



CITY OF WILMINGTON

Vendor Management Review

Internal Audit Review

July 30, 2019

City Auditor's Office

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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Vendor Management. The audit was in accordance with the 2019 Internal Audit Plan.

Methodology

The objectives were met thru interviewing management and staff, reviewing existing procedures/practices for new vendor validation and setup and the modification and maintenance of vendors in the master file, and performing detailed testing on samples of vendors from the master file.

Audit Review Committee:

Robert C. Johnson, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

As part of our audit plan, Internal Audit (IA) conducted a Performance Audit of the City's Vendor Management. The audit objective was to assess the efficiency and effectiveness of the City's Vendor Management System. To determine whether adequate preventative internal controls are in place over vendor validation, setup, modification, and maintenance processes to ensure the prevention of unauthorized, erroneous or duplicate payments. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Vendor Master File (VMF) is a fundamental component of the Accounts Payable and Procurement processes. The VMF stores key information on City of Wilmington Vendors such as vendor name, address, Tax Identification Number (TIN) obtained from the W-9 Form, Social Security Number (SSN) and banking information for electronic fund transfers (ACH Payments). The VMF also tracks vendors that are required to be provided an Internal Revenue Service (IRS) Form 1099 based on the specific payment type, amount and business. Procurement is responsible for the maintenance of the City's VMF. This information is stored and maintained in Munis, including images of hardcopy documents provided by a vendor or department.

Only Procurement may edit the VMF, except for when the Wage Tax Department or Utility Billing issue a refund. When the Wage Tax Department and Utility Billing issue a refund, a new vendor is automatically created with the name of the Customer and is given a status of temporary. Currently, vendor files are added to the VMF manually by the Procurement Technician. The manual data entry process is initiated by the completion of a City of Wilmington Vendor Application that can be submitted to Procurement by e-mail, postal mail or fax.

Procurement has purchased a Vendor Self Service Module within Munis that they plan to begin utilizing soon. The Vendor Self Service Module will allow potential City vendors to input all their information electronically, which will eliminate the need for the Purchasing Technician to manually input the information. Although the Purchasing Technician will not need to input the data, they still will have to review the entry and make it active when all required information has been gathered and verified. As of the end of fieldwork for this audit, the Vendor Self Service Module is not yet being utilized.

It is essential to effectively maintain the VMF to avoid unauthorized or inappropriate activity, prevent duplicate payments and reduce inefficiencies. Inaccurate, incomplete or unauthorized vendor records could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse.

Vendors are categorized by status. A vendor can be Active – indicates a current and established vendor; Bidder – identifies that this vendor is not yet an established vendor, but only a bidder. A bidder status does not prohibit entry of purchase orders and invoices; Inactive – provides a warning during invoice entry that the vendor is inactive but does not prevent the usage of that vendor. When a new vendor is added, the status defaults to Inactive. If the status is updated while other pending changes are awaiting approval, the status of the vendor continues to be Inactive and is not applied until all the pending approvals have been approved on the add; One Time Pay – indicates a vendor number used one time to pay multiple recipients. Vendors cannot be updated to this status. They must be created as One Time Pay vendors; Stop – prevents the use of this vendor during invoice entry; and Temporary – signifies that this vendor is only to be used for a short period of time then deleted.

Key Statistics

As of February 14, 2019, there are 23,378 vendor entries in the VMF. Table1 shows the count of vendors by status.

Table 1: Vendor Master File Status by Count

Status	Count	Description of Status
Active	3,790	Indicates a current and established vendor.
Bidder	261	Identifies that this vendor is not yet an established vendor, but only a bidder. A bidder status does not prohibit entry of purchase orders or invoices.
Inactive	15	Provides a warning during invoice entry that the vendor is inactive but does not prevent the usage of that vendor. When a new vendor is added, the status defaults to Inactive. If the status is updated while other pending changes are awaiting approval, the status of the vendor continues to be Inactive and is not applied until all the pending approvals have been approved on the add.
One Time Pay	5	Indicates a vendor number used one time to pay multiple recipients. Vendors cannot be updated to this status. They must be created as One Time Pay vendors.
Stop	13,318	Prevents the use of this vendor during invoice entry.
Temporary	5,989	Signifies that this vendor is only to be used for a short period of time then deleted.

Source: Analysis of Vendor Master File export from Munis as of 2/14/2019

A later look at the VMF on March 11, 2019 reflected -0- vendors in bidder status. The Procurement Manager stated that bidder status would no longer be used going forward and that the vendors in bidder status were removed during the last week of February 2019. IA was okay with this decision because a vendor in bidder status does not prohibit entry of purchase orders or invoices, which could be a risk; however, this is a change in policy that should be put in writing.

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Compliance	John D'amelio				✓
Errors & Omissions	John D'amelio				✓
Policies and Procedures	John D'amelio				✓
Reconciliation	John D'amelio				✓
User Access	John D'amelio			✓	

Compliance

1. Controls need strengthening surrounding ensuring that completed vendor applications are on file in the Munis Tyler Content Manager System (Munis). Thirty samples were selected from the Vendor Master File (VMF) in Munis for detailed testing from January 1, 2017 through March 31, 2019. Nine of 30 (30%) samples selected were considered exceptions for not having an application on file in Munis. Requiring a completed vendor application is an unwritten policy the Procurement Department adheres to. By not following a standardized process, there is an increased risk of duplicate payments and fraudulent activity occurring.
2. Weak controls exist regarding obtaining W-9 forms and ensuring they were completed and properly filed in the correct vendor account.

Twenty-three of 50 (46%) W-9 forms selected for testing had one or more of the following exceptions:

- Sixteen W-9 forms could not be located therefore we could not determine whether they exist.
- Five forms were filed in the wrong folder.
- Two forms were not signed.

There is an increased risk of noncompliance with IRS regulations when a W-9 form cannot be verified for a vendor or contractor which could impact whether they receive a 1099 tax form.

Errors & Omissions

3. Weaknesses exist with the vendor setup process. During an analysis of the VMF, 13 vendor names had duplicates noted in their active status. Having duplicate vendors in the VMF increases the risk of erroneous or duplicate payments.
4. Controls need strengthening surrounding the setup of employees as vendors in the VMF. A comparison between the Employee Master File and the VMF was conducted to verify whether a vendor had an address matching a City employee. Although no exceptions were noted, it was verified through testing that employee names were being entered in the VMF in different formats. For example, some names included a middle initial, while others did not. Some entries used a shortened name instead of the employee's full name (e.g. Chris vs. Christopher). Not having a standard naming convention for the VMF increases the risk of erroneous or duplicate payments.

Policies and Procedures

5. Based on a review of the Procurement Department's Policies and Procedures (P&Ps) for VMF Maintenance, it was noted that the department only utilizes the "Munis Add A Vendor" document that provides instructions for adding a new vendor to the Vendor Program in Munis.

The following were not addressed in the P&Ps:

- Approval of new vendors
- Verification of vendors through the IRS website
- Vendor Master File Clean-Up
- Segregation of Duties...

Inability to establish clearly defined P&Ps could lead to departmental confusion, inconsistent application and unnecessary errors.

Reconciliation

6. Inconsistent controls exist surrounding how the VMF is being reconciled. For instance, an initial status count of the VMF was conducted on February 14, 2019 and reflected vendors in different statuses that included Bidder, Inactive and One-Time Pay. During a review on March 11, 2019 the status count showed zero vendors in the previously mentioned statuses. After inquiring with the Procurement Manager about these differences, he informed us that the VMF is cleaned-up when he has down time and that he has decided that the Bidder status will no longer be used, and the others were placed on Stop status. By not performing a VMF Cleanup on an ongoing basis the City risks having problems that arise from having incorrect entries, such as duplicate payments, fraud activity and noncompliance with IRS 1099 requirements.

User Access

7. Controls need strengthening surrounding user account access to the VMF. An analysis was performed on the VMF to determine whether unauthorized users had access to the file. The analysis showed there were no conflicts between Accounts Payable and Procurement employees. However, it was noted that a Senior Accountant had administrator rights to the VMF. Once this was brought to Management's attention, the user's access rights were disabled. Employees with unnecessary access to the VMF could potentially lead to opportunities for fraud or abuse.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Management should require current and future vendors receiving payments from the City to submit a completed vendor application. The application should require all necessary documentation to validate their existence. Tax ID numbers should be validated. The IRS has instituted a free tool called the IRS TIN Matching Program to reduce errors.

Management response & action plan: No need for vendor applications for certain vendors like hotels, conferences, registration, etc., some automated Vendor creation processes are out of our control. The City will be rolling out a vendor self-service Munis module by the beginning 2020.

Completion Date: December 31, 2019

Recommendation #2: Management should require current and future vendors to comply with the W-9 requirement. Payment should be withheld until a current W-9 is on file for a vendor.

Management response & action plan: Up until about 5 years ago there was no separate folder for w-9. I'm checking with Munis to see if there is a way to require W9 forms without interfering with the automated processes. I'll let you know what they tell me. Some automated Vendor creation processes are out of our control.

Completion Date: December 31, 2019

Recommendation #3: Management should develop a checklist for employees to follow before adding a new vendor that will help determine if a vendor has already been setup in the VMF and avoid creating a duplicate. If management believes duplicates are necessary in certain cases, then a policy should be implemented that defines when duplicates are acceptable and why.

Management response & action plan: One of the duties and responsibilities of the Procurement Clerks is to check the system for duplicate Vendors by entering the FEIN and SSN before adding a new vendor. Please note that there are some automated system processes (i.e. refunds) that create vendors during processing and are beyond are control.

Completion Date: Completed

Recommendation #4: Management should develop a standard guideline for employees to use when setting up vendor names into the VMF. The naming standard should be made part of Procurement's written P&Ps.

Management response & action plan: Procurement Management has established a standardized naming convention for all Vendors processed through the division, which will be added to the P&Ps. As previously stated, some automated Vendor creation processes are out of our control.

Completion Date: May 31, 2020

Recommendation #5: Management should develop P&Ps when they do not exist. Periodically they should also review and update the P&Ps to ensure they are current and relevant to the existing processes.

Management response & action plan: Procurement Management will have this addressed when Vendor Self-Service is launched in early 2020. However, some automated Vendor creation processes are out of our control.

Completion Date: TBD

Recommendation #6: Management should define how often the VMF cleanup should be performed and documented in the P&Ps. The VMF cleanup process should also be documented each time it occurs, and a summary of the changes should be attached.

Management response & action plan: The Procurement divisions stance on vendor cleanup is well noted. However, until IT or Munis support can provide backup of the data prior to merging the vendor status will remain in a stop status. However, some automated Vendor creation processes are out of our control.

Completion Date: May 31, 2020

Recommendation #7: Management should develop a process to review user accounts on a regular basis to ensure their level of permissions are commensurate with their responsibilities. In addition, they should revoke system access from employees that do not require access to the VMF to perform their job duties.

Management response & action plan: Once all annual IRS filings have been completed, usually by mid-May, the Procurement division will generate and review a report of users with VMF access and have their access revoked (e.g. System Inquiry – Roles – search wide open – click on AP – search wide open - review all active roles to see if any have vendor maintenance access, check the Data Access tab as well).

Completion Date: June 30, 2020

Audit Team

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