

# AUDIT REPORT ACCOUNTS PAYABLE FY25



**Eagle  
Excellence**  
North Carolina Central University

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DATE: May 30, 2024

TO: Dr. Johnson O. Akinleye, Chancellor

CC: Akua Matherson, CFO & Vice Chancellor for Admin & Finance  
Antonio McDaniel, Associate Vice Chancellor for Admin & Finance  
G. Keith Chadwell, Audit Committee Chair, Board of Trustees  
Dr. Catherine Edmonds, Chief of Staff  
LaKisha Perry-Green, Compliance Manager  
Fenita Morris-Shepard, General Counsel  
Barbara Baldwin, Executive Director of the Council of Internal Auditing, and Internal Audit Director

Internal Audit Working Paper File

FROM: Robert Gaines, MBA, CPA, Director of Internal Audit *RGG*

SUBJECT: AUD24001 – Accounts Payable

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**EXECUTIVE SUMMARY:**

The Internal Audit Office has completed a review of Accounts Payable. The objective of this audit was to review policies and procedures in the invoice processing workflow. A secondary objective was to examine causes for delayed payments of invoices.

There were 9 findings: FINDING #1: Outdated Policies. FINDING #2: Insufficient Standard Operating Procedures. FINDING #3: Unavailable Accounts Payable Aging Report. FINDING #4: Lack of Segregation of Duties within the Eagles' Purch System. FINDING #5: Invoices Paid More than 30 Days After Receipt. FINDING #6: Invoices Paid Without Documented Receipt. FINDING #7: Duplicate Payments. FINDING #8: Invoices Paid Without Purchase Order. FINDING #9: Invoices Not Sent to Accounts Payable Office. Our detailed findings, recommendations and management responses are presented in the Findings, Recommendations, and Management Responses section of this report.

This engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. We sincerely appreciate the assistance provided by all parties during this engagement.

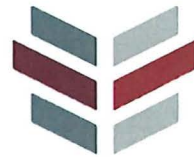
## Internal Audit Office

**Robert G. Gaines**  
Chief Audit Officer

**Jennifer Williams**  
Auditor

**Amanda Sosebee**  
Auditor

May 30, 2024



# NC Central UNIVERSITY

## AUD24001 – Accounts Payable

### Summary of Findings



## Audit Committee

**G. Keith Chadwell**  
Audit Chairman

**William Bell**  
**Cornell Slade**

**Roderick Allison**  
**Alexandra Valladares**

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**INTRODUCTION:**

We, the Internal Audit Office (IAO) have completed our review of Accounts Payable. This audit was included in the Audit Plan for Fiscal Year 2024 based on a University-wide risk assessment of all auditable units. The IAO reviewed State and University policies related to Payables. Fieldwork for this audit was completed during May 2024.

In late 2019, the University began using a software application called Eagles' Purch to streamline the process for making purchases and paying invoices. Currently, employees who would like to use Eagles' Purch attend a one-time training provided by the Purchasing Office. They are also provided a digital End User Guide with instructions on how to enter information into the system.

End Users (NCCU Employees) are able to submit Requisition requests, Invoices, and Receipts. Through this system, individuals from the Department, Purchasing Office, and Accounts Payable Office are able to review and approve an invoice before it is paid. An ideal workflow would be:

- Purchase Order
  - The End User submits a Requisition
  - Eagles' Purch automatically checks the requisition against the budget and sends notices to appropriate departments for approval (for example, IT or grant funds)
  - Purchasing approves the requisition and sends a Purchase Order to the Vendor
- Goods and Services
  - The Vendor sends goods to Central Receiving or provides a service
  - Central Receiving delivers goods to the End User
  - The End User creates a receipt in Eagles' Purch for goods or services
- Invoices
  - The Vendor sends an invoice to the Accounts Payable Office
  - Accounts Payable imports the invoice to Eagles' Purch
  - Eagles' Purch uses the Purchase Order number and item numbers to automatically match the Purchase Order, Invoice, and Receipt
  - Accounts Payable approves the invoice for payment and prints checks
  - Cash Management mails checks to vendors

This review is focused on the Invoices portion of the process through Eagles' Purch. Invoices can come into Eagles' Purch from five sources.

- The Electronic Supplier System (also referred to by End Users as the Punch-out system) allows vendors to list catalog items through Eagles' Purch. End Users select items from the catalog within the system, then submit their "cart" as a requisition for approval. Once approved, Eagles' Purch automatically submits the Purchase Order to the vendor and creates an invoice when the order is filled.
- The Supplier Portal allows Vendors to submit invoices directly to Eagles' Purch after a Purchase Order has been created.

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- The Digital Mailroom digitally reads images of invoices received by the Accounts Payable Office via email or scanned physical mail. It imports invoice data into Eagles' Purch and attaches the image. The Accounts Payable staff review the data for accuracy.
- Form Requests (also referred to as Check Requests) are invoices manually entered by End Users when no Purchase Order was used or the intended Purchase Order was exhausted. Because Purchasing and Departmental approvals did not take place in the Purchase Order workflow, these approvals must take place after the invoice has been received, which may cause delays to payment.
- Manual Entries are invoices that are manually entered into Eagles' Purch by the Accounts Payable department. They may or may not have an associated Purchase Order, and they currently do not require Purchasing or Departmental approvals outside of the Purchase Order workflow.

In Fiscal Year 2023, the Accounts Payable Office completed 15,970 invoices in Eagles' Purch. Their sources were:

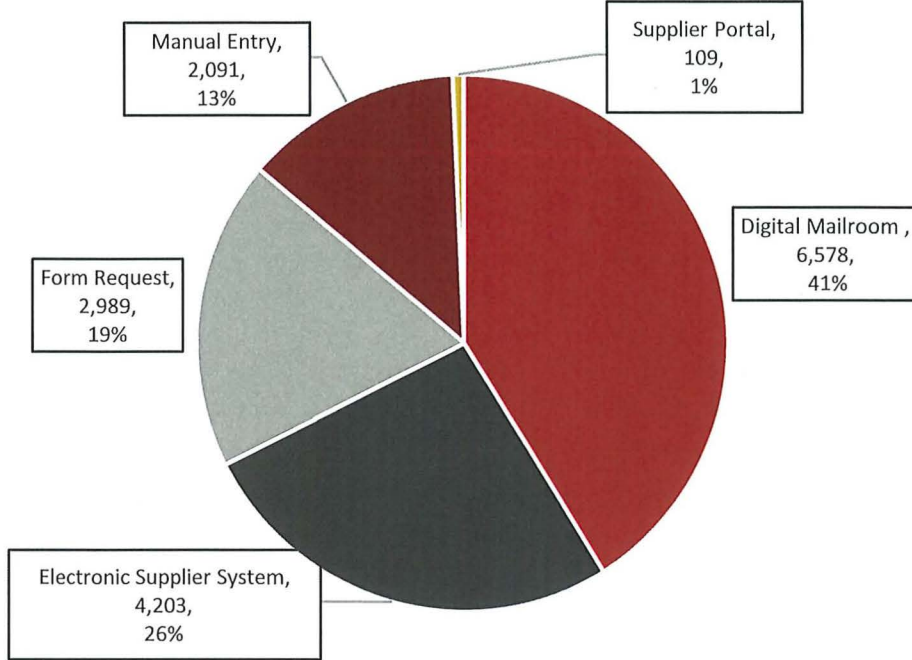
Source	Count		Amount	
Digital Mailroom	6,578	41.2%	\$27,275,200	32.0%
Electronic Supplier System	4,203	26.3%	\$3,249,500	3.8%
Form Request	2,989	18.7%	\$29,462,000	34.5%
Manual Entry	2,091	13.1%	\$24,934,000	29.2%
Supplier Portal	109	0.7%	\$419,800	0.5%
<b>Total</b>	<b>15,970</b>		<b>\$85,340,500</b>	

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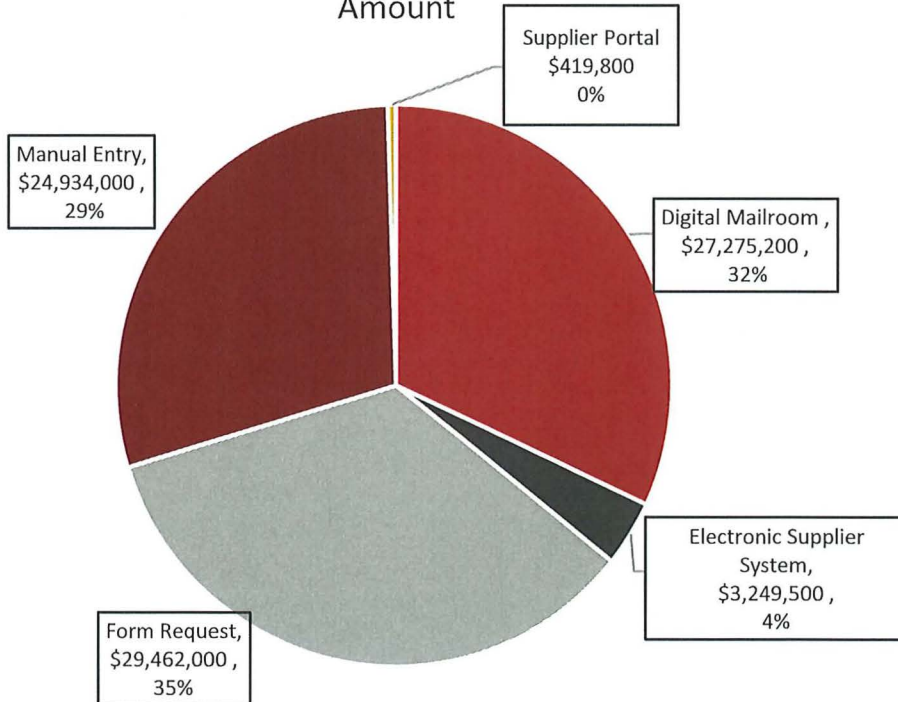
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Count of Invoices by Source



Amount



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**OBJECTIVES:**

The purpose of this audit was to review policies and procedures in the invoice processing workflow. A secondary goal of this audit was to examine causes for delayed payments of invoices.

The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively. We have a professional duty to provide an unbiased and objective view. We must be independent from the operations we evaluate and report to the board of trustees or the audit committee. To be effective, the internal audit activity must have staff who can work in accordance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (PPIA), as promulgated by the Institute of Internal Auditors.

The recommendations in an internal audit report are designed to help the organization achieve effective and efficient governance, enhance control processes associated with operational objectives, improve financial & management reporting objectives; and strengthen legal compliance objectives.

**SCOPE:**

The scope of this review covered activity ranging between July 1, 2022 and June 30, 2023. The IAO reviewed all invoices created in the Eagles' Purch system during that timeframe. The review excluded payments made directly through the Banner Software system that did not go through Eagles' Purch, as the data for those payments was not available at the time of testing. While Eagles' Purch is used internally, Banner is used to produce the University's Financial Statements. The IAO intends to review Direct Payments made without using Eagles' Purch at a later date.

**METHODOLOGY:**

Our professional pledge is to conduct our audits and reviews based upon the best benchmarks available. Engagements completed by the NCCU's IAO are conducted in conformance with the Standards of the IPPF.

During the engagement, we conducted the following:

- Interviewed appropriate staff from relevant departments, including Accounts Payable, Purchasing, and Central Receiving;
- Reviewed regulations and policies from the NC State Controller, the NC Department of Administration, and the University;
- Analyzed data retrieved from Eagles' Purch (Jaggaer), Banner (Ellucian), Intellectcheck (used for printing checks), and IMAYL (used by Central Receiving to track packages);
- Inspected samples of invoices, purchase orders, receipts, and supporting documents; and
- Observed procedures performed by Accounts Payable staff.

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**AUDITOR OPINION:**

In the opinion of the Auditor, the policies and procedures around invoice processing and payment need several improvements in order to ensure appropriate internal controls. While some improvements are focused on the Accounts Payable Office, others will require the full support of management and staff across all University departments in order to succeed.

**AUDITOR NOTE:**

The findings and recommendations included in this report are intended to assist management in improving internal controls and reducing risk to the University. We appreciate your written response to the findings and have included those responses in this report.

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## **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES**

### **PRIORITY 1 FINDINGS (HIGH RISK)**

#### **FINDING #1 – OUTDATED POLICIES:**

NCCU Reg - 30.04.5 Accounts Payable Invoices and Checks Regulation is available to University staff and the general public on the “Policies, Regulations, and Rules” page of the NCCU website. The current policy does not align with the State Procurement Manual as published by the NC Department of Administration. The State Procurement Manual states in section 3.1.8 that an “Invoice shall be paid on time as agreed, typically no later than 30 calendar days after receipt of a correct invoice or acceptance of goods and services, whichever is later.” It continues in section 7.5, “Final payment should never be made until all work is complete and all deliverables are received and accepted.”

These policies are fundamental to the function of the Accounts Payable Office and should lead the policies and process flow for payment of invoices. While the University is subject to all sections of the State Procurement Manual, these policies in particular should be included in the University policy as well. Including them will eliminate any confusion or unawareness among staff and other stakeholders.

Furthermore, the University policy does not represent current practice or technology in the Accounts Payable Office. The policy was most recently updated in 2016, and the Eagles’ Purch system was implemented in 2019. It also includes outdated practices, such as wet signatures for certain invoices.

For these same reasons, the University policy currently does not include Manual Entry or Direct Payments. Under the prior system, all invoices were entered manually and paid directly. Because the newer automated processes have reduced inherent risk, the Accounts Payable policy should limit extensive use of Manual Entries and Direct Payments and specify when and why they are appropriate. The current policy also contradicts itself by stating that all invoices are required to have a Purchase Order, then describing the Form Request process for invoices without Purchase Orders.

#### **RISK / INTERNAL CONTROL:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) created an Integrated Framework that is used as the standard for Internal Controls. The Framework’s 12<sup>th</sup> principle states that an effective internal control environment “deploys control activities through policies that establish what is expected and procedures that put policies into action.” The goals and priorities of the department are not reflected in the current policy. Without clear and thorough policies, employees have little guidance on how to proceed when vendors or staff from other departments do not follow the End User Guide for Eagles’ Purch.

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**RECOMMENDATION:**

It is recommended that management update REG – 30.04.5 to reflect the relevant portions of the State Procurement Manual and current technology and practice. It should clarify when and why it is appropriate to use Form Requests, Manual Entries, and Direct Payments, and explicitly limit their use otherwise.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. Accounts Payable policies and procedures will be updated to comply with State policy.

**FINDING #2 – INSUFFICIENT STANDARD OPERATING PROCEDURES:**

The Accounts Payable Office lacks adequate Standard Operating Procedures (SOPs) detailing the processes and tasks performed by the office. While the Eagles' Purch End User Guide provides information for employees from departments across campus who wish to create Purchase Orders, Invoices, and Receipts, it does not address the day-to-day operations for approving invoices for payment. SOPs are clear, written instructions that describe the step-by-step process that must be taken to properly perform a routine activity.

**RISK / INTERNAL CONTROL:**

As stated in Finding #1, the COSO Framework's 12<sup>th</sup> principle emphasizes the importance of policies and procedures. Clear and consistent SOPs ensure compliance with internal and external policies, foster institutional knowledge, and create consistency in the completion of a process. Without them, staff may perform procedures inconsistently or inaccurately. This creates significant operational, compliance, financial, and institutional risk.

**RECOMMENDATION:**

Management and staff should work together to develop and test written procedures for all recurring processes included in the job descriptions for the AP department. SOPs should follow updated University policies and State Regulations. SOPs should be used to train new staff and retrain existing staff.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. The SOP for the AP Staff will be separated from the end-user manual and updated to reflect current operating procedures.

**FINDING #3 – UNAVAILABLE ACCOUNTS PAYABLE AGING REPORT:**

Management was not able to produce an accurate AP aging report upon request, either for the current date or for the testing period. Additionally, upon working with the system specialist for Argos, which generates reports from Banner databases, the IAO determined that no AP Aging Report has been created or requested from Banner.

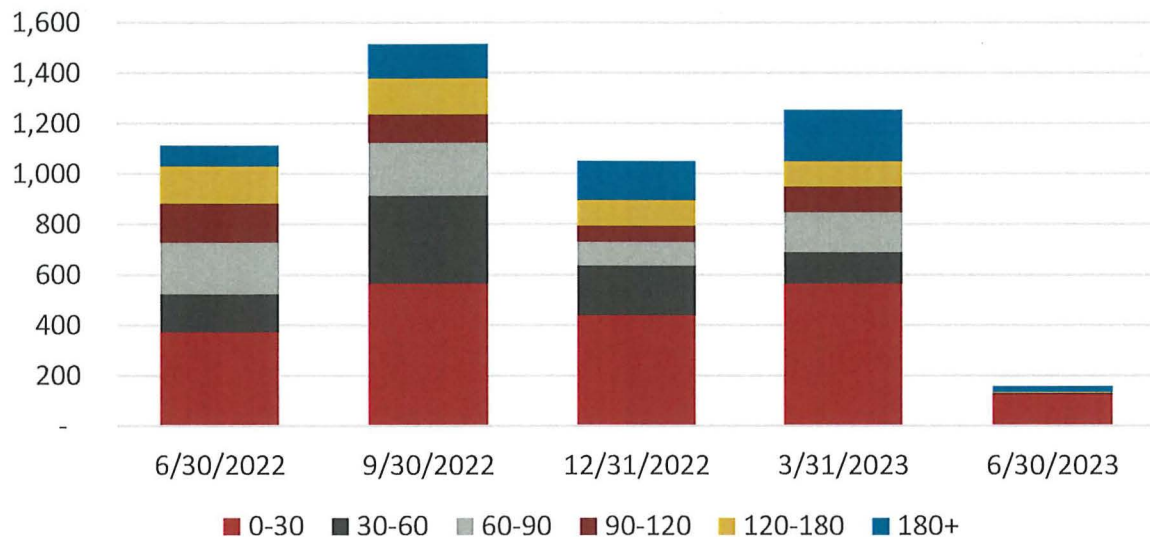
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Using data from Eagles' Purch, the IAO created the following estimates for the Aging of Accounts Payable at each quarter-end during the testing period. However, it is important to note that these estimates were not reconciled to Banner. Banner is the source of the University's Financial Statements, and therefore should be the authoritative source for the Aging Schedule.

### Outstanding Invoices by Quarter



#### **RISK / INTERNAL CONTROL:**

Management is not using a complete and concise source to monitor the aging of payables for the University. The 16<sup>th</sup> principle of the COSO Framework for Internal Controls states that “the organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.” Management cannot make informed decisions about University activities or commit to new expenses without knowing the current amount of payables and, as a result, the remaining resources available for use.

#### **RECOMMENDATION:**

The Administration and Finance Division should regularly produce and review an Accounts Payable Aging Schedule and reconcile the information between Banner and Eagles' Purch. While Eagles' Purch should be used as a resource for internal use and interim reporting, data from Eagles' Purch should also be reconciled to the Financial Statements produced in Banner at least annually.

#### **MANAGEMENT RESPONSE:**

Management concurs that aging reports should be available, however; an explanation of the current systems used is warranted. While Banner is the source of the University's Financial

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Statements, and therefore should be the authoritative source for the Aging Schedule and latter half of the recommendation, i.e., “While Eagles’ Purch should be used as a resource for internal use and interim reporting, data from Eagles’ Purch should be also reconciled to the Financial Statements produced in Banner at least annually,” Banner is the source of the University’s Financial Statements. However, aged invoices have not been paid and therefore are not included in the financial records of the University. For emphasis, only after the expense has been paid will the recording of the activity be found in Banner. The source of the aging reports should be the system that houses all invoices, i.e., Eagles Purch. As such, Eagles Purch contains all the information associated with invoices to produce a via aging report. Notwithstanding this is a work in process to establish the accuracy of the aging report and is being actively pursued for correctness and completion.

Regarding the 2<sup>nd</sup> statement, the “reconciliation” to the financials in Banner is a part of the overall accrual process, whereby we review the outstanding invoices that are dated before June 30<sup>th</sup> and process an accrual for said invoices. Implicit to the full year-end process is a direct tie-out to Banner.

**FINDING #4 – LACK OF SEGREGATION OF DUTIES WITHIN THE EAGLES’ PURCH SYSTEM:**

The Eagles’ Purch software is designed to include certain restrictions to prevent a single user from being able to complete all of the approver steps on a single invoice. For example, throughout the workflow with a Purchase Order, an End User (Owner) submits a requisition, another member of the department is the Fund Approver, and a member of Purchasing approves the requisition and creates a Purchase Order. When the invoice is received, a clerk in Accounts Payable reviews and approves the invoice and the Supervisor gives the Final Approval for payment. In this scenario, four individuals have approved the expense in addition to the Owner.

During Fiscal Year 2023, the IAO found 20 invoices had the same Owner and Fund Approver, all of which were Form Requests. In addition, 83 invoices had the same AP Approver and Final Approver. According to the System Administrator for Eagles’ Purch, in March of 2022, the Supervisor of Accounts Payable modified the permissions to allow all AP Clerks to approve and reject invoices on behalf of another approver. This included allowing AP clerks to give Final Approval for invoices.

The Associate Vice Chancellor indicated that this override of controls would have been to allow staff to cover assigned work for other employees when they were out of the office. However, separate permissions exist to allow AP Clerks to modify another approver’s Invoice Approval Folder as opposed to approving on their behalf. The AP Supervisor can also have the ability to modify an AP clerk’s Invoice Approval Folder, but currently does not have those additional permissions. In the case of an employee being out of office, these permissions would allow for staff to reassign invoices to avoid delays in workflow without having access to approve a single invoice at multiple approval steps.

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No systemic controls are currently in place to prevent an invoice Owner from also approving an invoice at any step in the approval process, including Fund Approval and Final Approval.

In the case of Form Requests, the End User submits an Invoice that does not have a Purchase Order. These invoices still require approvals from a Fund Approver, Purchasing, an Accounts Payable clerk, and the Accounts Payable Supervisor. Additionally, Form Requests require approval from the Comptroller for increased assurance.

Manual Entries without a Purchase Order, however, only require an Owner (usually an AP clerk or Supervisor), an AP Review approval, and a Final Approval. This means that one or two individuals in the Accounts Payable Office would be able to control the entire process, from entering the invoice into Eagles' Purch to sending the check to be printed.

**RISK / INTERNAL CONTROL:**

The COSO Framework's 2<sup>nd</sup> principle states that an effective internal control environment "establishes... structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives." When the same individual is able to create and approve invoices at various stages, it increases the opportunity for errors at best and fraudulent transactions at worst.

**RECOMMENDATION:**

Approval permissions in Eagles' Purch should be modified so that no individual can make approvals in place of another individual. Additional configuration changes should be made to disallow invoice Owners from approving an invoice at any stage. Management should also review the permissions of the Accounts Payable Supervisor to ensure that they have the ability to oversee operations and reassign tasks as appropriate. Approval steps should be added so that the Purchasing Office and Comptroller are required to approve all Manual Entry Invoices.

Additionally, the segregation of duties between invoice Owners and Approvers should be required by NCCU Policy.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation that appropriate segregation of duties be apparent. Management also points out for clarity, the "invoice owners" in this instance are members of the AP staff who are processing an invoice for payment where the normal means of payment have been exhausted. Notwithstanding, management concurs that the AP invoice owner should not also be the approver. SOPs will be updated to state this accordingly.

Management acknowledges the Comptroller should be in the workflow for Manual entry invoices, but is concerned with adding the Purchasing Office to this particular workflow. Adding the Purchasing Office to the workflow would only further add to the delays in paying and may not add the efficiency desired.

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**FINDING #5 – INVOICES PAID MORE THAN THIRTY DAYS AFTER RECEIPT:**

Approximately 32% of invoices are paid more than 30 days after receipt of the invoice or receipt of the goods or services, whichever is later. The overall average for all invoices created in Fiscal Year 2023 was 49 days to pay. The NC State Procurement Manual 3.1.8 states that “Invoices shall be paid on time as agreed, typically no later than 30 calendar days after receipt of a correct invoice or acceptance of goods and services, whichever is later.”

Potential reasons for delayed payments include:

- Failure of End Users to use the Purchase Order system as required by NCCU Reg 30.04.5;
- Vendors sending invoices to End Users across campus instead of the Accounts Payable office;
- End Users creating purchase orders, invoices, or receipts incorrectly in Eagles’ Purch;
- End Users not submitting invoices or receipts into Eagles’ Purch timely or at all.

The total count and amount of all invoices created in Eagles’ Purch in Fiscal Year 2023 grouped by the number of days that the invoice was paid after the invoice and the goods or services were received are:

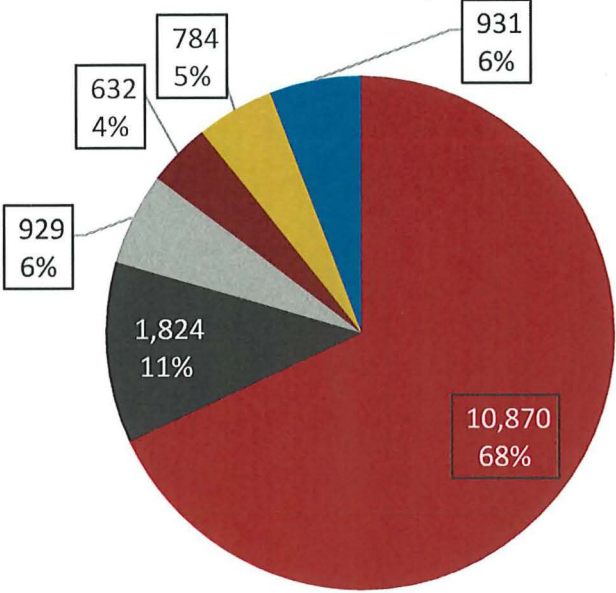
Aging	Count		Amount	
0-30	10,870	68%	\$58,931,000	69%
31-60	1,824	11%	\$11,513,200	13%
61-90	929	6%	\$7,510,900	9%
91-120	632	4%	\$2,218,000	3%
121-180	784	5%	\$2,622,100	3%
180+	931	6%	\$2,545,300	3%
<b>Total</b>	<b>15,970</b>		<b>\$85,340,500</b>	

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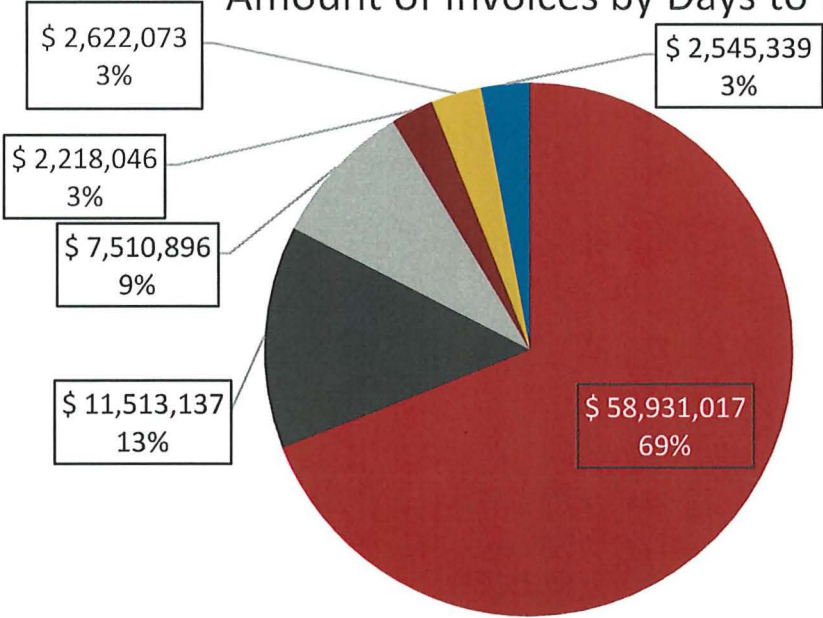
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Count of Invoices by Days to Pay



Amount of Invoices by Days to Pay



■ 0-30 ■ 30-60 ■ 60-90 ■ 90-120 ■ 120-180 ■ 180+ ■

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**RISK / INTERNAL CONTROL:**

Late payment of debts creates significant reputational risks to the University. It also may prevent vendors from providing goods and services to the University, which will then delay or inhibit operations.

**RECOMMENDATION:**

It is recommended that the Purchasing Office and Accounts Payable Office work together to update training for all employees in any department who will use the Eagles' Purch system, emphasizing the importance of accurate and timely submissions and following procedures. End Users should be required to complete this training annually in order to continue using the Eagles' Purch system.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation and acknowledges that joint training has already begun.

**FINDING #6 – INVOICES PAID WITHOUT DOCUMENTED RECEIPT OF GOODS OR SERVICES:**

During Fiscal year 2023, at least 3,536 invoices totaling \$25,201,427 were paid without documented receipt. The NC State Procurement Manual section 7.5 states that invoices should not be paid until "all goods and services have been received, completed, and accepted by the agency." Currently, NCCU Policy does not specify that documentation of receipt is required before payment is made. Current practice prioritizes payment within 30 days, even when documentation of receipt does not exist. This process is called Force Matching, and only takes place after multiple requests for the End User to submit receipts.

The Eagles' Purch system connects Purchase Orders, Invoices, and Receipts based on the items included. For example, a Purchase Order may include a variety of items that are shipped to the University at different times. A separate invoice for each shipment will be entered into Eagles' Purch with the corresponding items listed. Likewise, the End User submits a receipt based on the items listed on the Purchase Order, which may correspond with multiple invoices.

When an invoice connected to a Purchase Order is entered into Eagles' Purch, the workflow includes automatic reminders sent from Eagles' Purch to the End User requesting that they submit a receipt for those items. The Accounts Payable clerks may also reach out to the End Users to request that they submit receipts before approving an invoice.

Invoices submitted as Form Requests require a "Check Request Justification" form in which the End User is asked to verify receipt of goods or services when the invoice is submitted. Manual Entries without a Purchase Order currently do not require any documentation of receipt before payment.

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This review revealed several types of anomalies for invoices that did have receipts associated with them.

- Some items had receipts submitted before the goods were delivered, according to shipping records from NCCU Central Receiving. This likely means that the End User submitted a receipt when they received the first automated reminder from Eagles' Purch without first confirming that their department had actually received the goods.
- Some items had receipts submitted in Eagles' Purch after the invoice had been paid. This likely means that the End User waited to submit a receipt until all items on a Purchase Order were received rather than when each shipment was received.
- Some Form Requests were paid even though the Check Request Justification form noted that items were not received yet.
- Many invoices that were paid never had a receipt submitted.

**RISK / INTERNAL CONTROL:**

While it is safe to assume that the majority of invoices without documented receipt were, in fact, completed, the ongoing practice of payment without documented receipt significantly increases the financial risk that incomplete or fraudulent invoices will be paid, whether in error or with malicious intent.

**RECOMMENDATION:**

Although it is expected for invoices to occasionally be paid without a documented receipt, NCCU Policy should specify when and why the Accounts Payable Office should or should not pay such invoices. Guidance may include, for example, ways to identify suspicious invoices, a list of trusted vendors, and additional steps to confirm with the End User whether items on an invoice have been received.

It is also recommended that the Purchasing Office and Accounts Payable Office work together to update training for all employees in any department who will use the Eagles' Purch system, emphasizing the importance of accurate and timely submissions and following procedures. End Users should be required to complete this training annually in order to continue using the Eagles' Purch system.

**MANAGEMENT RESPONSE:**

Management concurs with the premise of this recommendation that training should be made available to all employees who utilize the system. Management suggest that mandatory training is required for new users and continuous training made available to all employees on a regular basis. In noted instances of inappropriate use, re-training for the employee or department will be required. The policy will be updated accordingly.

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**FINDING #7 – DUPLICATE PAYMENTS:**

Through this review, the IAO identified \$140,307.55 across 70 invoices that were duplicate payments. Per the North Carolina State Procurement Manual as quoted above, entities should only pay for goods and services received. Duplicate payments represent payment for goods or services that were not received. These appear to have been caused by inconsistencies in the procedure for marking Supplier Invoice numbers on cancelled payments. When an invoice is cancelled in Eagles' Purch because, for example, the Purchase Order has been exhausted, the Accounts Payable Office will change the Supplier Invoice number on the cancelled invoice by adding a “#” symbol or a “R” to the end. They then re-enter the invoice with the correct Supplier Invoice Number. However, it appears that some invoices were marked incorrectly by the Accounts Payable staff or by the End Users submitting the invoices, who are not intended to change the Supplier Invoice Number.

**RISK / INTERNAL CONTROL:**

When invoices are paid multiple times, the University loses funds unless a vendor notifies them of an overpayment and issues a refund.

**RECOMMENDATION:**

Management and staff should work together to develop and test written procedures for all recurring processes included in the job descriptions for the AP department. SOPs should follow updated University policies and State Regulations. SOPs should be used to train new staff and retrain existing staff.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. Policies will be updated and training implemented.

**PRIORITY 2 FINDINGS (MODERATE RISK)****FINDING #8 – INVOICES PAID WITHOUT PURCHASE ORDER:**

During Fiscal Year 2023, approximately 25% of invoices were submitted without a Purchase Order. According to NCCU Reg 30.04.5, all invoices must have a purchase order to be paid.

NCCU Policy also describes the use of Check Requests, but does not clearly explain when they should and should not be used. End Users do not prioritize creating Purchase Orders or plan their orders with enough time for a Purchase Order to be processed. There are no consequences for End Users when they submit invoices through Form Requests instead of Purchase Orders.

**RISK / INTERNAL CONTROL:**

Creating a Purchase Order ensures that funds are available in the budget for the intended purchase. It also allows approvals to take place before an order is placed and an invoice is

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created. Without a Purchase Order, invoices must be approved by Purchasing and the Fund Approver after the invoice is received by NCCU, causing delays to payment. Form Requests also allow for End Users to potentially use funds that are not in their departmental budget, requiring resources to be pulled from another group.

**RECOMMENDATION:**

Accounts Payable should work together with Purchasing to provide training to End Users emphasizing the importance of Purchase Orders and the appropriate use of Form Requests. Additionally, NCCU Policy should be updated to reflect the appropriate use of Form Requests and consequences for inappropriate use.

**MANAGEMENT RESPONSE:**

Management agrees on emphasizing the importance of purchase orders and the policy thereof, but information and training should come from the Purchasing Office. Accounts Payable will assist with and provide support as required.

**FINDING #9 – INVOICES NOT SENT DIRECTLY TO ACCOUNTS PAYABLE OFFICE:**

During Fiscal Year 2023, approximately 20% of invoices that were sent to the Accounts Payable Office via email as an attachment were from NCCU email addresses. While the Accounts Payable Office does not track data on the source of physical mail, they stated that they regularly receive invoices from interoffice mail as well. This indicates that invoices were sent to the End User rather than directly to the Accounts Payable Office.

NCCU Reg 30.04.5 states that all invoices should be sent directly to Accounts Payable for payment. However, it is clear that End Users are either knowingly or mistakenly giving departmental addresses or email addresses to vendors when placing orders.

**RISK / INTERNAL CONTROL:**

When invoices are sent to End Users, it may take the End User anywhere from several days to several months before they send the invoice to Accounts Payable to be paid. The North Carolina State Procurement Manual states that invoices should be paid within 30 days of receipt by the entity (of the invoice or the goods or services, whichever is later). When the End User receives the invoice, it has been received by the University as an entity, but Accounts Payable cannot pay it until it is entered into Eagles' Purch. This causes delays in payment to the vendor.

**RECOMMENDATION:**

The Accounts Payable and Purchasing departments should work together to provide training to all End Users at least annually to emphasize the importance of having invoices sent directly to the Accounts Payable office. If possible, Eagles' Purch should only allow the Accounts Payable office to be entered as the billing address when creating Purchase Orders.

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**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. Accounts Payable will continue to provide annual training where this issue is addressed; additionally, this information is included in the biweekly or monthly meetings that AP has with the various departments. We will continue to have this as a focal point for ongoing training.

**ACKNOWLEDGEMENT:**

We thank management and staff for their time and cooperation during the review. If you wish to discuss this review or desire additional information, please do not hesitate to contact our office.

Part of our audit process includes getting feedback from the departments we review. Please take a few minutes to complete a survey about your experience. The exit survey will be emailed to all personnel involved during the review.

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### **Priority Ranking Definitions**

The Internal Audit Office has established a methodology by which risk rankings (ratings) and opinions can be consistently applied and meaningfully interpreted by all stakeholders. Thus, these risk rankings and opinions will reflect the internal control environment of the audit area and also provide an opinion for management that assesses the adequacy, effectiveness and efficiency of internal controls for the audit area.

Priority Ranking Definition: During the course of work performed, all results (findings) will be ranked as High, Moderate, or Low based on an analysis of the impact over the (probability) likelihood of a control or process failure. Audit rankings are included in the audit report.

To meet its objective a risk-based audit approach should report how effective managers are at implementing risk responses. This might be action to avoid or transfer the risk as well as those actions that reduce the risk. However, in practical terms it might prove more sensible to follow-up both issue and root cause based upon the original audit report, or by other key criteria.

#### **Priority 1 (High Risk)**

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

#### **Priority 2 (Moderate Risk)**

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

#### **Priority 3 (Low Risk)**

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor- Controller or the Audit Committee.

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