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CITY OF ST. LOUIS

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September 3, 2014

John Zakibe, Deputy Comptroller
Office of the Comptroller
City Hall
1200 Market Street, Room 311
St. Louis, MO 63103-2806

RE: Process Review of the Accounts Payable –Vendor Master File Management (Project #2014-P07)

Dear Mr. Zakibe:

Enclosed is the Internal Audit Section's report on our review of the Accounts Payable – Vendor Master File Management for the fiscal years 2013 and 2014. A description of the scope of work is included in the report.

Fieldwork was completed on July 17, 2014. Management's responses to the observations and recommendations noted in the report were received on August 20, 2014 and have been incorporated into the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Mohammad H. Adil, CPA, CGMA
Internal Audit Supervisor

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA
Internal Audit Advisor

Enclosure

Cc: Darlene Green, Comptroller
Kerri E. Brown, Accounting Manager II
Charles Franz, Accounting Manager II

CITY OF ST. LOUIS

COMPTROLLER'S OFFICE
ACCOUNTS PAYABLE
VENDOR MASTER FILE MANAGEMENT

PROCESS REVIEW

FISCAL YEARS 2013 AND 2014

PROJECT #2014-P07

DATE ISSUED: SEPTEMBER 3, 2014

Prepared By:
The Internal Audit Section

OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
ACCOUNTS PAYABLE VENDOR MASTER FILE MANAGEMENT PROCESS REVIEW
FISCAL YEARS 2013 & 2014

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CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
ACCOUNTS PAYABLE VENDOR MASTER FILE MANAGEMENT
PROCESS REVIEW
FISCAL YEARS 2013 & 2014

SUMMARY

Background

The Accounts Payable unit of the Comptroller's Office is responsible for processing all invoices and vouchers submitted by City departments and divisions including Airport and Water division for all purchases. The Vendor Master File is managed by the Accounts Payable unit and provides required vendor information for processing and making payments for purchases from vendors.

Purpose

The purpose of this review was to determine if the Accounts Payable unit effectively and efficiently manages and maintains the Vendor Master File to ensure:

- Compliance with applicable laws, regulations and policies & procedures.
- Reliability and integrity of financial and operational information.
- Safeguarding of City assets and reducing the risks related to potential improper or fraudulent payments.

Scope and Methodology

The review was confined to evaluating internal controls over the Accounts Payable's management and maintenance of the Vendor Master File. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Reviews of processes for compliance with applicable Comptroller's Accounting policies and procedures.
- Analysis of data using an electronic data analysis program (ACL).
- Limited tests of controls and related transactions.
- Other procedures as considered necessary.

Conclusion

The opportunity exists for the Accounts Payable unit to more effectively and efficiently manage risks within its Vendor Master File Management.

Current Observations

We noted the observations and opportunities for improvement in the following "Detailed Observations and Recommendations" section of the report. In addition, we have

included a section of the report titled "Best Practices Considerations for the New System" which provides some practices to consider in the new system.

Management Response

An exit conference was conducted on July 16, 2014 at the Comptroller's Office, Room 311, City Hall, 1200 Market Street, St. Louis, MO 63103. The Accounts Payable Section of the Comptroller's Office was represented by Kerri Brown (Accounting Manager II, Accounts Payable), Charles Franz (Accounting Manager II, General Ledger); Mike Cook (Accounting Coordinator, General Ledger) and Rick Hinkle (Systems Project Leader, Information Technology Services Agency). The Internal Audit Section was represented by Mohammad Adil (Audit Supervisor), Olaide Hassan (Auditor - in-Charge), Ron Steinkamp (Internal Audit Advisor) and Joe Montes, Audit Manager, Brown Smith & Wallace.

Management provided a written response and action plan on August 20, 2014, which we have incorporated into this report.

CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
ACCOUNTS PAYABLE VENDOR MASTER FILE MANAGEMENT
PROCESS REVIEW
FISCAL YEARS 2013 & 2014

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
1.	There was no evidence that the Vendor Master File has been periodically reviewed for accuracy, legitimacy, or necessity, and updated by the Comptroller's Office. The last request to Information Technology Services Agency (ITSA) for the Vendor Master File purge by Accounts Payable was in 2012. The risks exist that the Vendor Master File may contain many inactive and duplicated vendors.	We recommend that the Comptroller's Office perform an annual review and update of the Vendor Master File.	*Involved party (ITSA, General Ledger and Accounts Payable) have discussed and agreed the vendor list will be reviewed and purged at least 2 times a year. The last purge was on 04/11/2014.*
2.	The vendor master entry process included no vetting procedures to ensure that the vendor is legitimate. Specifically, a responsible party had not been assigned to address the risks that vendors may be illegitimate, in bad standing, or an obvious conflict of interest.	We recommend that the Comptroller's Office create vetting procedures to assist in confirming the legitimacy of vendors before they are entered into the Vendor Master File.	*Your suggestion to incorporate vetting procedures will be taken under consideration and we will experiment with the process to evaluate its effect on the payment processes timeliness. We will work with the departments in an effort to avoid incurring liability to unvetted vendors.*
3.	City policies did not require obtaining and entering the vendor's Tax ID Number (TIN) in the Vendor Master File. 95% of vendors had a blank TIN field. Vetting Tax ID procedures were also not required. Duplicate vendors are more likely to go unnoticed when the TIN is not available to confirm that a vendor is not already in the file. Improper vendors could be entered into the system.	Requested vendors should be vetted before entry into the system, including verifying the Tax ID Number and avoiding duplicate entries. The vendor vetting requirement should be included in the Comptroller's Office Accounting Procedures (AP) Manual and communicated to the Supply Division.	*New vetting procedures will be incorporated and the procedures manual updated accordingly.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
4.	Data entry consistency needed improvement. For example, we identified numerous examples of zip codes relating to different cities. Some are examples of errors. Written policies and review procedures were not in place to ensure that vendor information was entered accurately and consistently. There are risks that the address information is incorrect and duplicates are less likely to be found when data is not harmonized.	We recommend that the Comptroller's Office implement vendor data entry standards. They should be documented and communicated to all involved. Errors identified in audit results should be corrected.	*New accounting system will limit access to the remit address information to the Comptroller's Office with limited access. Data entry procedures will be established.*
5.	We found 7,589 of 20,946 total vendor records (36%) had potential duplicates in at least one of the following fields: Vendor Name, Short Name, Remit Address and/or Order From Address. We were informed that Accounts Payable personnel were intentionally entering duplicate vendors due to system limitations; however, some duplicates appear to be errors. The risk exist that false or improper vendor addresses could be present in the Vendor Master File without being detected and improper payments could be sent.	We recommend that the Comptroller's Office: • Work with City Information Technology Services Agency (ITSA) to determine if the system limitations can be resolved or that personnel no longer have to enter duplicate vendor data. • Annually review the Vendor Master File for potential duplicates and resolve appropriately.	*New accounting system will eliminate this risk. We will also include annual review for potential problems.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
6.	One-time vendors were not systematically designed as one-time vendor in the system. One-time vendors (defined with a'+' as the leading character in the vendor number could receive multiple payments. No system or accounts payable system controls were in place to limit one-time vendor activity (payment s, records update, duplications, etc.). The risk exists that on-time vendor could be paid more than once. In addition, duplicate or employee related vendors could go unnoticed.	We recommend that the Comptroller's Office work with City ITSA to establish policy and systematic controls over one-time vendor to limit the potential for multiple payments. Restriction should also be placed on the amount that can be paid to one-time vendor without proper vetting.	*Process in the New World will assign vendors. One-time vendors need intervention for multiple payments.*
7.	System access and rights to change vendor remit information were not limited to defined Accounts Payable personnel. In addition, vendor change activity was not tracked and no reports were available to run for review. The risk exists that inappropriate vendors or inaccurate vendor information could be entered without detection resulting in the potential misappropriation of funds.	We recommend that the Comptroller's Office: • Limit system access and rights to make vendor changes to qualified personnel. • Institute a review/approval process of changes/updates to vendor records by Supervisory personnel. • Document and maintain the change and review/approval.	*These processes in New World are documented.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
8	A review of vendor changes was not performed. Specifically, a responsible party had not been assigned to review vendor changes. The risk exists that inappropriate vendors or inaccurate vendor information could be entered without detection resulting in the potential misappropriation of funds.	We recommend that the Comptroller's Office institute a review/approval process of changes/updates to vendor records by supervisory personnel considering the accuracy, necessity, and impact. These expectations should be included in a policy.	*This change, if required, comes from current invoices and or post office forward stickers. The accountant compares the invoice to vendor file information. If different, the vendor is contacted to verify accuracy of Comptroller's records. If a change is required, written documentation is required and forwarded to Comptroller's process manager to make the change.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
9	We found 2,025 records of the 20,496 in the Vendor Master File had been set as "inactive" vendors (10%). Vendors set as "inactive" could be activated and receive payments again, including vendors identified as one-time. The "purge" function, previously used to delete "inactive" vendors from the system, had not run as often as Policy stated. The most recent "Purge" was run in 2012. The risk exists that inactive vendors could receive payments they are not entitled to from the City.	We recommend that the Comptroller's Office annually "purge" inactive vendors from the file. In addition, the system should be programmed to automatically run reports on "inactive vendors" at specific intervals (semi-annually or annually). These should be reviewed to ensure that "inactive vendors" are not being used.	*New policies regarding timely purges and new accounting system will eliminate this risk. We will purge inactive vendors twice a year.*
10.	We found that 7,275 of the 20,946 vendors (35%) in the Vendor Master File had no spend since fiscal year end 2012. An analysis of vendor spend activity was not performed and the "Purge" function was not run as often as Policy states. The risk exists that inactive vendors could receive payments they are not entitled to from the City.	We recommend that the Comptroller's Office: • Set vendors as "inactive" per Policy. • Annually "purge" inactive vendors from the file	*New policies regarding timely purges and new accounting system will eliminate this risk.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
11.	not a required field for completing the vendor master record. The risk exists that addresses could be manipulated resulting the improper We found 97 vendors with blank Remit To and Order From addresses. This occurred because vendor address was diversion or misappropriation of City funds.	We recommend that the Comptroller's Office require vendor addresses so that duplicate and employee related vendors can be identified. Even if a vendor is picking up the payment, an address should be entered. A clear line of communication should be established between Accounts payable and Supply Division using the vendor master.	*All vendors will be required to have a remit address.*
12.	The Vendor Master File did not contain a sequential field to confirm completeness; typically, the vendor number was the sequential field. Vendor numbering was manually entered and only existed to avoid using duplicate vendor numbers. No other type of field was available to ensure that any vendor master reports are complete. We were unable to ensure that reporting from the vendor master was complete.	The Comptroller's office should implement a consecutive vendor numbering system that supplies a method of ensuring completeness. If this cannot be system generated, the ability to confirm completeness should be manually controlled. The policy should require a control that addresses completeness.	*Process in New World will assign vendors.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
13.	We noted the following vendor master functionality observations: • The phone number, contact, terms, and vendor type fields in the Vendor Master File were not used. The fields were left with default values. The system assigns default values which were not accurate. The system had fields available to users, but the fields were not required or used consistently. • In addition, the vendor status field did not have input controls. • The Last Maintenance Date field did not match the Change Date fields, as expected, and personnel were unable to explain these differences.	We recommend that the Comptroller's Office ensure that the policy indicates what fields are required and how to complete the vendor master entry screens. The system screens should only have fields available that are used / required. Others should be removed. Fields that can be controlled should be programmed to only allow proper entries. Responsible personnel in the Accounts Payable, Supply Division, and the Airport should be trained and adequately informed regarding the use, contents, and controls of all vendor master fields.	*Processes in New World will determine the information to be completed. Unfortunately, if fields are to be left blank, they can't be removed. We will explore the feasibility of ITSA making these changes.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
14.	ITSA and Accounts Payable were unable to confirm the exact configuration of the Change Date fields. These fields should identify when a vendor was changed and who performed the change in some cases. Accounts Payable and ITSA did not have a clearly defined responsibility in the vendor master process. These fields have not been used for reporting purposes that could be value added controls. No review of changes can be performed until the fields are understood.	We recommend that the Comptroller's Office clearly define the expectations and responsibilities of those involved in the vendor master process. The process owner should have absolute knowledge or reference documentation of the purpose of key fields. In more technical cases, ITSA should have documentation how fields are configured.	*The new accounting system will define each individual's new role.*
15.	Vendor spend reports were not run and reviewed periodically to identify unusual spending patterns or negative balances with vendors. It was unclear who was responsible for this type of vendor master review. Severe deviations from year to year spend could occur without notice. This could identify improper spending with vendors.	The Comptroller's Office should run timely spend reports to capture the fiscal year spend totals and periodically reviewed to budget, historical trends, etc.	*We will request ITSA to develop vendor spend reports for review by Supply Division and Accounts Payable.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
16.	Vendor names were input with ONLY * or + in each of the fields to act as place holders for real data. This was not disclosed in City Policy. This was the convention used when a vendor entry was not going to be completed. The inability to delete the vendor is a control, but this practice makes it difficult to identify who the vendor was. It makes discovering ghost vendors or names changed after payment to conceal payments to false vendors harder to identify.	The Comptroller's Office should require that complete and accurate vendor names be keyed at the creation of the vendor and only updated upon request with proper review and approval of the change. These entries should not be removed unless a strong change control process is in place.	*We will require complete information on any new vendor setups.*
17.	Employee vendors were not consistently designated as employee vendors. The policy indicated that employee vendors should have Social Security Numbers as vendor numbers. The practice was changed in 2007. Both situations were visible in the data. It appeared that approximately 2,600 employee vendors exist, and employee vendor records may have contained more personal information than the City had deemed appropriate.	We recommend that the Comptroller's Office update the policy to accurately reflect how employee vendors are to be managed. If Social Security Numbers are not to be included in employee vendor numbers, they should be removed. The records should be consistent.	*Will resume updating employee vendors to remove unwarranted information and this practice will not be continued with the new accounting system.*

DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	OBSERVATION	RECOMMENDATION	MANAGEMENT RESPONSE
18.	Potentially 1,111 of the 20,946 vendors were on the System for Award Management (SAM) exclusion list, which identifies those parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and non-financial assistance and benefits. Vendors were not compared to the SAM exclusion list before entry into the vendor master or periodically to ensure that the vendor had not been added to the list after being entered into the master file. It is possible that the City could do business with a known federal offender.	The Comptroller's Office should implement a policy that does not allow companies or individuals on the System for Award Management (SAM) exclusion list to be entered in the City vendor master file. Potential vendors should be compared to the SAM exclusion list before entry into the file. Potential exceptions noted in the audit should be investigated.	*We will devise procedures to compare vendors to the exclusion lists before setup.*
19.	Two out of 20,946 vendors were on the State of Missouri Suspension and Debarment list. Vendors were not compared to the State of Missouri Suspension and Debarment list before entry or periodically to ensure that the vendor had not been added to the list after being entered into the master file. The City could do business with a state suspended or debarred vendor.	The Comptroller's Office should implement a policy that does not allow companies or individuals on the Missouri Suspension Debarment list to be entered in the Vendor Master File. Potential vendors should be compared to the State of Missouri Suspension and Debarment list before entry into the file. Potential exceptions noted in the audit should be investigated.	*We will devise procedures to compare vendors to the exclusion lists before setup.*

BEST PRACTICES CONSIDERATIONS

As the City prepares to move to a new accounting system, we encourage you to consider implementing the following best practices:

1. A related party list that is continually updated with conflicted parties of interest and elected officials names and addresses. New vendors can be compared to this list before entry into the vendor master.

2. Multiple site/addresses for each vendor. This allows an address to be related to a specific function.

3. A field for non-address information that needs to appear on a check for a single payment. This will minimize the need to create new vendors when checks need additional information.

4. Multiple vendor types or blocking mechanisms. This allows vendors to be specifically created and managed.

    - Control Examples:

        - Vendors that should have PO spend only; can only be paid through the 3-way match function.
        - Vendor's addresses that are only for sending purchase orders cannot be used for payment addresses.
        - Vendors that should be categorized (ex. MWBE).
        - Employee vendors that should be paid via expense reimbursement can only have this type of entry performed and no other vendor type can have expense reimbursement entries.
        - Vendors that have not provided requested information or are in a dispute situation can be flagged as such.
        - Restrict access to create certain vendor types or addresses, such as employees for reimbursement or one time vendors.

5. Change control fields and reports.

    - Control Examples (specifically not available in current system):

        - Review of exact or specific changes made, considering the impact on payments and reports.
        - Review of vendors inactivated and reactivated.

6. Vendor invoice certification procedures requiring vendor(s) to submit certification statement along with invoice(s) attesting to the correctness of the goods/services delivered and the amount stated on the invoices for payment.

7. A field for goods or services to be provided by the vendor when adding to the Vendor Master File.