



Public Company Accounting Oversight Board

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February 5, 2020

The Honorable Walter J. Clayton  
The Honorable Robert J. Jackson, Jr.  
The Honorable Hester M. Peirce  
The Honorable Elad L. Roisman  
The Honorable Allison H. Lee  
U.S. Securities & Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chairman Clayton and Commissioners Jackson, Peirce, Roisman, and Lee:

I am pleased to transmit a summary of the Public Company Accounting Oversight Board's (PCAOB) Office of Internal Oversight and Performance Assurance (IOPA) performance review, titled Procure-to-Pay System. The PCAOB formed IOPA to provide the Board, the Securities and Exchange Commission, and others assurance that the PCAOB is achieving the objectives of Title I of the Sarbanes-Oxley Act in an effective manner. IOPA conducted its most recent review in conformance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

The PCAOB's "Procure-to-Pay System" encompasses requisitioning, purchase order creation, receiving, vendor invoice reconciliation, and vendor payments. As the summary articulates, IOPA noted several improvements in the PCAOB's system that management has implemented in recent years. IOPA also made a number of proposed recommendations to strengthen controls and the operational effectiveness of procure-to-pay processes. We accept those recommendations and PCAOB management is working diligently to implement appropriate corrective actions.

The full non-public version of the report has been provided to the SEC's Acting Chief Counsel, Office of the Chief Accountant; Senior Associate Chief Accountant, Office of the Chief Accountant; and the Assistant Director, Office of Compliance Inspections and Examinations.

The Honorable Walter J. Clayton, et al.

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The Board intends to publish the attached summary on the PCAOB's Web site on or about February 14, 2020. Please feel free to contact the Director of IOPA, Ryan Sack at (202) 591-4165, or me if you have any questions or would like any additional information about the review.

Sincerely,

A handwritten signature in black ink that reads "William D. Duhnke III". The signature is written in a cursive style with a prominent "W" and "D".

William D. Duhnke III

Chairman

Enclosure: Procure-to-Pay System (IOPA-19-OA-03), dated September 2019

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## **PERFORMANCE REVIEW**

### **PROCURE-TO-PAY SYSTEM** **(19-OA-03)**

#### **INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE** **SEPTEMBER 2019**

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##### **Background**

We conducted a review of the PCAOB's Procure-to-Pay system and related processes during June – August 2019. The Procure-to-Pay system encompasses requisitioning, purchase order creation, receiving, vendor invoice reconciliation, and vendor payments.

In 2015, PCAOB management identified several deficiencies within the accounts payable function, including insufficient accounts payable staff and inadequately detailed policies and procedures, given the team competencies at the time. These deficiencies led to errors, including late and duplicate vendor payments and insufficient management review, and resulted in a significant deficiency.

Office of Administration – Finance Operations engaged an external firm to perform a review of the accounts payable function and provide recommendations. In April 2016, the external firm issued their recommendations and suggested that process improvements could be made by upgrading and implementing new or enhanced technology, streamlining the invoice approval process, and establishing additional policies and procedures.

From 2016 – 2018, Finance took actions to remediate the significant deficiency. The Accounts Payable (A/P) team added a new manager and invested in staff training. The team implemented new policies and procedures to streamline the approval process for recurring invoices. Accounts Payable reviewed the vendor maintenance files, eliminated duplicate and inactive vendors, and standardized vendor IDs in order to reduce the risk of duplicate and incorrect payments.

Additionally, Finance explored options to upgrade technology and streamline the invoice approval process. Prior to the system upgrade, the PCAOB used the third party “commercial-off-the-shelf” (COTS) software product solely for requisitions and purchase order creation. This software required an update that would include the expanded functionality of invoice approval workflows. In 2018, Finance upgraded and implemented this software as a full procure-to-pay system.

##### **Objective and Scope**

The purpose of our review was to evaluate the Procure-to-Pay system, including the

implementation and operations of the expanded functionality, the anticipated outcomes and benefits, and the design and completeness of accompanying policies and procedures. We also evaluated financial reporting and operational controls, and the operational effectiveness of those controls. The period under review was from November 1, 2018 to April 30, 2019. To accomplish our objective, we:

1. Reviewed and evaluated relevant policies, procedures, and internal controls over procurement, payables, and disbursements.
2. Identified and interviewed relevant personnel to determine gaps or inefficiencies with the previous procure-to-pay processes and to determine expected and realized benefits of implementing the expanded system.
3. Performed transactional testing to assess the operational effectiveness of the procure-to-pay system and relevant policies, procedures, and controls.
4. Performed analytics to identify potential flags for control gaps and/or fraudulent activity.

We conducted our review in conformance with *Generally Accepted Government Auditing Standards*.

### **Summary Results and Conclusion**

Finance has taken important actions to remediate the significant deficiency that was discovered in 2015. The implementation of the full Procure-to-Pay system has been instrumental in achieving desired process improvements. Further, policies, procedures, and controls governing procure-to-pay processes are generally effective.

During the course of our review, we identified the following opportunities to strengthen controls and the operational effectiveness of procure-to-pay processes.

***Update Procurement Guidelines*** – The Office of Administration (OA) has appropriately dedicated its resources toward the procurement system upgrade and process improvement projects, but it did not make concurrent updates to the Guidelines as part of those efforts. Further, the Signature Authority Matrix was not sufficiently visible or accessible for relevant personnel.

***Control Changes to Vendor Master File*** – The manual nature of a legacy A/P process did not allow for separate edit proposal and edit approval duties in the vendor master file, and left an inherent weakness of allowing a single individual to change a vendor record. OA implemented a detective control to overcome the inherent weakness, but because the A/P Manager could change vendor data and performed the compensating control, that control was not effective. However, in June 2019, Finance automated the control to segregate the *proposal* of a vendor record edit from the *approval* of that edit, prior to the *application* of the change to the live vendor record, mitigating fraud exposure.

The emerging threat of cyber fraud requires additional vigilance and controls. One scheme that cyber fraud perpetrators engage in involves hacking existing vendor e-mail accounts and requesting changes to banking information. At the time of our review, the vendor change process did not require an independent validation of requested changes.

***Enforce Guidelines over Purchasing-Card Processing*** - If purchasing card (P-Card) cardholders fail to code their charges in the associated bank system timely, Finance contacts the cardholder, and together they determine the proper coding. However, rather than directing the cardholder to perform the coding in the bank system, Finance directly alters the bank extraction file with the coding changes, prepares the journal entry, and uploads the adjusted extract to the general ledger. Similarly, if Finance determines that the cardholder made an error in the original coding, it may adjust the general ledger feed directly. We assert that Finance should avoid adjusting data in the general ledger feed. To the extent possible, cardholders should process corrections through the originating source system.

***Consider Additional Approval for Consulting Engagements*** - OA released subject-specific procurement guidelines to address unique challenges in engaging consultants, but those guidelines do not clearly express whether the Divisions/Offices are required to perform additional actions when first engaging consultants or reviewing/paying invoices for consulting efforts.

### **Recommendation**

We recommend that OA Finance Management:

1. Update and internally publish the Procurement Guidelines and routinely review their alignment with all current thresholds, systems, processes, etc. Also, OA management should disclose the Signature Authority Matrix as a published document in a location accessible to relevant personnel.
2. Formalize a process step to validate any request to change vendor records with an independent vendor contact.
3. Enforce the purchasing card guidelines that require cardholders to submit their expense coding in a timely manner and consider moving the P-Card data upload forward in the close process to allow time for cardholder corrections.
4. Confer with the Chief of Staff and Human Resources to determine if the existing policy recommendation (for Divisions/Offices to consult with them when engaging consultants due to insufficient resources) should be a required action.

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OA and Finance management provided responses indicating concurrence with our observations and a commitment to corrective actions that is responsive to our recommendations.

We thank all personnel who supported our review, both at the senior management and staff operating level, for their courtesy and cooperation throughout this assessment.