

UT Southwestern Medical Center

The University of Texas Southwestern Medical Center Accounts Payable Audit

Internal Audit Report 16:05

January 5, 2016

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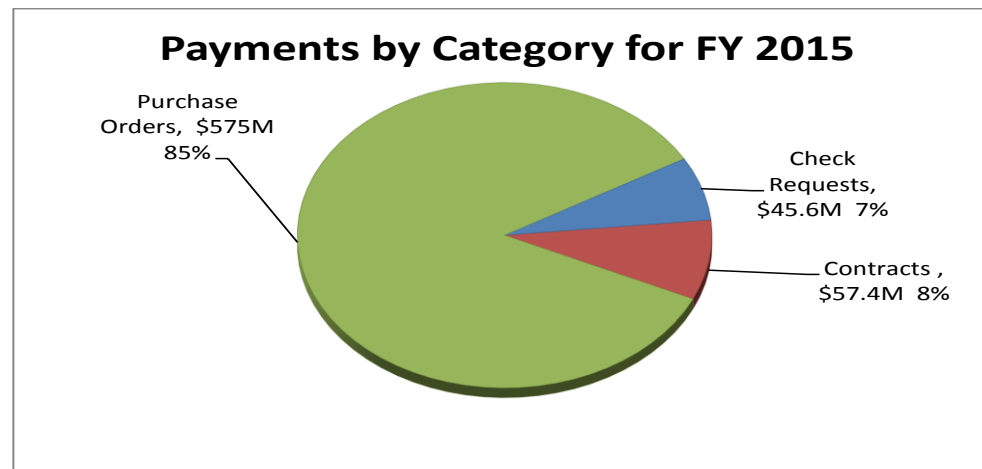
Executive Summary

Background

The University of Texas Southwestern Medical Center (UTSW) Accounts Payable (AP) teams (Hospitals and University) are responsible for the processing of payments to vendors for goods received and services rendered across the institution. In fiscal 2015, there were 60,068 payments totaling \$680M. The Accounts Payable process involves monitoring and approval of expenses by department administrators and review and processing of transaction by AP and Accounting Department staff. PeopleSoft (converted in 2011) is the core system used for AP processing with automated system controls in place for transaction approvals and processing.

Below are four general categories of sources for payments followed by a graph identifying the amount of dollars expended through each type of document source:

- Purchase Order (PO) – Payments made upon receipt of goods and services associated with a properly approved purchase order.
- Contract Management Order (CMO) – Payments made upon approval by department leaders and associated with a properly approved contract.
- Check Payment (CKR) – Payments for goods and services for which there is no PO or CMO on file. Payment must be properly approved based on UT Southwestern policy prior to payment.
- Express Checks (EX) – Quick payment option to be used when properly approved by department leaders and can be associated with a PO, CMO or Check Request. Supporting details and proper approval, obtained manually, must be provided in order to pay.



Note: Express Checks, which can be any of the types illustrated above, account for \$77.8 million or 11% of total payments.

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Travel expenses for employee reimbursement are also paid by the Accounts Payable team; however these employee reimbursement payments were not within the scope of the review. Travel payments for the President’s direct reports are covered annually in a separate Travel and Entertainment Review.

Department leaders are responsible for the management of budgets and contracts within their departments. The AP team coordinates with both the Procurement team and the Contracts Management team to ensure that related payments are properly authorized in advance and are paid in accordance with contracts. In addition, the AP team ensures check requests from departments are properly approved in accordance with UTSW policies prior to payment processing.

There are two operating units with accounts payable functions processing payments, the institution’s primary Accounts Payable function staffed with 17 full time equivalents (FTEs) and the Hospital’s AP function which includes 7 FTEs. In addition, the Vendor Maintenance Team, which is part of the institution’s central accounting function, employs 1.5 FTEs who are responsible for processing new vendors, updating vendors or deactivating vendors.

In FY 2015, there were more than 35,000 unique vendors, based on tax identification numbers. The following table describes vendor related activity in FY 2015.

Vendor Volume Activity	Volume	%
New Vendors added in FY15	3,794	11%
Vendor with updates in FY15	6,580	18%
Existing Vendors (no changes)	25,152	71%
Total Unique Vendors	35,526	100%

Objectives and Scope

This audit was risk based and scheduled as a part of our Fiscal Year 2016 Audit Plan. The audit focused primarily on the use of PeopleSoft and system controls as well as procedures for vendor setup and maintenance and payment processing. The audit scope covered September 2014 through August 2015. Audit procedures included: interviews of accounts payable members and walkthroughs of the vendor and invoice payment processes, review of policies and procedures and other documentation, analysis of vendor and payables data and records, and examination of supporting documentation.

The primary objectives of the audit were to assess the adequacy and effectiveness of controls over accounts payable processing including PeopleSoft system controls. Specifically, to provide reasonable assurance of the following:

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- Vendor set up and vendor maintenance processes are appropriate.
- Accounts payable transactions are appropriate and timely and in compliance with contract and State requirements.
- Check disbursements are properly authorized and supported.
- Payments do not exceed contract financial terms.
- PeopleSoft Accounts Payable module system controls are appropriate related to:
 - User access and segregation of duties
 - Approval work flow processing
 - Assignment of department approvers to review and approve disbursements for payment
 - General system controls

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Conclusion

Overall, the accounts payable processes are well-managed and comply with UTSW policies and procedures, however there are opportunities to enhance system controls and processes to further strengthen financial and operational controls.

Specific strengths identified during the audit include:

- Current policies and procedures were in place for the processing of the various types of payments.
- PeopleSoft system has automated controls to ensure workflows are in place to approve purchase orders and contract payments.
- University and Hospital accounts payable staff make dedicated efforts to ensure payments are appropriate, accurate and complete before payments are made.

There are opportunities to strengthen controls to ensure vendors are set up and maintained appropriately and payments are made in accordance with contract terms and UTSW policy. These observations and recommendations are detailed in the next section of the report.

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There were no priority issues identified in the audit. Key improvement opportunities risk-ranked as medium and low are summarized below.

The table below summarizes the observations and the respective disposition of these observations within the UT Southwestern internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (0)	Medium (7)	Low (3)	Total (10)
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- **Implement Controls to Prevent Excessive Delegation of Authority** – Lengthy delegation of approval periods suspend the approver’s financial oversight responsibility.
- **Monitor Payments Made in Excess of Contract Terms**– Inadequate monitoring of payments associated with contracts can result in spending in excess of contract terms, approved budget limits and UTSW approval policies.
- **Remove Vendors with Invalid Tax Identification Numbers (TIN)** – Payments to vendors with invalid TINs can result in inappropriate payments or misappropriation of funds.
- **Enhance Programming Logic for Identifying Duplicate Payments** – Duplicate payment identification is not in place across both operating units, increasing the potential for overpayments to vendors.
- **Improve the Single Pay Vendor PeopleSoft Workflow** – Inadequate segregation of duties can increase the risk of misappropriation of funds.
- **Remove Unneeded Duplicate Vendor Addresses** – Multiple active vendor addresses within the Vendor Master can result in payments submitted to incorrect addresses and delays in posting payments.
- **Implement a Comprehensive Functional Access Matrix and Periodic Review Process** – Minimum necessary functional access has not been identified for the PeopleSoft AP module. Functional access will help to ensure that system access is aligned with employee roles and responsibilities.

Management has implemented or is in the process of implementing corrective action plans. Management responses are presented in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

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We would like to thank the Accounts Payable team, the Office of Accounting, and other department management for their assistance and cooperation during this review.

Sincerely,

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Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>1. Implement Controls to Prevent Excessive Delegation of Authority</p> <p>Controls need to be in place for ensuring delegated approvals have limited timeframes. Currently the system does not have a limit on delegation and testing of approval delegation within PeopleSoft revealed 20 approvers that had delegated their approval authority for greater than 30 days. The delegated period set up in the system ranged from 31 days out to 01/01/2100.</p> <p>Lengthy delegation periods increase the possibility work overload for the delegate, resulting in potential imprudent decision-making. Also, delegation of financial oversight suspends the Approver's duties and transfers excessive lengthy responsibility to subordinates when duties were set up to be performed by supervisors.</p>	<ol style="list-style-type: none"> 1. Consider establishing a "Hard Stop" control in PeopleSoft to limit the delegated approval period to no more than 90 days, after which the period would need to be renewed with upward approval. 2. Track renewals in the system and report the renewal count to the upward approver so they are aware of how many times the extension has been renewed and can detect abuse of this feature. 3. Reinforce delegation training for all approvers and their respective leaders, including aspects correct delegation and un-delegation protocol, appropriate notifications, procedures when transferring to other departments and protocol upon Approver termination. 4. Contact appropriate departments to ensure existing excessive delegations are addressed. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. System programming will be put into place to establish a 90 day hard stop for delegation of authority 2. System programming will be put into place to track renewals and report to Accounting. 3. Update education to department leaders on delegation procedures and appropriate situations in which to delegate. 4. Accounting will contact each department and ensure delegation is removed or workflow is updated. <p><u>Action Plan Owners:</u></p> <p>AVP Accounting & Fiscal Services Manager, Information Resources</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2016</p>
<p>Risk Rating: Medium ●</p> <p>2. Monitor Payments Made in Excess of Contract Terms</p> <p>Accounts Payable staff is responsible for ensuring invoice payment amounts are in accordance with the</p>	<ol style="list-style-type: none"> 1. Communicate to the department leaders, their responsibility to monitor payments against executed contracts. 2. Implement procedures within the AP department for monitoring department 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Contracts Management and Accounting teams will work together to communicate the responsibility for contract monitoring, including total spend, to the department leaders.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>contract terms. In many cases, they are unable to verify if vendor invoice expenses exceed contract terms due to set up of contracts with a \$0 or \$1 value. The contracts were set up without the value because the anticipated spend was not known at the time the contract was executed.</p> <p>In addition, when contract spending amounts are not identified; it would be difficult for departments to monitor total contract spending limits. Inadequate monitoring of payments associated with contracts can result in spending in excess of contract terms, budget approvals and violation of UTSW approval policies.</p> <p>A data analytics review of payments in FY2015 identified 1,249 contracts where the contract amount was set up as \$0 or \$1.</p>	<p>spend.</p> <p>3. The Materials Management team has developed a plan to monitor contract spend going forward, which will adequately address this observation. The plan will include a technology solution to build in maximum spend levels, monitor actual spend and flag overages, if needed, for review which will adequately address this observation.</p>	<p>Require departments who encumber funds to add those amounts to the system.</p> <p>2. The AP team will enhance existing monitoring of contract spend as a back end control knowing that at that point the goods and services have already been provided.</p> <p>3. The Materials Management project in process to address contract management has key milestones throughout fiscal 2016 with full implementation scheduled for fiscal 2017. We will implement project and associated work plan over FY 2016 to monitor not only contract maximums and spend, but also bidding and procurement via a 3rd party system.</p> <p>Action Plan Owners:</p> <ul style="list-style-type: none"> • AVP Accounting & Fiscal Services • Director, Contracts Management • AVP Materials Management <p>Target Completion Dates:</p> <p>1 & 2. March 31st</p> <p>3. Project milestones through FY2016 with implementation in October 2017</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>3. Remove Vendors with Invalid Tax Identification Numbers (TIN)</p> <p>A process was implemented in the fall of 2015 for identifying vendors who may not have a valid tax identification number (TIN). However, there are opportunities for improvement to ensure UTSW is not making payments to inappropriate vendors or misappropriation of funds. Opportunities include:</p> <ul style="list-style-type: none"> The vendor master team began to verify the TINs of all new vendors; however existing vendors had not been reviewed to determine if they have valid TIN. Vendors identified as invalid were classified into one category as 89 type vendors, rather than multiple categories to ensure there is proper investigation or ongoing monitoring. An invalid TIN can be due to several reasons, research participant, foreign vendors without a US TIN, invalid input of information into our system or even fictitious vendor attempting to obtain money from UTSW for goods and services not rendered. <p>A comparison of existing UTSW vendor master TINs to the IRS database of valid TINs identified 1,447 vendors where there was not a valid TIN on file.</p>	<ol style="list-style-type: none"> Deactivate vendors identified with invalid TINs and had no payments in FY 2015 with a note indicating that they will not be reactivated until successfully verified by the IRS. Deactivate Vendors with payments in FY 2015 and invalid TINs to restrict payments to vendors until successfully verified by the IRS. Further categorize 89 classified vendors into separate categories as needed to better identify and monitor vendors. Require staff to obtain a TIN if there is a valid W-8BEN or W-8BENE on file for foreign vendors. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> & 2. All identified vendors are being deactivated with notes to reactivate upon successful confirmation from the IRS of the vendor's TIN. Will add additional categories to better classify these vendors For foreign vendors with no W-8 on file, will deactivate vendor with a note to only activate upon successful verification of TINs. <p><u>Action Plan Owners:</u></p> <p>Director Fiscal Reports & Accounting Operations</p> <p><u>Target Completion Dates:</u></p> <p>March 31,2016</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Medium ●</p> <p>4. Enhance Programming Logic for Identifying Duplicate Payments</p> <p>The PeopleSoft AP module includes system edits designed to identify duplicate payments within each of the two business units independently, however there are no edits in place to identify potential duplicate payments across the institution for both operating units. Vendors will frequently send invoices for payments to both units, increasing the risk payments will be duplicated and will not be identified.</p> <p>Additionally, the current duplicate payment programming logic matches Invoice Number, Vendor ID and Business Unit only and does not include key fields such as invoice date and payment amount.</p> <p>A review of all payments made in FY 2015 across the institution identified three instances of duplicate payments totaling \$280,000 with three different vendors. One of the three vendors contacted UTSW and the credit was issued back to the institution. The other two vendors had not made UTSW aware of the duplicate payment.</p>	<ol style="list-style-type: none"> 1. Ensure payment is recovered from vendors who were overpaid. 2. In coordination with the IR team, develop system programming that will allow for the identification of duplicate invoices across both operating units. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Director of AP and Payroll will work with vendors to obtain repayment 2. IR and business units will work together to update programming logic and test to ensure working as intended. <p><u>Action Plan Owners:</u></p> <p>AVP Accounting & Fiscal Services Senior IR Manager, Business Administrative Systems Hospital CFO</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2016</p>
<p>Risk Rating: Medium ●</p> <p>5. Improve the Single Pay Vendor Workflow within PeopleSoft</p> <p>The Hospital Single Pay Vendor voucher process does not require system approvals by department or an</p>	<p>Coordinate with the IR team to develop an automated approval workflow for Hospital Single Pay Vendor Voucher process to ensure appropriate approvals are in place prior to payment.</p>	<p><u>Management Action Plans:</u></p> <p>Coordinate with IR team to develop workflow for approvals of single pay vendors, excluding patient refunds.</p> <p><u>Action Plan Owners:</u></p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>independent AP person before payments are made. The same AP employee can enter the payment request information and submit directly for payment within PeopleSoft. Inadequate segregation of duties can increase the risk of misappropriation of funds.</p> <p>Data analytics of the population of the single pay vendor payments identified three payments totaling \$9,406 that were processed through the Single Pay Voucher process without system approvals.</p>		<p>Hospital CFO Director of Technical Services</p> <p><u>Target Completion Dates:</u> March 31, 2016</p>
<p>Risk Rating: Medium ●</p> <p>6. Remove Duplicate Vendor Addresses</p> <p>A review of the active Vendor Master records identified 13,000 records of duplicate addresses. In some cases, the same address was duplicated within the same record and in other cases, a new address was added and the old address was not deactivated.</p> <p>Multiple active vendor addresses within the Vendor Master can result in payments submitted to incorrect addresses and delays in posting payments.</p> <p>The Finance team was provided the vendor information for review and resolution.</p>	<ol style="list-style-type: none"> 1. Reinforce procedures for vendor master record updates to ensure removal of vendor addresses no longer active. 2. Review vendor records for vendors identified and deactivate duplicate addresses and older addresses as deemed appropriate and no longer needed. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Completed 2. Accounting will work with the PeopleSoft Financial team to determine the best method to handle multiple addresses. <p><u>Action Plan Owners:</u> Director Fiscal Reports & Accounting Operations</p> <p><u>Target Completion Dates:</u> May 15, 2016</p>
<p>Risk Rating: Medium ●</p> <p>7. Implement a Comprehensive Functional Access Matrix and a Periodic User Access</p>	<ol style="list-style-type: none"> 1. Design, document and work with the Director of Technical Services to implement a rigorous and comprehensive access matrix defining the minimum set of 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. The current method of assigning access can be improved, but no inappropriate access was provided. Accounting will

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Review Process</p> <p>User roles are not properly defined to ensure they are commensurate with job duties, which could result in more than the minimum security access needed to perform the job.</p> <p>In addition, a process is not in place to periodically review user access roles for the PeopleSoft Accounts Payable module to ensure permissions are granted at the minimum required for job functions.</p> <p>Testing of user access for several Accounts Payable functions revealed no significant segregation of duties conflicts.</p>	<p>access permissions required for each Accounts Payable function and to consider appropriate functional segregation of duties by Group(s).</p> <ol style="list-style-type: none"> 2. Establish a periodic user access review process for the Accounts Payable system. The first step is to obtain a list of all Accounts Payable users with each user's respective permissions and review in detail. This review should be documented at least once annually and documentation retained. 3. To minimize ambiguity, IR should create a glossary of what each Accounts Payable permission means and its capabilities. The most powerful access permissions, such as VCHR_EXPRESS, APPROVE_VENDOR, UM_DISTR_INTVND, and any others, should be identified and carefully reviewed for each user. 	<p>work with Technical Services and the PS Financial team to develop more access categories. These categories will be tied to positions and/or job function.</p> <ol style="list-style-type: none"> 2. User access review process for AP will be implemented and an annual review will be conducted. 3. A glossary of AP permissions will be documented and referenced for the review in (2) above. <p><u>Action Plan Owners:</u></p> <p>Director of Payroll and Payables Director of Fiscal Reports & Accounting Operations Director of Technical Services</p> <p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. Define roles by April 8, 2016, testing completed by June 30, 2016, implementation by August 31, 2016 2. August 31, 2016 3. March 31, 2016

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
<p>Risk Rating: Low ●</p> <p>8. Reinforce the Check Request Process</p> <p>Contract payments were processed through check requests (CKR). CKRs are intended for payments for purchases that cannot be completed through purchase orders or contracts.</p> <p>Since CKRs payments are not tied directly to the contract CMO number in the PeopleSoft system, the purchases are not properly tracked against the contract when payments are processed. This can result in spending in excess of contract terms, budget approvals and violation of UTSW CKR procedures.</p> <p>A review of a sample of 25 check requests identified four payments totaling \$452,900 tied to an active contract, but not processed as a contract payment.</p>	<p>Educate departments to reinforce the check request procedures to ensure only appropriate payments are completed through the CKR process.</p>	<p><u>Management Action Plans:</u></p> <p>Educate departments on proper process for CMO's, POs and CKRs and reinforce when needed with the department leaders.</p> <p><u>Action Plan Owners:</u></p> <p>AVP Accounting & Fiscal Services AVP, Materials Management Director, Contracts Management Director of Payroll and Payables</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2016</p>
<p>Risk Rating: Low ●</p> <p>9. Monitor Employees Set Up as Vendors</p> <p>Monitoring procedures are not in place to identify any potential relationships between vendors and employees. The lack of monitoring for employee/vendor relationships could result in potential conflicts of interest or inappropriate payments not being detected that should be considered income resulting in non-compliance with Payroll tax requirements.</p>	<ol style="list-style-type: none"> 1. Perform ongoing monitoring of the comparison of employee and Vendor Master records. The frequency can be set as deemed reasonable by Management. 2. Evaluate the monitoring results and follow up to ensure relationships are appropriate, any conflict of interest is evaluated and documented, and appropriate action plans are in place. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Internal Audit team will perform the review semi-annually and provide the results to Accounting for review and analysis. 2. Accounting team will evaluate results and implement process to evaluate going forward. <p><u>Action Plan Owners:</u></p> <p>Director, IT and Specialty Audit Director AVP Accounting & Fiscal Services</p>

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
		<p><u>Target Completion Dates:</u></p> <ol style="list-style-type: none"> 1. June 30, 2016 2. August 31, 2016
<p>Risk Rating: Low ●</p> <p>10. Remove Duplicate Vendors from Vendor Master</p> <p>The existence of duplicate vendors can increase the risk of duplicate payments made in error.</p> <p>A review of all active Vendor Master records identified 30 duplicate vendors using the Tax Identification Number (TIN) with different vendor numbers. Nineteen (19) of these included payments made to both vendors during FY 2015.</p>	<ol style="list-style-type: none"> 1. Going forward, as vendors are set up, perform a search to ensure the following fields do not already exist in the Vendor Master module: <ul style="list-style-type: none"> - Vendor Name - Mailing Address - Vendor TIN 2. Review the listing of duplicate vendors and inactivate those confirmed as duplicates, if appropriate. 	<p><u>Management Action Plans:</u></p> <ol style="list-style-type: none"> 1. Completed 2. The Vendor Master team is reviewing the list of duplicate vendors and will deactivate duplicates if appropriate. <p><u>Action Plan Owners:</u></p> <p>Director Fiscal Reports & Accounting Operations</p> <p><u>Target Completion Dates:</u></p> <p>March 31, 2016</p>

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

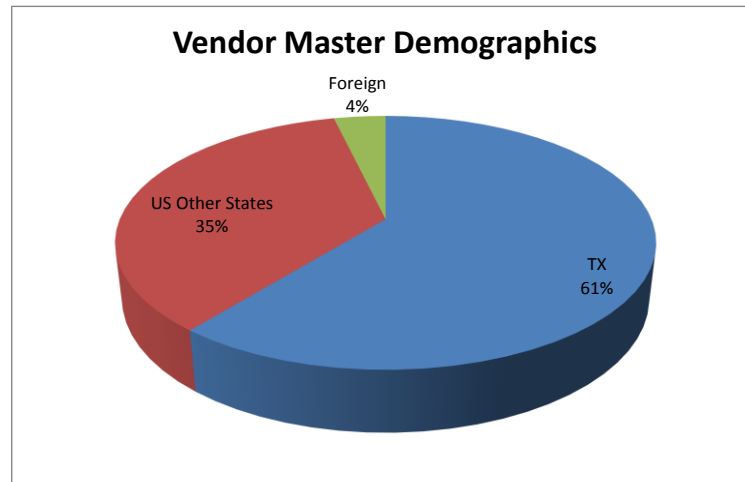
Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Priority	An issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by internal audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by internal audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action is needed by management in order to address the noted concern and reduce risk to a more desirable level.
	Low	A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the preceding pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

Appendix B – Key Statistics

The following chart describes the demographics of UTSW vendors and represents that most are based in Texas and the United States with only a small portion (4%) international.



The following chart provides a description of the volume of checks processed in FY 2015 by primary source and represents that most are related to purchase orders (64%), then check requests (31%) and finally contracts (5%).

