Internal Audit Report: Global Procurement Operations

Executive Summary

This audit focused on the end-to-end procurement lifecycle, including vendor selection, contract administration, and the purchase-to-pay workflow. While some controls are functioning adequately, we identified significant gaps in the vendor due diligence process and manual overrides that circumvent existing budgetary thresholds. The overall control environment is rated as needing substantial improvement.

Risk Assessment & In-Depth Analysis

Risk 1: Inadequate Vendor Due Diligence — Rating: Severe risk
In-Depth Analysis: The absence of standardized background checks for third-party suppliers has led to the onboarding of entities with undisclosed conflicts of interest. Our analysis indicates a potential financial exposure of $1,250,000 in redundant service fees and high-risk billing over the last 18 months. Failure to remediate this may result in both legal repercussions and continued financial leakage.

Risk 2: Unauthorized Contract Modifications — Rating: Average-high risk
In-Depth Analysis: We observed several instances where contract terms were modified post-signature without legal or finance oversight. This creates a high risk of unfavorable terms being introduced that could impact service level agreements. The current workflow relies too heavily on trust rather than systematic locking of legal documents.

Audit Findings

Finding 1: Lack of Sanction Screening
35 percent of new vendors onboarded in the last fiscal year were not screened against international consolidated sanction lists, increasing the risk of regulatory non-compliance.

Finding 2: Bypassing Automated Approval Limits
Users are splitting purchase orders into smaller amounts to remain under the $10,000 threshold that triggers executive approval, effectively bypassing financial oversight.

Recommendations

Recommendation 1: Implementation of Automated Screening
Management should integrate a real-time sanction and background screening tool into the vendor onboarding portal to ensure all third parties are vetted prior to contract issuance.

Recommendation 2: Policy Enforcement on PO Splitting
Update the procurement policy to strictly forbid order splitting and implement an automated system alert that flags multiple orders from the same user to the same vendor within a 48-hour period.

Management Response

Management partially disagrees with Finding 1 and the associated Risk 1 rating. While we acknowledge that formal screening tools were not fully integrated, we contend that our manual review process mitigated the bulk of the risk. Furthermore, the $1.25M quantification is viewed as a worst-case scenario that does not account for the value of services actually received from those vendors.

Conclusion

The residual risk for Global Procurement Operations remains elevated. Until automated controls are implemented to replace manual oversight, the department is vulnerable to financial loss and compliance violations.