June 14, 2017

Denise Olson
Chief Financial Officer

SUBJECT: VENDOR VALIDATION

This is our final report. A summary of the work is presented in the Executive Summary, which immediately follows. The department’s response to our recommendation immediately follows the Executive Summary.

Sincerely,

Ross Tate
City Auditor

1170042

Audit Team: Barbara Coppedge, Deputy City Auditor
Jason Christ, Internal Auditor

Attachment

cc: City Manager's Office
Ed Zuercher, City Manager

Finance
Rita Murphy, Management Assistant II (Audit Liaison)
Sandra Schilling, Assistant Finance Director
Sandra Torres, Deputy Finance Director
City Vendor Validation

Finance Department

June 14, 2017

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Project Number: 1170042

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City Vendor Validation

PURPOSE

We evaluated key controls governing vendor validation prior to entry into the City’s general ledger system for effectiveness and design.

BACKGROUND

Within SAP, The City’s general ledger system, the vendor master file (VMF) contains information about the vendors that supply the City. This information is stored in individual vendor master records. The VMF contains the vendor’s name and address, as well as data such as:

- Tax identification number (TIN) or social security number (SSN);
- Terms of payment;
- Names of important contact persons (sales staff).

Generally, vendors are creditors paid via the accounts payable function. With the City, the VMF also contained accounting information for the Housing and City Clerk Departments. Housing issued checks to landlords and tenants who participated in the Section 8 program, and City Clerk issued checks to poll workers for work performed during City elections. The VMF was maintained by both Finance’s Accounting and Purchasing personnel.

We tested the VMF as follows:

1. Reviewed the process of adding vendors to the application to determine if adequate segregation of duties exists.
2. Determined if key controls are in place to ensure completeness and accuracy of the VMF including controls to prevent duplicate vendors from being created.
3. Reviewed key controls for entries to the VMF made by the Housing and City Clerk departments.

Scope, Methods & Standards

Scope

Period of review was from January 1, 2017 through March 31, 2017.

Methods

The following methods were used to complete this audit:
• Conducted interviews with staff that were tasked with vendor validation.
• Reviewed the process flow document outlining the vendor validation process and controls governing each function.
• Performed data analysis to search for duplicate vendors that could indicate controls were not working as intended.
• Judgmentally selected samples to test to source documents.
• Reviewed City Administrative Regulations, and department policies and procedures.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the performance 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.

RESULTS

Adequate segregation of duties existed for the process of adding new vendors to the VMF.

The process of adding new vendors was adequately segregated between the vendor, Procurement, and a supervisor from Finance Accounts Payable. The process is as follows:

• Vendor completes an electronic application utilizing the vendor portal or manually completes forms and submits required information.
• Finance Procurement Division staff, that are independent from creating contracts, ensure required information is obtained from the vendor (e.g., W-9) and verify that the vendor does not already exist within SAP.
• Finance Accounts Payable Division supervisor verifies the vendor’s TIN or SSN is on file with the Internal Revenue Service and pending no issues, adds the vendor to VMF.

Written policies and processes included some key controls for entering vendors in the VMF; however, policies and processes could be strengthened to include verification by TIN/SSN for duplicates instead of names and monitoring of the VMF.

Written policies and procedures provided by Finance adequately addressed the following key controls for the vendor validation function:
• How to search for a vendor in SAP to ensure no duplicate vendor is entered in the VMF.
• Required documentation for vendor setup in SAP.
• All situations when to block vendors in SAP.

Written policies and procedures did not incorporate the following items considered key controls for a well-functioning vendor validation system:

• The required monitoring of the VMF to ensure the vendor records are frequently checked for duplicate vendors, employee conflicts of interest, or errors.

We obtained a listing of all vendors in the VMF and tested key controls used to enter vendors in the VMF. Every vendor within the VMF was assigned to a specific vendor group and issued a unique sequential Vendor ID. We found the following relating to the vendors:

• No duplicate vendor IDs or gaps in sequence found in the VMF.
• Numerous vendors with the same TIN/SSN.
• Vendors with blank TIN/SSN fields. This is not a required data entry field.

During our review of the VMF, we noted vendors that did not have a TIN or SSN, and what appeared to be duplicate vendors.

We tested a sample of 16 pairs of potential duplicate vendors with the same TIN to determine reasons why duplicate vendors were entered in the VMF and to identify if mitigating controls, such as the linking of vendors to a head office notification in SAP, were present.

• 4 pairs out of 16 vendor pairs tested contained the head office notification; therefore, no exception was noted.
• 7 pairs were not true duplicate vendors; therefore, no exception was noted.
• 5 vendor pairs were duplicate vendors that did not have mitigating controls.

We also tested a sample of six vendors that did not have a TIN or SSN entered in the VMF. We noted the following:

• 1 vendor was a foreign entity that did not have an associated TIN/SSN. Not a testing exception.
• 2 vendors that were employee reimbursements. Not a testing exception.
• 3 vendors that did not have a TIN/SSN without an apparent reason, except that the TIN/SSN field is not required to be entered in order for a vendor to be created in the VMF. These are testing exceptions.
A summary of the analysis is as follows:

<table>
<thead>
<tr>
<th>Vendor Group</th>
<th>Duplicates</th>
<th>Blank TIN or SSN</th>
<th>Blanks Created 2015 and newer</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLT1 - Fleet</td>
<td>21</td>
<td>33</td>
<td>-</td>
</tr>
<tr>
<td>FLT2 - Fleet</td>
<td>8</td>
<td>35</td>
<td>-</td>
</tr>
<tr>
<td>PHX0 - SRM Vendors</td>
<td>9</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>PHX1 - ECC Vendors</td>
<td>1,575</td>
<td>2,106</td>
<td>642</td>
</tr>
<tr>
<td>PHX2 - Housing</td>
<td>473</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>PHX3 - Elections</td>
<td>465</td>
<td>164</td>
<td>-</td>
</tr>
<tr>
<td>PHX5 - Employee travel</td>
<td>234</td>
<td>1,270</td>
<td>148</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,785</strong></td>
<td><strong>3,635</strong></td>
<td><strong>798</strong></td>
</tr>
</tbody>
</table>

**Testing of transactions for Housing and City Clerk related to their use of SAP to pay items other than accounts payable did not reveal any unusual results.**

The Housing Department maintains an accounting of items under their purview in an application named Visual Homes, which does not interface with SAP. Payments that need to be made to landlords and tenants were processed through SAP. Therefore, all landlords and tenants needed to be validated prior to entry into SAP. We interviewed the Finance staff responsible for validating landlords and tenants for entry into SAP, and observed the process as it occurred to determine that segregation of duties was maintained and that vendors added to the VMF were validated. Additionally, we selected a sample of 20 landlords and tenants from a listing obtained from Housing for proper TIN/SSN and tax jurisdiction information in SAP. No testing exceptions were noted.

The City Clerk Election Services division maintains a list of workers available to help at the polls during City elections. Each poll worker is assigned a unique vendor number, and is validated prior to entry into SAP. We randomly selected a sample of 20 poll workers from a listing obtained from Clerk for proper SSN and tax jurisdiction information in SAP. We also tested the most recent election payroll (August 2015) to reconcile to SAP, for proper approvals, and to test for any payments made to poll workers outside of the election cycle. No testing exceptions were noted.

**RECOMMENDATION**

1.1 Finance implement a written policy to require a regular review of the vendor master file to include (1) the frequency of the review and (2) what the review should include (e.g., duplicate vendors, review of date of last activity with the vendor, etc.).
**Department Responses to Recommendations**

**Rec. 1.1**: Finance implement a written policy to require a regular review of the vendor master file to include (1) the frequency of the review and (2) what the review should include (e.g., duplicate vendors, review of date of last activity with the vendor, etc.).

| **Response**: Finance will implement a written policy to require a regular review of the vendor master file. | **Target Date**: 12/31/2017 |