

# Strengthening Procurement Controls in Manufacturing



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Procurement is one of the most vulnerable spots in any manufacturing operation. It's not because people are careless. It's because high transaction volume, multiple vendors, and constant pressure to keep production moving can create openings for fraud when controls aren't working as well as they should.

According to the *2024 Association of Certified Fraud Examiners (ACFE) Report to the Nations*, more than half of occupational fraud cases occur because internal controls are either missing or overridden. Procurement is especially vulnerable because of its high volume of transactions, multiple approval points, and reliance on clean vendor data and consistent processes. The ACFE also notes that tips identify 43% of fraud cases, making strong oversight and a transparent control environment even more important for manufacturing organizations.

## Where the Problems Usually Show Up

If you work in manufacturing finance, you probably already know the usual suspects:

**Vendor setup and maintenance.** Fake vendors or duplicate vendors can slip through when onboarding processes are weak or when someone bypasses them entirely.

**Purchase order manipulation.** People steer orders to preferred vendors, split purchases to dodge approval limits, or inflate quantities and pricing.

**Receiving and three-way match gaps.** When production is moving fast, validation steps get skipped. That creates room for billing schemes, substituted materials, or payments for goods that never arrived.

**Conflicts of interest.** Longstanding vendor relationships, especially in niche supply chains, can lead to kickbacks or inappropriate influence if they're not monitored. The ACFE found that bribery and kickback schemes resulted in median losses of \$200,000.

**Manual workarounds.** Anything happening outside the system increases risk. The ACFE report makes this clear: more than half of all occupational frauds occur because of weak internal controls or because someone overrides the controls that do exist.

## How Monitoring and Internal Audit Help

A strong monitoring program and internal audit support give you confidence that your procurement dollars are being spent the way they should be. Here's what that looks like:

Data-driven monitoring to spot unusual patterns like repeated rush orders, pricing that's out of range, or vendors that happen to share addresses with employees.

Process walkthroughs and control testing to confirm that approvals, segregation of duties, and system-based checks are working day to day, not just on paper.

Vendor management reviews that validate legitimacy, assess concentration risk, and make sure contracts and pricing align with what you'd expect.

Root-cause analysis when errors or fraud indicators appear, so you can fix the process, not just the symptom.

Clear reporting to management so you have transparency into where risks exist and what improvements will have the biggest impact.

### **Why Outsourced or Co-Sourced Internal Audit Works Well for Manufacturers**

Manufacturing teams are often stretched thin, especially when production demands spike. Outsourced or co-sourced internal audit gives you:

Specialized expertise in procurement, inventory, IT controls, and fraud risks without having to staff those skills permanently.

Independence, which makes oversight more credible for boards, lenders, and external auditors.

Flexibility, so you can scale support up or down depending on what's happening in the business.

Perspective from working with other manufacturers facing similar challenges.

Objective reporting, which helps you address issues quickly and confidently without internal politics getting in the way.

### **The Bottom Line**

Procurement fraud isn't usually the result of one big failure, it's small control breakdowns that add up over time. Internal Audit Awareness Month is a reminder that strengthening procurement controls is not just about preventing fraud. It's about improving accuracy, boosting efficiency, and giving finance leaders the confidence that dollars are being spend exactly as intended.

Strong monitoring and internal audit support help you stay ahead of those risks so your dollars area protected, you processes run smoothly, and your teams can focus on what really matters: keeping production moving and supporting long-term growth.