various stages within the Accounts Payable process are not formally and completely documented. Reviews serve as control points. Failure to formally document the control points can lead to the control not being performed. The vendors reviewed by Finance using Visual Compliance is a control put on place to identify debarred vendors in the event that the debarment was not identified during the Procurement process. Internal Audit noted instances where there was no evidence to support that a debarment check had been completed by Finance prior to making payment. In most of these cases, this seemed to be the case when emergency or last minute payments occurred. The failure of this control increases the risk that the organization is not in compliance with federal regulations that require the organization not to engage vendors that have been declared ineligible to receive Federal contracts.

Recommendation #7 – Review, Update, and Re-align Current Policies and Procedures with Current Practice

Policies and Procedures should be reflective of the entire business process formally documented, and in alignment with current practices.

Finance should formally document the nature of their review over Accounts Payables including the visual Compliance check and implement procedures to ensure that the review is inclusive of all vendors that are paid for each pay run.

All payments should be processed and documented consistently. Any exceptions to this process should be explicitly identified and documented in the formal written policies and procedures. Furthermore, exceptions should be subject to a controlled alternate process to prevent real or fake emergencies from facilitating corrupt payments.

Once policies and procedures have been updated they should be formally communicated to all relevant staff and training provided as necessary.

Conclusion

The audit review of AP/ACH Transactions & Professional Services: Contracts & Task Orders processes identified several opportunities for Finance to continue to enhance the efficiency and effectiveness over their processes and strengthen the internal control structure. A number of the observations and recommendations that have been identified are byproducts of the issues that arose from the ERP system transition and implementation from PeopleSoft to NetSuite. Resolution of these issues would become more evident when the full development and implementation of the IT&S Roadmap is completed. 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

Vendor Category	Sum of Amount	Count of Occurance	Sample Size	
	(753,261.43)	889		
Banking Institution	(1,394,638.70)	19	1	
Company	(9,132,398.04)	642	10	
Consultant	(2,708,338.92)	423	10	
Entertainment	(1,300.00)	1	1	
Expenses Non-Staff	(7,218.70)	30	1	
Government	(1,119.50)	1	1	
Hotel	(2,296,237.76)	26	1	
HR Reimbursements	(2,105.21)	3	1	
NON-NWO	(19,259,562.36)	202	10	
NWO	(32,199,722.99)	584	10	
Rent	(2,429,306.49)	48	1	
Retiree	(1,005.89)	2	1	
Sponsorship	(5,000.00)	1	1	
Stipend	(1,960.00)	7	1	
Training Reimbursements	(5,351.28)	8	1	
Grand Total	**(70,198,527.27)**	**2886**		
Categories with the highest occurance			51	Subtotal
No assigned vendor category. IA identified four instances where			2	Pitney Bowes
the vendor name was not associated with an employee. These			2	Center for Equity & Inclusion
instances were included in the sample.			55	Total

APPENDIX B: System Notes/Current Audit Trail

There are seven column headers in the system notes.

Column Header	Definition
Date	day and time that the change occurred
Set By	the name of the person who made the change
Context	how the activity occurred- either UI (User Interface) or System
Type	the activity that occurred
Field	the field of the purchase order that is affected
Old Value	the value of the field prior to the change
New Value	the value of the field after the change

DATE ▼	SET BY	CONTEXT	TYPE	FIELD	OLD VALUE	NEW VALUE
11/3/2017 9:42 am	Joseph M Frett	UI	Change	Document Status	Partially Received	Closed
10/27/2017 5:42 pm	Verna R Carrington	UI	Change	Document Status	Pending Billing/Partially Received	Partially Received
10/27/2017 12:08 pm	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Billing/Partially Received
10/12/2017 12:16 pm	Sharon T Middleton	UI	Change	Document Status	Pending Billing/Partially Received	Partially Received
10/12/2017 10:53 am	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Billing/Partially Received
10/12/2017 10:51 am	Adeboyewa A Adeleke	UI	Change	Document Status	Pending Receipt	Partially Received
10/12/2017 10:51 am	Adeboyewa A Adeleke	UI	Change	Document Status	Pending Supervisor Approval	Pending Receipt
10/12/2017 10:51 am	Adeboyewa A Adeleke	UI	Change	Current Approver	Adeboyewa A Adeleke	Rebecca R Bond
9/21/2017 1:32 pm	Catherine J Higgins	UI	Change	Current Approver	Catherine J Higgins	Adeboyewa A Adeleke
9/19/2017 11:50 am	Joseph M Frett	UI	Change	Current Approver	Rebecca R Bond	Catherine J Higgins
9/19/2017 11:50 am	Joseph M Frett	UI	Change	PO Edited	T	F
9/19/2017 11:50 am	Joseph M Frett	UI	Change	Document Status	Pending Receipt	Partially Received
9/19/2017 11:50 am	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Supervisor Approval
9/19/2017 11:50 am	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Receipt
9/19/2017 11:50 am	Joseph M Frett	UI	Change	PO Edited	F	T
8/10/2017 3:55 pm	Sharon T Middleton	UI	Change	Document Status	Pending Billing/Partially Received	Partially Received
8/10/2017 3:07 pm	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Billing/Partially Received
6/21/2017 12:52 pm	Adeboyewa A Adeleke	UI	Change	Current Approver	Adeboyewa A Adeleke	Rebecca R Bond
6/21/2017 12:52 pm	Adeboyewa A Adeleke	UI	Change	Document Status	Pending Receipt	Partially Received
6/21/2017 12:52 pm	Adeboyewa A Adeleke	UI	Change	Document Status	Pending Supervisor Approval	Pending Receipt
6/21/2017 12:04 pm	Catherine J Higgins	UI	Change	Current Approver	Catherine J Higgins	Adeboyewa A Adeleke
6/19/2017 3:31 pm	Joseph M Frett	UI	Change	Current Approver	Rebecca R Bond	Catherine J Higgins
6/19/2017 3:31 pm	Joseph M Frett	UI	Change	Document Status	Partially Received	Pending Supervisor Approval
6/19/2017 3:31 pm	Joseph M Frett	UI	Change	PO Edited	T	F
6/19/2017 3:31 pm	Joseph M Frett	UI	Change	PO Edited	F	T

APPENDIX C: Screen Shot Showing Current Approver Field

PO534 Brown Construction Services, Inc.   CLOSED

Actions ▾ | StickyNotes ▾ New: ☐ ☐ ☐

Primary Information

DATE
11/18/2016

VENDOR
Brown Construction Services, Inc.

PO #
PO534

MEMO

RECEIVE BY
10/30/2016

APPROVAL STATUS
Approved

☐ IT RELATED
☐ GRANT WORKS
☐ IS PO MODIFIED FOR VENDOR BILL MATCH PURPOSE

BUDGET DATE
10/27/2016

CURRENT APPROVER
Rebecca R Bond