



**Audit Report
Vendor Authenticity Follow-Up
April 11, 2018**

**City Auditor's Office
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Audit Report

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Purpose and Scope

The following report addresses the process used to establish new vendors in the ERP system, and serves as a follow-up to a report issued in April 2013. The review consisted of verifying that new vendors were established in accordance with the Citywide Vendor Policy and the Vendor Administration Process and Procedures Manual (currently in draft form.)

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, and the Management and Financial Services (M&FS) Department.

Conclusion

The highest risks identified in 2013 related to the establishment of authentic vendors have been satisfactorily addressed. Further risk reduction is warranted.

Summary of Findings and Recommendations

New policies and procedures, and the implementation of the ERP system have adequately addressed most of the recommendations included in the Vendor Authenticity report issued in April 2013. New processes have reduced the risks related to the establishment of duplicate vendors in the master vendor database. However, additional monitoring or auditing of the vendor database will be necessary to validate recent clean-up efforts. Specific findings are summarized following:

- 1. New policies and procedures have satisfactorily addressed issues identified in the 2013 Vendor Authenticity Report.*

The City should prioritize efforts to finalize policies and implement an automated self-service portal to facilitate the vendor registration process.

- M&FS was notified by the ERP Operations group in February 2018 that Vendor Self Service (VSS) had passed the final information security checks and expects to re-implement VSS prior to the end of FY 2018.

2. *Procurement Management does not have the ability to ensure that employee vendors are assigned the correct vendor number and that vendors are not City employees.*

Human Resources should provide Procurement Management with access to employee address records for the purpose of administration of their duties.

- Human Resources will coordinate with Procurement Management to provide the necessary data access in a manner that maintains the integrity and security of employee personally identifiable information (PII). Timeframe for completion will depend on available technology solutions.

3. *Potential vendors should be screened against available public information.*

Procurement Management should lead an effort to automate the periodic verification of vendors against debarment lists and recording of vendor status in the ERP system.

- M&FS will work with the City Attorney's Office and other City departments to develop and incorporate a debarment certification form in formal City solicitations and contractual documents by the end of CY2018.

Background

Internal Audit issued a report addressing vendor authenticity in April 2013, recommending vendors meet a predetermined and consistent set of standards prior to their addition to the active vendor database. Management representing multiple departments agreed with the recommendations and stated that new policies and procedures would be established consistent with the new ERP system, which went live in July 2014.

It was discovered after implementation of the new ERP system that the master vendor list was initially loaded with missing, incomplete, or inaccurate information. In March 2017, the Procurement Management Division initiated a vendor update project to identify and merge duplicate vendors, update vendor addresses, and confirm vendors' desire to remain registered with the City. Procurement Management is in the final stages of cleaning up the active vendor master file and anticipates completion in April 2018. The current active master vendor file has about 15,000 vendors. The City anticipates that the vendor file will be comprised of no more than 11,000 active vendors after cleanup efforts are completed.

Audit Findings and Recommendations

1. New policies and procedures have satisfactorily addressed issues identified in the 2013 Vendor Authenticity Report.

New policies and procedures have made significant improvements to help ensure that only valid vendors are added to the master vendor list. The draft Vendor Administration Process and Procedures Manual describes the process to avoid duplicate entry of a vendor and to validate the provided tax identification number (TIN). The Vendor Administration Policy is currently being consolidated into a “Procurement to Pay Policy” along with all other financial policies.

The City now encourages any business or person wanting to do business with the City to use the Vendor Registration Forms available via the City’s website. The prospective vendor fills out the appropriate forms and provides required information, including a valid TIN, and submits all paperwork via email, mail, fax, or in person to Vendor Administration. Procurement Management ensures that the prospective vendor has a valid TIN issued by the Internal Revenue Service (IRS). The current process is labor intensive, and staff recognized a need for more efficient vendor management.

Vendor self-service portals are traditionally associated with significant improvements in processing efficiency, increased transparency and reduced risk of inaccurate payments and data entry. The City has a current project to implement a vendor self-service portal for the ERP system, but security concerns have delayed the project.

In addition, the following actions have addressed other issues raised in the 2013 report:

- The ERP system requires at least two different employees to complete three of the following tasks – enter a requisition, approve the requisition to create a purchase order (PO), and receive goods and services in the system.
- The ERP system requires a user to receive goods or services before a payment can be made.
- The City’s Accounts Payable Payment Policy states that signature authority can be granted only to City employees and not contractors.
- The draft Vendor Administration Process and Procedures Manual establishes naming conventions, and outlines the processes associated with changes in ownership or names.
- The Vendor Policy notes that no vendor records shall be deleted from the System unless they have a) been inactive ten or more years, and b) are not linked to transactional data that is within its required retention schedule. Procurement Management is in the process of evaluating best practices around vendor data maintenance and purging.

- The Vendor Policy requires address location, contact information, demographics, commodity/service code, certification and/or ownership status, taxpayer identification, W-9 and other general information at the City's discretion.

Recommendation: The City should prioritize efforts to finalize policies and implement an automated self-service portal to facilitate the vendor registration process.

M&FS Response: M&FS concurs.

The availability of an effective self-service portal is critical to long-term successful administration and maintenance of the City's master vendor record. The ERP Support Team notified M&FS on February 13, 2018, that Vendor Self Service (VSS) had passed the final information security checks and was ready for implementation. Pending the resolution of known technical issues being corrected by I&T/ERP Support and Tyler, we expect to successfully re-implement VSS by the end of FY 2018. Procurement Management will perform a pilot program to ensure all technical issues are resolved prior to full implementation. We also expect to finalize the Procurement to Pay Policy by the end of CY 2018.

2. **Procurement Management does not have the ability to ensure that employee vendors are assigned the correct vendor number and that vendors are not City employees.**

In FY17, the City added 2,234 vendors to the master vendor list as noted below:

Vendors Added FY2017		
Code	Vendor Type	Count
VEN	City Vendor	1,359
EMP	City Employee	598
RSK	Risk Management Vendor	192
RPV	Rehab Project Vendor	63
	Other	22
	Total	2,234

Auditors reviewed the 2,234 vendors and noted six (0.3%) vendors that were duplicated, based on name. These included three employees (EMP), two rehabilitation project vendors (RPV) and one vendor (VEN). None of the duplicated vendors received payments under both vendor numbers, and Vendor Administration has deleted or deactivated the "duplicate" entries.

While the number of exceptions was immaterial and did not result in erroneous or duplicate payments, the City should identify methods to more accurately record employee numbers. Procurement Management noted an automated process for assigning employee vendor numbers was not possible due to the lack of integration between Munis and PeopleSoft. The three employee errors occurred because Procurement Management was provided incorrect employee numbers by department representatives. Without integration, Vendor Administration is not able to automatically obtain employee data from PeopleSoft, resulting in a process that is prone to human error.

Internal controls would be strengthened (and risk reduced) if employee data was input to Munis. This would allow Procurement Management to establish a more effective employee/vendor monitoring process.

Recommendation: Human Resources should provide Procurement Management with access to employee address records for the purpose of administration of their duties.

HR Response: Human Resources will coordinate with Procurement Management to provide the necessary data access in a manner that maintains the integrity and security of employee personally identifiable information (PII). Timeframe for completion will depend on available technology solutions.

Recommendation: Procurement Management should coordinate with the ERP Support Team to integrate non-restricted payroll and vendor data during time of data entry. Alternatively, Procurement Management should periodically request comparison reports of vendor and employee data to monitor compliance with the City's ethics policies.

M&FS Response: M&FS welcomes the opportunity to collaborate with Human Resources and discuss how we might be able to gain access to the information required to perform employee and vendor comparisons and audits.

3. Potential vendors should be screened against available public information.

The 2013 Vendor Authenticity Report noted that a policy should address how and when vendors are verified against federal and state debarment lists. In addition to verifying TINs, the report also recommended that Vendor Administration:

- review tax registrations (such as the business privilege license tax);
- review registrations with the NC Secretary of State; and
- verify physical business locations.

The above steps are not performed, as Vendor Administration relies on the verification of TINs through the IRS website and additional controls (such as three-

way matching) incorporated in the ERP system. According to Procurement Management, the compensating controls within the ERP system eliminate the need to perform the additional verifications. Procurement Management also noted that the recommended verifications are no longer feasible, given the volume of vendors. However, the division performs additional research on specific vendors, as warranted.

Federal programs utilizing grant funding require debarment verification on the System for Award Management (SAM) and/or the North Carolina Debarred Vendors list. These grants are typically received by the Enterprise Fund departments and the solicitations are often managed by the departments. Once the initial verification is performed, there is no requirement for periodic review. No standard practice has been established for verifying that vendors are not debarred for non-federal procurements.

There is no specific field within the ERP system that is used to indicate whether a particular vendor has been checked for debarment. Procurement Management noted federal debarment may not necessarily result in ineligibility for non-federal contracts with the City. In addition, it is not currently possible to electronically compare the City's vendor list to the SAM and the North Carolina Debarred Vendors site. There are limitations associated with searching these lists and determining specific reasons for debarment. According to M&FS management, staff resources are not sufficient to regularly compare the City's vendor list against debarment lists.

According to Procurement Management, the state and federal debarment lists change frequently. In general, debarment checking and reporting, as well as subsequent disciplinary action have not been prioritized within the City's standard procedures.

Recommendation: Procurement Management should lead an effort to automate the periodic verification of vendors against debarment lists and recording of vendor status in the ERP system.

M&FS Response: M&FS concurs with the recommendation.

M&FS will develop and incorporate a debarment certification form in formal City solicitations, instituting the requirement for vendors to self-report debarment status. Supporting language will be included in the City's contract templates that require an authorized signature certifying that the vendor and any subcontractors are not presently debarred, suspended, proposed for debarment, or declared ineligible by any state or federal department or agency.

For any instance of a reported debarment, additional follow-up will be required by the responsible department to ascertain impacts or risks to the City. M&FS will work with the City Attorney's Office on this process, as well as other City departments to develop and implement appropriate procedures (i.e. handling affirmative debarments, records management, and reporting requirements) by the end of CY2018.