CITY OF SAN ANTONIO

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September 29, 2015

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SUBJECT: Audit Report of Finance's Vendor Master File and Disbursements Audit

Mayor and Council Members:

We are pleased to send you the final report of Finance's Vendor Master File and Disbursements audit. This audit began in August 2014 and concluded with an exit meeting with department management in June 2015. Management's verbatim response is included in Appendix B of the report. The Finance Department's management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance Department

Vendor Master File & Disbursements

Project No. AU14-014

September 29, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department's process for the maintenance and monitoring of the City's Vendor Master File and Disbursements. The audit objective and conclusions follow:

Are proper internal controls in place to ensure the City's Vendor Master File is reliable and payments are made only to authorized and approved vendors?

Overall, internal controls need improvement to ensure the City's Vendor Master File is reliable and payments are made only to authorized and approved vendors.

Financial Operations has made improvements to the Vendor Master File (VMF) since inheriting the creation and maintenance of vendor records. Although we did not note any material financial/operational impact, we did identify the following internal control processes where improvement is needed:

- New vendor records are not consistently created with complete and accurate information in the VMF and documentation is not always kept on file to support the creation of new vendor records.

- The VMF contains duplicate vendor records, vendors with incomplete data, and inactive vendors. Additionally, the VMF also includes active one-time use vendors that remain in and unnecessarily populate the VMF once payment is made.

- Authorization for access is not consistently documented. Additionally, some user's access roles are not appropriate for their current job responsibilities and some lack proper segregation of duties.

Finance Management's verbatim response to our recommendations is in Appendix B on page 9.

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Background

The Vendor Master File (VMF) is a foundational element of the Accounts Payable and Procurement processes. It is a listing in the SAP system of all approved vendors from whom the City purchases goods and services.

Generally only a limited amount of people would have access to this file, as a vendor's existence in this system file allows purchase orders to be issued and checks to be disbursed to approved vendors. Therefore, it is essential to effectively maintain the VMF in order to minimize the risk of unauthorized or inappropriate activity, duplicate payments and inefficiencies.

Once a vendor is selected, they are required to complete a vendor creation form and W9 form. These documents are forwarded to the Financial Operations division who are responsible for creating the vendor's master record in SAP.

The City's vendor master file has four different vendor types: Payroll, Employee, Trade, and Remit.

- **Trade vendors** are procurement vendors who have been awarded a contract. Additionally, they can be a one-time payment or non-purchase order payment vendor for which there is no contract.
- **Remit vendors** are created when trade vendors request an alternate remit or payee address record; they should be linked to the associated Trade vendor number.
- **Payroll vendors** are third party vendors whose payments are processed through employee payroll deductions for payments such as IRS levy's or workman's compensation payments.
- **Employee vendors** are City employees who receive reimbursement for travel or other out of pocket expenses.

As of September 17, 2014, the Vendor Master File contained the following number of records by vendor type:

Vendor Type	No. of Records
Remit	4,658
Employee	15,463
Payroll	500
Trade	45,452
Total	**66,073**

Source: SAP

Audit Scope and Methodology

Our audit scope included vendor records and types listed in the vendor master file as of September 2014. Additionally, we included payments issued to vendors during fiscal year 2014.

Our initial population included all active vendor records within the City's vendor master file. We then created subgroups and focused on evaluating the reliability (completeness and accuracy) of the data entered, the validation of vendor's information, and the efforts to maintain all vendor records.

We interviewed management and key staff from Finance and Human Resources and reviewed Finance policies and procedures to obtain an understanding of the process for entering data into the vendor master file and for issuing payments to vendors for goods and services provided to the City. We used data analytics software to analyze the vendor data to evaluate whether the data in the vendor master file was complete and accurate. We used City Administrative Directives and standard department forms as criteria for our test work.

We relied on computer-processed data in SAP, the City's accounting system, to validate vendor records and review for duplicate payments. In addition, we tested the general application controls regarding system access and user account management for SAP and SAePS. To verify user access, we selected user's access to the roles within the systems that allow a user to create, edit and delete a vendor record as well as issue payment to a vendor.

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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Vendor Validation and Setup

New vendor records are not consistently created with complete and accurate information in the Vendor Master File (VMF) and documentation is not always maintained to support the creation of new vendor records.

We identified several vendor records in the Vendor Master File with incomplete or invalid information such as missing telephone number, invalid tax ID, misspelled city names and incomplete/missing addresses as well as Remit vendor records with incomplete addresses. In our sample of 62 vendor records reviewed for accuracy in SAP, 15% did not reconcile to the support documents (i.e. vendor creation form and W9 form).

Per the Financial Operations guidelines included on the Vendor Creation Form, all fields are required and any omitted required information results in returning of the form.

Additionally, we identified 36% of our sample of 75 vendor records did not have the required support documentation on file. Administrative Directive (AD) 8.3 Accounts Payable states that a completed Vendor Master Creation form and the required W9 form is obtained and submitted for review and master data entry.

Ensuring vendors have accurate and complete data files helps the City avoid making inappropriate payments and it can also prevent having a negative effect on the timeliness of processing vendor payments.

Recommendations

The Director of Finance should:

- Require management review and approval for all additions and updates to the Vendor Master File to ensure completeness and accuracy.
- Consider working with IT to implement an automated control that would enhance SAP's functionality to require values in all required fields (i.e. vendor address and telephone number).
- Maintain all supporting documentation (i.e. Vendor Creation Form, W-9 form, Email, etc.) in a central location database or file share that includes the requestor and approver of the vendor and the means used to validate the vendor's existence.

B. Vendor Modification and Maintenance

The VMF contains duplicate vendor records, vendors with incomplete data, and inactive vendors. Additionally, the VMF also includes one-time use vendors with whom the City does business to meet ad-hoc needs. Based on industry best practices, these one-time use vendors should be purged after the business transactions are completed and should not remain in the active vendor master file. Although Finance did perform a mass clean-up effort during 2014 to identify and block inactive and duplicate vendor records, our audit identified the following:

- Out of a sample of 448 Trade, Employee, Remit and Payroll records that had matches between vendor name, address and tax number:
  - 6% of Trade vendors are duplicates*.
  - 32% of Remit vendors are duplicates.
  - 10% of Payroll vendors are duplicates.
  - 12% of Employee vendors are duplicates.

  * During the course of the testwork, we also noted that 2 of 31 (6%) Trade vendor records are still active for one-time payment vendors.

- Out of the population of 15,458 Employee vendor records:
  - 4,081 (26%) are active for terminated employees.

- 4,128 (37%) of the total population of active Trade vendors have had no payment activity within the last two years. The following table illustrates the number and percentage of vendors with no payment activity by year.

Year of Last Payment Activity	Number of Vendors	% of Vendor Inactivity
2004	20	.18%
2005	118	1.05%
2006	131	1.17%
2007	200	1.78%
2008	442	3.94%
2009	386	3.44%
2010	406	3.62%
2011	687	6.12%
2012	1,738	15.48%
2013	2,308	20.56%
2014	4,791	42.67%
Total Population of Active Vendors	**11,227**	**100%**

Industry best practices suggest inactive vendor master records should be blocked/disabled after a period of two years, if the vendor has no open purchase orders, no scheduled payables and no retainage against it.

Frequent maintenance is essential to ensure the integrity of the vendor master file. By not periodically reviewing the master file for completeness and accuracy, vendor payments could go to incorrect vendors and/or addresses or duplicate payments can be made.

The Vendor Maintenance Team does not always receive sufficient documentation (i.e. Vendor Master Change Request Form, updated W9 form, etc.) to support the requested change to a vendor's record. For our review, we selected a sample of 25 changes to test and noted the following:

- 80% of changes did not have a completed Vendor Master Change Request Form.
- 20% of the changes were not appropriately approved by required department head or designee.
- 24% of changes did not have any documentation to support the requested change (i.e. updated W9 form, request from vendor on company letterhead, etc.).
- One change was performed by an employee who was not authorized to make changes due to a separation of duties conflict (i.e. user had access to create and change vendor information while also having access to process a vendor's payment).

Administrative Directive (AD) 8.3 Accounts Payable states the Vendor Master Change request form is used to submit vendor record updates. It also states change of address, additional remits, modifications of names, etc. must be documented in a manner to prove authority and legitimacy of changes prior to acceptance and any change made in the record.

The absence of a standard maintenance process to include an independent review of all vendor modifications presents a risk that inappropriate or unauthorized changes will go undetected.

Recommendations

The Director of Finance should:

- Review the vendor master file biannually to ensure vendors with no activity are blocked/inactivated, duplicate vendor records are corrected, and the accuracy of vendor information is adequate and authorized. This review should be performed by management or staff independent of those involved in vendor setup.
- Pursue opportunities to enhance SAP's Vendor Master Creation screen to require entry of a complete address as well as possibly creating a way to automatically inactivate one-time vendors once payment is made.

- Ensure all requested changes to vendor records have a completed and approved change request form, including changes requested by Accounts Payable.
- Maintain all forms and backup documentation on file, possibly as attachments in SAP, if feasible.

C. Access Controls

We identified several users with inappropriate access to SAP and SAePS and users with segregation of duties conflicts. Additionally, we identified the access request form that serves as a control for user access was not always on file or did not include required approval.

Access to the financial system, SAP, and to the procurement system, SAePS, is processed through completion of an authorized access request form. We reviewed those user roles that are needed to create and edit vendors within both systems (there are cases where an individual may have more than one user role assigned to them and more than one form for each role request).

Our test work consisted of ensuring that an access request form was in place for each role assigned for a sample of 54 users. Our testing identified 9% of users that did not have a form on file for user's current access as well as 6% of users that did not have the required signature approval on their access request forms. Additionally, we identified 20% of user's current access roles that are not appropriate for their current job responsibilities, including one terminated employee who still has an active network account.

We identified access permissions relating to vendor creation/edits and vendor payments are not appropriately segregated. The creation and maintenance of the Vendor Master File should be assigned and restricted to only a few key personnel who have appropriate segregated duties. We identified three personnel in Accounts Payable who were granted access rights in SAP that resulted in a lack of proper segregation of duties, giving them access to create and modify vendor records as well as authorize payments to vendors.

Administrative Directive (AD) 7.8d Access Control states access authorization should be formal, well-defined, documented and an auditable process. It also states access to COSA assets is based on an individual's membership in a group, job function and/or role in their assigned City department, and that access permissions will use the principle of least privilege.

Removing access timely within the system is essential to ensure only authorized individuals have the ability to make changes, deletions or additions to the VMF. Additionally, proper segregation of duties must be in place to prevent a transaction processing error, misappropriation, or fraud from occurring.

Recommendations

The Director of Finance should:

- Conduct periodic reviews of user access more often (i.e. quarterly) and ensure any noted issues are resolved by the IT department in a timely manner.
- Effectively utilize the capability in SAP to expire/deactivate temporary roles and users automatically.

Appendix A – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Holly Williams, CISA, CRISC, Auditor in Charge

Appendix B – Management Response

CITY OF SAN ANTONIO
P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

August 31, 2015

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Vendor Master File and Disbursements Audit

The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	**Incomplete and Inaccurate vendor records** The Director of Finance should: • Require management review and approval for all additions and updates to the Vendor Master File to ensure completeness and accuracy. • Consider working with IT to implement an automated control that would enhance SAP's functionality to require values in all required fields (i.e. vendor address and telephone number). • Maintain all supporting documentation (i.e. Vendor Creation Form, W-9 form, Email, etc.) in a central location database or file share that includes the requestor and approver of the vendor and the means used to validate the vendor's existence.	3	Accept	Suzanne Guerra, Financial Operations Administrator	October 2015

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	**Action plan:** The Financial Operations Division was created as part of the original reorganization of the Finance Department in 2008/2009 to support and maintain the financial systems utilized by the Finance Department. In October 2012, with the consolidation of the Finance and Purchasing Departments, the Division assumed responsibility for all financial data maintenance in order to standardize processes and strengthen controls. Since that time, the Division has been steadily improving controls around Master Data and the associated processes. In response to the Vendor Master File (VMF) Audit, Financial Operations has established a process as of September 2015 to ensure that all vendor master data requests received from departments are reviewed and approved by the Department Fiscal Administrator (DFA) or their designee before being sent to Financial Operations. To ensure data accuracy and integrity, Financial Operations management and master data personnel not directly involved in the vendor master data creation process subsequently review and sign off on all master data actions taken by Central Vendor Maintainers. Currently, Financial Operations handles an average of 400 VMF actions (excluding mass blocks/deletions) per month. As of September 2015, Financial Operations has worked with ITSD to make certain vendor record fields mandatory and/or in a defined format. This will ensure that all vendor records are created with the required information (such as address fields) in the future. Financial Operations is currently working with ITSD to utilize FileNet as a central repository of all supporting documentation of all VMF documents. The division is developing a protocol to file supporting documents, including the Vendor Master Change Request Form, the Vendor Payment Information Form, W-9s, invoices indicating remit addresses, bank communications, and any other documents, with the associated vendor record. Accounts Payable already uses FileNet as a repository for their supporting documents. This project is expected to be completed by mid-October 2015.				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	**Insufficient vendor modification and maintenance** The Director of Finance should: • Review the vendor master file biannually to ensure vendors with no activity are blocked/inactivated, duplicate vendor records are corrected, and the accuracy of vendor information is adequate and authorized. This review should be performed by management or staff independent of those involved in vendor setup. • Pursue opportunities to enhance SAP's Vendor Master Creation screen to require entry of a complete address as well as possibly creating a way to automatically inactivate one-time vendors once payment is made. • Ensure all requested changes to vendor records have a completed and approved change request form, including changes requested by Accounts Payable. • Maintain all forms and backup documentation on file, possibly as attachments in SAP, if feasible.	5	Accept	Suzanne Guerra, Financial Operations Administrator	October 2015

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	**Action plan:** As mentioned above, in October 2012, with the consolidation of the Finance and Purchasing Departments, the Division assumed responsibility for all financial data maintenance in order to standardize processes and strengthen controls. Since that time, the Division has been evaluating and strengthening processes to include the establishment of an annual review with the purpose of blocking or deleting records without any activity. The timing of this audit did not take into account the 2015 annual maintenance effort, which was completed on March 18, 2015. On this date, the following actions were taken on the VMF: 1) 958 records blocked; 2) 3393 records deleted; 3) 218 remit records blocked; and 4) 916 remit records deleted. Financial Operations will continue to conduct annual maintenance in the March timeframe, which follows the annual "vendor verification" effort conducted in the Fall per the SBEDA Ordinance as well as the annual SAP Support Pack efforts in January-February. Going forward, review of the VMF annual maintenance will be conducted by the Master Data Senior Analyst and Financial Operations Manager, who are not directly involved in vendor set-up. As part of our efforts to ensure master files are accurate and updated, Financial Operations has worked with ITSD to ensure that the Employee Vendor File, which is used for TRIP payments and is derived from the Human Resources Master File, reflects any employee terminations as of September 2015. A batch job to pick up employee terminations now runs weekly on Tuesday evenings, along with batch jobs to pick up new employees and changes made to HR records (such as change of address or bank information). As of April 24, 2015, Financial Operations blocked 4,081 Employee Vendor records of terminated employees identified by the Auditor's Office. As of June 2015, Financial Operations is requiring the Vendor Master Change Request Form be properly completed and submitted for all requests. As of September 2015, the division has also revised the vendor intake forms to more efficiently capture the information needed for different types of requests; the DFAs have been trained on the use of this form. Required information will vary depending on the need (i.e. remit address change, business name change, banking information change, etc.). Financial Operations is now working with ITSD to create electronic versions of the revised forms. The electronic forms will further streamline the process for requesting departments, but will require attachment of supporting documents necessary for master data actions. All vendor forms and supporting documents will be stored in FileNet, as described in the Action Plan for Item #1. The electronic versions of the vendor forms are expected to be completed by the end of October 2015. The revised form requires that Accounts Payable and departments indicate if a vendor is a "one-time payment vendor." Financial Operations now flags vendor records as one-time vendors that can be easily identified and blocked as necessary or during the annual vendor maintenance process.				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	**Inappropriate user access** The Director of Finance should: • Conduct periodic reviews of user access more often (i.e. quarterly) and ensure any noted issues are resolved by the IT department in a timely manner. • Effectively utilize the capability in SAP to expire/deactivate temporary roles and users automatically.	7	Accept	Suzanne Guerra, Financial Operations Administrator	July 2015
3	**Action plan:** The Financial Operations Administrator has assumed ownership of all Master Data roles and will perform quarterly reviews of user access and take appropriate actions if there are role conflicts or if access is not removed as expected. Issues identified by the Auditor have been addressed, including removal of the Central Vendor Maintainer role from Accounts Payable staff as of September 2015. The Finance Department implemented new SAP user access policies in July 2013, which ensures that roles are granted to personnel only after they have been reviewed by role owners and Compliance & Resolution for appropriateness and segregation of duties issues.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott, CPA
Director
Finance Department

8/31/2015
Date

Ben Gorzell Jr., CPA
Chief Financial Officer
City Manager's Office

8/31/2015
Date