

Internal Audit Department  
NeighborWorks® America

# **Audit Review of AP/ ACH Transactions**

Project Number: NW.FIN.APACH.2020

# **Audit Review of AP/ACH Transactions**

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December 15, 2020

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. Ifill  
R. Bond  
R. Simmons

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

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
Finance	December 15, 2020	October 1, 2019 Through September 30, 2020
<b>Assessment of Internal Control Structure</b>		
Effectiveness and Efficiency of Operations	<b>Generally, Effective<sup>1</sup></b>	
Reliability of Financial Reporting	<b>Not Applicable</b>	
Compliance with Applicable Laws and Regulations	<b>Not Applicable</b>	

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

<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.

## 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><b>Observation #1 –</b></p> <p><b>Accounts Payable Reconciliation not signed by Reviewer and Preparer</b></p> <p>The preparation and review of reconciliations should be segregated to reduce the risk of errors or potential fraud. Segregation of duties should be evidenced by both the preparer and the reviewer. The preparer should sign and date upon completion of the reconciliation and the reviewer should sign and date the reconciliation after the review has been completed.</p> <p>For the sample selected, Internal audit observed the Account Payable reconciliations were signed by the preparer as indicated by the signature and date. However,</p>		<p><b>Recommendation #1 –</b></p> <p><b>Reconciliations Should be Signed and Dated by the Preparer and the Reviewer</b></p> <p>Internal Audit recommends that the preparer and the reviewer of the Accounts Payable reconciliation sign and date the reconciliation. This will provide evidence of segregation of duties and ensure proper review and approval.</p>	<p><b>Yes</b></p>	<p>Accounts Payable reconciliation is normally prepared by the Senior Accountant and then reviewed by the Senior Manager AP. In March 2020, the Senior Accountant left NWA but she prepared the Accounts Payable reconciliation from October 2019 to February 2020. However, due to the pandemic the signed reconciliation files are in the office and cannot be accessed. Due to Staff shortage from March to June, the accounts payable reconciliations were prepared by the Senior Manager and were reviewed by the</p>	<p><b>January 2021</b></p>	<p>Internal Audit accepts Management's response with the following clarifying statement and final comments to Management's response.</p> <p>Management's response appears to indicate that Finance was approving via email since March when the pandemic occurred. The emails obtained and</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>the reconciliations lacked evidence of a formal review. The reconciliations were not signed and dated by the reviewer.</p> <p><b>Risk Rating:</b> (b) (5)</p>				<p>Controller. However, the reviewer document via email. Management agrees with the IA recommendation to segregate the review and approval process of the account reconciliation. Going forward, the preparation of the AP account reconciliation will be done by the Senior Accountant and reviewed/signed by the Senior Manager AP.</p>		<p>reviewed for the selected samples did not indicate that their purpose was to approve the reconciliation. The emails appeared to address issues that were related to the aging report. Therefore, Internal Audit was unable to determine what month some of the emails pertained to and substantiate review and</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
						approval of the reconciliation.

## 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 Responses to The Audit Review of:  AP/ACH Transactions</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
	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 10/1/2019 and 7/28/2020. However, due to the pandemic, some documentation related to the check runs that were stored in the office were not able to be accessed. For this reason, the scope was expanded to include check runs through 9/30/2020 in order to replace 14 of the initial selected sample. Internal Audit also reviewed system generated reports for voided purchase orders, and the Accounts Payable Aging report along with the corresponding Accounts Payable reconciliations.

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 from the AP Audit review.

## **Methodology**

Internal Audit met with Finance to gain an understanding of any changes to the process that had taken place since the previous audit. Observations and recommendations contained in the FY2019 audit report were reviewed. In addition, current Accounts Payable policies and procedures and the updated Accounts Payable narrative were obtained and reviewed.

Internal Audit analyzed reports from NetSuite to identify voided or deleted purchase orders, duplicate purchase order numbers, and segregation of duties exceptions related to purchase orders. All system reports included all activity for the fiscal year through the date that the report was

generated. The Vendor Additions Report, A/P Reconciliation and corresponding Aging reports were also reviewed.

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. The three largest vendor categories (NWO, Non-NWO, and Consultant) 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 check runs associated with the selected payments for detailed testing. Testing was expanded to include check runs through September 30, 2020 in order to replace samples where documentation was at the office and unavailable for testing due to the pandemic.

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

### **Observations and Recommendations**

#### **Observation #1 – Accounts Payable Reconciliation not signed by Reviewer and Preparer**

The preparation and review of reconciliations should be segregated to reduce the risk of errors or potential fraud. Segregation of duties should be evidenced by both the preparer and the reviewer. The preparer should sign and date upon completion of the reconciliation and the reviewer should sign and date the reconciliation after the review has been completed.

For the sample selected, Internal audit observed the Account Payable reconciliations were signed by the preparer as indicated by the signature and date. However, the reconciliations lacked evidence of a formal review. The reconciliations were not signed and dated by the reviewer.

#### **Recommendation #1 – Reconciliations Should be Signed and Dated by the Preparer and the Reviewer**

Internal Audit recommends that the preparer and the reviewer of the Accounts Payable reconciliation sign and date the reconciliation. This will provide evidence of segregation of duties and ensure proper review and approval.

### **Conclusion**

The audit review of AP/ACH Transactions process identified an opportunity for Finance to provide stronger evidence of its internal controls. The audit review also highlighted that there has been progress since the last audit review. Internal Audit noted that there was more consistency with the storage of vendor documents within NetSuite and that policies and procedures appear to align with practice. 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**

<b>Vendor Category</b>	<b>Occurrence</b>	<b>Sum of Amount</b>	<b>Percent Total</b>
Blanks determined through review to be employees - excluded from population		650,416.80	0.40%
<b>Banking Institution</b>	24	1,690,110.46	1.04%
Benefit Administration Fee	6	3,113.25	0.00%
Catering	2	135,856.29	0.08%
Computer Hardware/Software	64	729,229.41	0.45%
<b>Consultant</b>	948	7,287,928.52	4.50%
<b>Consultant - EXPENSES</b>	3	16,090.75	0.01%
Contributions/Staff Award	21	6,253.75	0.00%
Delivery/Shipping	23	68,719.88	0.04%
Entertainment	3	24,087.50	0.01%
Equipment Rental	32	169,885.44	0.10%
Expenses Non-Staff	50	138,410.69	0.09%
Facilities Management/Janitor	67	113,995.15	0.07%
<b>Government</b>	10	292,417.78	0.18%
<b>Grantee (NON-NWO)</b>	213	9,685,998.66	5.97%
<b>Grantee (NWO)</b>	1,766	122,316,458.31	75.45%
<b>Hotel</b>	25	4,596,204.71	2.84%
Hotel & other Temporary Lo	2	45,150.44	0.03%
<b>HR Reimbursements</b>	1	485.89	0.00%
Insurance (Health, Dental, Other	74	5,268,407.99	3.25%
Insurance (Liability)	6	268,798.14	0.17%
Internet	9	14,256.00	0.01%
Membership	3	26,500.00	0.02%
Office Supplies	10	11,171.30	0.01%
Photography & Video	27	488,422.23	0.30%
Postage	1	8,000.00	0.00%
Printing	51	223,215.96	0.14%
Refund (Training Fees/Hotel)	13	50,584.34	0.03%
Relocation/Moving Charges	2	5,851.49	0.00%
<b>Rent</b>	72	4,603,848.61	2.84%
<b>Retiree</b>	11	5,559.89	0.00%
Software License	53	1,025,842.17	0.63%
Sponsorship	8	59,500.00	0.04%
STEP (Tuition Fee)	32	124,121.63	0.08%
Subscription	42	476,416.62	0.29%
Telephone	38	236,718.01	0.15%
Temp Help	131	1,236,907.22	0.76%
<b>Training Reimbursements</b>	6	8,880.50	0.01%
		<b>\$162,113,815.78</b>	

**Consultant**

Over 20K -71 items totaling \$2,942,257.41

20K and under - 877 items totaling \$4,345,671.11

**Non-NWO**

Over 20K - 31 items totaling \$8,653,206.00

20K and under - 182 items totaling \$1,032,792.66

**NWO**

Over 20K -597 items totaling \$111,240,628.89

20K and under - 1169 items totaling \$11,075,829.42