

**Arizona State University
Office of University Audits
Accounts Payable
August 19, 2019**

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Accounts Payable Audit
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Summary: The Accounts Payable audit was included in the Arizona State University (ASU) FY 2019 audit plan approved by the Arizona Board of Regents (ABOR) Audit Committee and ASU senior leadership. The audit focused on the design and operating effectiveness of centrally managed accounts payable functions. This audit is in support of ASU's mission of effective management of financial resources and focus on efficient operations at all levels of the University.

Background: The Accounts Payable function processes payments to university suppliers for goods and services as well as reimburses faculty, staff, and student purchases made for ASU business purposes utilizing the Workday Financial Management system and multiple banking applications. Centralized functions include setting up and managing suppliers, processing invoices, check distribution, and initiating wire payments. With the implementation of Workday, defined business processes and workflow requirements have been implemented to ensure payments are authorized, supported, and approved.

Individual departments also play a key role in the overall accounts payable process. Specifically, departments are responsible for initiating requisitions, performing receiving functions, processing non-PO payment requests and approving invoices as defined by the business process governing the various types of payments.

Audit Objective: The objective of this engagement was to assess the overall financial and operational processes related to centralized accounts payable functions. Specifically, the following areas were assessed:

- Ensure suppliers are properly verified and accurately set-up within Workday Financials
- Ensure payments are accurate and for valid business expenditures including having appropriate supporting documentation
- Ensure payments have appropriate approval based on disbursement requirements
- Ensure access to Workday and banking software is appropriately restricted, and
- Identify opportunities for improvement

Scope: The scope of the audit focused on centrally managed accounts payable functions for the time-period of July 2018 through March 2019. This audit did not address controls performed by the individual departments nor did it include procurement related controls around contracting, requisitions, and purchase orders outside of ensuring defined controls were performed as they related to supplier payments.

Financial Services implemented the Workday financial management system as of July 1, 2018. As part of the transition, a subset of existing suppliers were loaded directly into

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Workday rather than following the expanded process established for supplier set-up within Workday. In an effort to ensure timely processing of supplier payments, the expanded supplier set-up and change processes did not remain consistent for the initial months following go live. In April 2019, Financial Services engaged an external consultant to review the overall supplier process to identify areas to further streamline and automate the process. This was still in process at the time of the audit. As a result, supplier testing was limited to ensuring suppliers set-up after go live had the required tax forms and verification performed including the Office of Foreign Assets Control (OFAC) check and the Taxpayer Identification Number (TIN) matching for domestic suppliers to confirm the existence and validity of the suppliers. The additional data required at the time of supplier set-up to facilitate other reporting and tax requirements were not assessed.

In addition, supplier change testing was limited to reviewing workflow history to ensure all changes were approved and that supporting documentation existed for address changes. The existing supplier audit report does not capture all of the supplier fields; therefore, it is not possible to identify certain changes to the supplier record through existing reporting. In addition, supporting documentation was not required consistently through the review period for certain changes such as email, terms, or contact information.

Methodology: Our audit consisted of tests and procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of interviews with Accounts Payable and Treasury staff, observation of work processes; review of documented policies and procedures; and substantive tests including the following areas:

- Confirming the accuracy and validity for a selection of 50 suppliers by performing the following:
 - Confirming supplier set-up is supported by relevant tax form(s)
 - Ensuring the OFAC match was performed and actioned as necessary
 - Ensuring the TIN match was performed for domestic suppliers
 - Ensuring the supplier was appropriately identified as a “Conflict of Interest” supplier if relevant
 - Ensuring appropriate approvals based on the type of supplier
- Validating identified conflict of interest employee was not involved in the requisition, purchase order, receiving, or payment activity for a sample of 25 invoices processed for suppliers flagged as “Conflict of Interest”.

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- Performing analytic procedures over the full supplier master file by comparing supplier names to the conflict of interest database to ensure suppliers are appropriately flagged as a conflict of interest supplier.
- Verifying a selection of 25 supplier changes to ensure the change had appropriate supporting documentation and required approvals.
- Assessing the physical security controls for check stock in Accounts Payable and the UTO operations center by performing a walkthrough of both storage locations to ensure check stock is stored securely.
- Validating check distribution procedures for a sample of 15 days by performing the following:
 - Reviewing daily verification logs to ensure printed checks were appropriately accounted for by UTO Operations, Daily Courier, and Accounts Payable
 - Reviewing Treasury oversight of check distribution processes through verifying review and signoff of daily log
 - Tracing daily check run count and amount to positive pay communication from Bank of America
- Validating the accuracy and authorization of wire payments by performing the following for a sample of 25 wire payments:
 - Verifying each wire payment had a supporting invoice and that all required approvals were obtained based on the nature of the payment
 - Verifying each wire payment was settled by Treasury within Workday indicating that the wire details in the banking application were validated to Workday supplier set-up details
 - Verifying each wire payment had an approved wire set-up form documenting the wire accountant, central accountant, and supplier manager approval and that the wire payment details including banking details/account number were accurate
 - Confirming each wire payment was sent to the documented supplier banking details by verifying supplier set-up to outgoing wire advice from the banking application
- Validating that verification of supplier banking information was performed and documented for a sample of 17 suppliers.
- Verifying that payments had appropriate supporting documentation, were accurately processed in Workday including the required approvals based on the nature of the payment for the following invoice categories:
 - 15 emergency payments
 - 15 recurring payments
 - 50 Non-PO invoices
 - 50 PO invoices

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- 19 Supplier Contract invoices
- Verifying required fiscal approvals were obtained for all invoices processed over \$25,000 for the time-period of July 1, 2018 through March 31, 2019.
- Verifying reconciliations exist for the outstanding commerce bank payable liability by reviewing the accuracy and completeness of two monthly reconciliations and ensuring reconciling items are cleared in a timely manner.
- Assessing appropriateness of Workday access related to central accounts payable roles.
- Confirming the Workday password complexity to the defined ASU password standard.
- Assessing appropriateness of banking application access related to payment functions.

Conclusion: Overall, Financial Services has generally implemented effective controls over the centrally managed accounts payable processes; however, additional improvement is necessary regarding various supplier verification controls.

Testing indicated that defined business processes have been implemented within the Workday financial management system in conjunction with effective process related controls to facilitate required approvals, supporting documentation, budget verification, and three-way match completion based on specific attributes of the expenditure. In addition, payments utilize defined supplier payment terms and settlement run schedules to minimize actual check generation in addition to having positive pay controls in place. Various controls have also been implemented to minimize invoice processing and automate payment methods such as e-invoicing and supplier direct debit programs.

Defined processes governing supplier set-up have been developed and implemented; however, further improvement is required to ensure suppliers are adequately verified prior to being added to the supplier master file. Specifically, testing indicated that OFAC checks are not consistently being performed for suppliers that have a related DBA. As a result, current processes may not detect or prevent financial transactions involving denied parties resulting in an OFAC violation. Testing also identified that the control to ensure suppliers are verified against ASU's Conflict of Interest database is not being consistently performed and/or documented. This control ensures suppliers that are associated with an existing ASU employee are appropriately flagged to facilitate future monitoring of transactions subject to A.R.S. §38-503. Financial Services also developed additional verification procedures to strengthen preventative controls addressing wire payment fraud. Specifically, additional supplier verification is required related to certain wire payments; however, these controls are not being performed consistently.

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At the start of this audit, Financial Services management proactively communicated segregation of duty conflicts that existed related to supplier set-up. Specifically, certain Workday roles had the ability to modify any field within the supplier record and then approve the record. This was set-up intentionally at the time of implementation due to workflow constraints related to the supplier registration process. In addition, it was also identified that Workday functionality inadvertently allowed the primary supplier approval role to modify a pending change within the supplier record without routing for additional approval. Both segregation of duty issues were resolved during the course of this audit.

While controls are now in place to ensure appropriate segregation of duties, the length of time that the control was not operating combined with the conversion process utilized for loading converted suppliers results in increased risk of potential fraudulent or inappropriate supplier records. It is recommended that additional verification procedures be performed in this area to ensure supplier records are accurate, supported by current tax forms and verified against the IRS TIN matching program.

The control standards University Audit considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Finding No.	Page No.
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> • Suppliers are authorized and set-up accurately prior to making payments. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> • Supplier changes are made with appropriate supporting documentation and have required approval. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> • Supplier invoices are authorized prior to payments being made. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> • Check distribution processes ensure issued checks are authorized and controlled from printing through distribution. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> • Financial reconciliations are performed to ensure commerce bank payments (direct debit program) are settled accurately. 	Reasonable to Strong Controls in Place	4	11
Effectiveness and Efficiency of Operations			

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<ul style="list-style-type: none"> Supplier payments are generated based on defined payment terms and settlement runs. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Various payment methods are utilized to minimize invoice processing and supplier direct debit programs. 	Reasonable to Strong Controls in Place	N/A	N/A
Safeguarding of Assets			
<ul style="list-style-type: none"> Appropriate segregation of duty controls are in place to ensure all entries to the supplier master file are reviewed and approved. 	Opportunity for Improvement	3	10
<ul style="list-style-type: none"> Logical access to Workday roles related to payable functions and banking applications are appropriately restricted. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Supplier banking details are verified prior to making initial wire payments. 	Opportunity for Improvement	2	9
<ul style="list-style-type: none"> Required fiscal approvals are obtained for all invoices over \$25,000. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Physical controls are in place to ensure check stock is stored securely. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Positive Pay is implemented to ensure checks presented for payment have been authorized and issued. 	Reasonable to Strong Controls in Place	N/A	N/A
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> OFAC checks are performed on suppliers prior to adding to the supplier master file. 	Opportunity for Improvement	1	8
<ul style="list-style-type: none"> Conflict of interest checks are performed on suppliers prior to adding to the supplier master file. 	Opportunity for Improvement	1	8

We appreciate the assistance of the Accounts Payable staff during the audit.

Lisa Grace, Executive Director, University Audit and Advisory Services

Audit Results, Recommendations, and Responses

1. Supplier verification, including OFAC and Conflict of Interest, is not consistently being performed and requires improvement.

Condition: Existing processes have been designed to ensure that OFAC checks and Conflict of Interest verification is performed prior to supplier set-up; however, these are not performed consistently. Specifically, testing indicated that for 5 of the 10 (50%) supplier records tested that involved suppliers with a DBA, OFAC checks were not performed on the DBA at set-up. It was also noted that in 9 of the 50 (18%) supplier records tested, the Conflict of Interest verification was not performed and/or documented as part of the supplier set-up record.

The supplier records noted with exceptions were reviewed and approved by the Supplier Admin Manager role even though the defined control activity was not performed and/or documented.

Criteria: All suppliers must have an OFAC check performed prior to being set-up to ensure the supplier is not listed on the various sanction lists maintained by the US government. In addition, suppliers must be run against the existing Conflict of Interest database maintained for faculty, staff, and researchers to ensure that suppliers identified through the conflict of interest process are flagged for additional monitoring on any subsequent procurement activity.

Cause: The existing processes in these areas are manual and are not being consistently performed by the Supplier Admin team. In addition, the review process is not working at a precision to detect when the control is not operating.

Effect: Suppliers set-up without appropriate OFAC and Conflict of Interest verification may result in financial transaction violations with potential fines or sanctions against ASU by the governing entity. The potential risk related to the OFAC verification is mitigated in part by Accounts Payable providing a third party vendor weekly files for new suppliers, which include the entity name and dba, for ongoing monitoring.

In addition, we performed additional analytical procedures on the overall supplier master file to quantify the exposure of suppliers not being appropriately flagged as a conflict of interest supplier, which resulted in minimal exceptions deemed isolated.

Recommendation: Financial Services management should review verification processes with the Supplier Admin team to ensure a full understanding of expected

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controls. In addition, management oversight should be strengthened to ensure supplier records are not approved without the required verification steps being performed and documented.

Management Response: We agree with the recommendation. As of July 2019, a direct OFAC integration was implemented for most suppliers. The results of this integration are reviewed and the supplier record updated if identified.

As a compensating control, a process was put in place in November 2018 in which a file containing all suppliers, including DBA's, was sent to the OFAC screening service on a weekly basis. The OFAC screening service reports weekly on suppliers with OFAC status changes and supplier records are updated accordingly. With the integration, this process was modified to a monthly review of new supplier records that included a DBA to verify OFAC results were attached for both the legal name as well as any DBA's. Additionally, supplier managers have undergone retraining related to DBA's and the requirement to verify that OFAC results are attached to each records for both the legal name and any DBA's.

With regards to Conflict of Interest verification, additional training will be undertaken. Additionally, as a compensating control, the full supplier list will periodically be run against the conflict of interest list to confirm all supplier records are marked.

2. Supplier verification required at time of initial wire payments is not consistently being performed.

Condition: Additional verification procedures were implemented in FY 2018 to address the ongoing exposure related to business email compromise and wire payments. Specifically, additional verification procedures were implemented to require supplier banking information verification for initial wires meeting specific dollar thresholds or following a change in supplier banking details. Testing indicated these procedures are not consistently being followed. Specifically, the required verification procedures were not performed for 7 of the 16 (44%) instances tested.

As part of the defined procedures, review and signoff is required by multiple roles; however, this review process is not detecting that the control has not been performed as designed.

Criteria: Suppliers being paid by wire require additional verification of banking details prior to the initial wire being sent for payments exceeding a defined amount threshold.

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Cause: The existing verification process is manual and is not being consistently performed. In addition, the review process is not working at a precision to detect when the control is not operating.

Effect: This verification control was implemented as an additional preventative control to prevent losses related to wire fraud. Failing to perform the verification increases ASU's overall risk of wire payment fraud, especially related to business email compromise (BEC) fraud, which is one of the leading causes of financial loss. Specifically, BEC fraud targets businesses working with foreign suppliers or that regularly perform wire transfer payments. It is accomplished by compromising legitimate business email accounts to request fraudulent changes to wire instructions to an account controlled by the attacker.

Recommendation: Financial Services management should review verification processes with the teams involved to ensure a full understanding of expected controls and related documentation. In addition, management oversight should be strengthened to ensure wire payments are not approved without the required verification steps being performed and documented.

Management Response: We agree with the recommendation. Retraining is in progress for all staff involved in the verification process and the director of account payable will conduct ad hoc reviews to ensure compliance with the verification process. Additionally, a new checklist will be utilized that identifies documentation required for new wire transfer set-up. The initiator and reviewer will sign-off on the checklist to confirm compliance.

3. Additional supplier verification is necessary to ensure all suppliers have current supporting tax forms and are verified through the IRS Taxpayer Number (TIN) match process.

Condition: As part of the conversion process related to the Workday financial management system implementation, approximately 2,200 suppliers were loaded into Workday without confirming if current tax forms existed or if an IRS TIN match had been performed. In addition, appropriate segregation of duty controls were not in place for the vast majority of the fiscal year related to supplier set-up and changes.

Criteria: Suppliers are required to submit current tax forms and successfully go through an IRS TIN match in addition to being reviewed and approved prior to being set-up in the Workday financial management system.

Cause: As part of the Workday financial management system implementation, a supplier registration portal was created with the intention of having all suppliers "register" new with

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Workday including providing current supporting documentation such as required tax forms. Due to system limitations with the new process, this approach could not be followed in all cases resulting in a risk-based approach being developed to load approximately 2,200 suppliers directly into Workday based on existing supplier information. In addition, defined supplier set-up controls, including ensuring appropriate segregation of duty controls, were modified at the time of transition to address the backlog of suppliers needing to be paid.

Effect: The existing supplier master file includes suppliers that have aged or are missing required tax forms and related information in addition to not being verified through the IRS TIN match process, resulting in increased risk of potential fraudulent suppliers not being identified.

Recommendation: Develop a formal project plan to review converted suppliers and perform additional follow up to obtain and confirm supplier information including performing the IRS TIN match.

Management Response: We agree with the recommendation. At the time Workday was implemented, an analysis was undertaken to identify the most-used of the approximately 30,000 suppliers in the prior financial system (Advantage) Based on this analysis, approximately 2,200 suppliers were converted to Workday.

Since 2012, the supplier set-up process has included collecting W-9 forms and TIN matching and for the initial conversion Advantage documentation was the source of record. Over the past year, Financial Services has been completing the process of scanning previously collected records into Workday or collecting new documentation if outdated. This process is about 50% complete and scheduled for final completion in December 2019.

Additionally, in March 2019 all 2,200 converted suppliers were run through the IRS TIN matching process to reconfirm the accuracy of the supplier record.

4. An ePayable reconciliation should be implemented to document open transactions including aging of transactions.

Condition: Treasury has implemented reconciliations for the bank account used to fund commerce payments (epayables); however, these reconciliations only account for the activity flowing through the account and does not ensure that payments are settled. The Accounts Payable department is responsible for ensuring all payments are settled which is currently managed through the commerce bank online portal. As a result, formal reconciliations are not performed to identify outstanding items resulting in a lack of visibility when items are not resolved in a timely manner. Testing indicated that it took on average 110 days to resolve reconciliation items; however, 27% of these items took six months or more to resolve. In addition, there are currently nine open items totaling \$105k that are greater than 30 days old.

Criteria: Funded payments that are not settled by the supplier should be researched and resolved in a timely manner.

Cause: Existing processes are in place to monitor open transactions; however, the process is not documented to ensure appropriate visibility to aged transactions.

Effect: Reconciling items are not cleared in a timely manner resulting in necessary adjustments not being performed timely. Examples of adjustments include pulling funds back from commerce bank for duplicate/incorrect payments. Testing indicated that items are being addressed and necessary adjustments made; however, not in a timely manner.

Recommendation: Accounts Payable should implement a formal reconciliation for open and unreconciled items on a periodic basis (monthly). As part of the reconciliation, actions to resolve should be documented based on defined guidance related to time to resolve.

Management Response: We agree with the recommendation. All fiscal 2019 transactions have been reconciled and cleared and Commerce Bank is developing a report to assist with the timely clearing of transactions with balances. Final testing is being completed on the report and it should be fully functional in September 2019.

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