



Office of the City Auditor

Audit of City's Vendor Master File

Report Date: August 23, 2019

Office of the City Auditor
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Virginia Beach, Virginia 23456
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"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

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Office of the City Auditor Transmittal Letter

Date: August 23, 2019
To: David L. Hansen, City Manager
Subject: Audit of City's Vendor Master File



I am pleased to present the report of our Audit of City's Vendor Master File. The objectives of our audit were to determine whether proper policies, procedures and controls are in place with regard to the City's Master Vendor File to ensure accuracy and reliability of vendor information, deter and detect improper payments and reduce the risk of loss to an acceptable level. Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on July 9, 2019.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, Department of Finance, and appropriate management. It is not intended to be, and should not be used, by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the management and staff of Finance, particularly Accounts Payable, Financial Services and Purchasing, for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations and suggestions. We would also like to thank the management and staff of the Oracle Program Group within Information Technology for their assistance.

If you have any questions about this report, or any audit-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Tom Leahy, Deputy City Manager
Alice Kelly, Director of Finance
Jeff Rodarmel, Interim Finance Operations Manager
Rebecca Kee, Purchasing Agent
Miryam Woodson, Interim Comptroller
Amy Daniels, Financial Services Coordinator
Michelle Bailey-Pittman, Accounts Payable Supervisor



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Office of the City Auditor Audit of City's Vendor Master File

Purpose

This audit was included in our FY19 Audit Plan. The audit addressed the adequacy of the policies, procedures and controls in place with regard to the City's Master Vendor File to ensure accuracy and reliability of vendor information, deter and detect improper payments and reduce the risk of loss to an acceptable level.

Scope

The audit covered policies, processes and procedures related to the City's Vendor Master File in place at the time of the audit, vendor data and payments as of April 2019.

Methodology

To accomplish our objectives, we performed the following:

- Obtained and reviewed pertinent guidance, laws, regulations, policies and procedures related vendor management.
- Reviewed City and departmental policies, procedures and processes related to vendor management through inquiry and examination of documents and data.
- Researched best practices related to vendor file management.
- Met with appropriate staff to discuss policies, processes and procedures related to vendor file maintenance and uses of vendor data.
- Obtained extracts of the vendor master file and payment data for use in analysis and testing.
- Performed analysis and tests of data and processes for adding, changing and managing vendors.
- Traced a sample of vendors to supporting documentation to ensure accuracy and compliance with policies and procedures.
- Traced a sample of vendors to supporting documentation to ensure compliance with 1099 requirements.
- Investigated anomalies/irregularities.
- Assessed whether the design of the City's policies, procedures and processes are adequate to ensure accuracy and reliability of vendor information, deter and detect improper payments and reduce the risk of loss to an acceptable level.
- Made recommendations, as appropriate, to ensure compliance, improve processes, increase efficiency and reduce the City's risks to an acceptable level.



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Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council and appropriate management within the City of Virginia Beach. This report will also be made available to the public.



Office of the City Auditor Audit of City's Vendor Master File

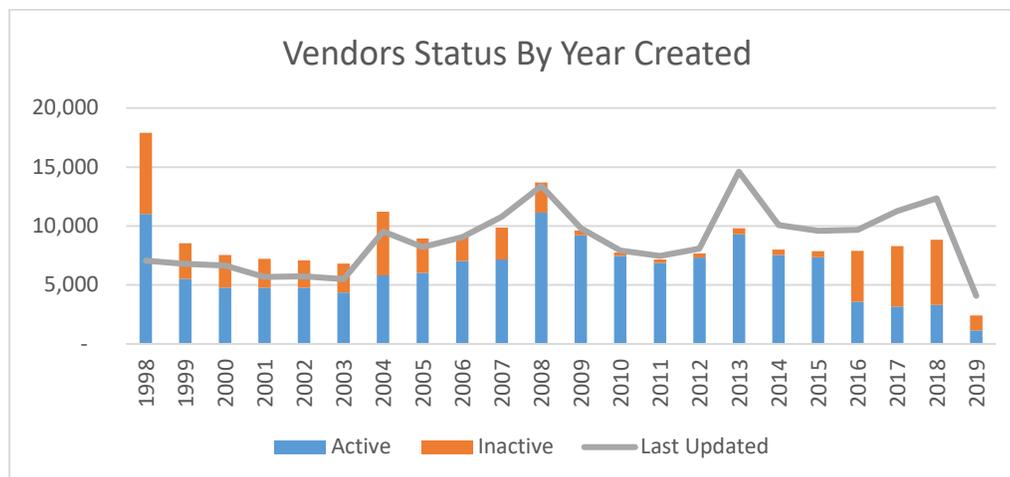
Background

The Vendor Master File is a crucial component of the City's procure to pay (P2P) process. The Vendor Master File contains key information about City vendors such as vendor name, address, contact information, payment information and tax identification and reporting information. This information is stored and maintained in Oracle E-Business Suite (InSITE), including images of hardcopy documents provided by a vendor or department. The information is used to facilitate transactions and payments to vendors in the procurement of goods and services. It is essential to effectively maintain the Vendor Master File in order to avoid unauthorized or inappropriate activity, prevent duplicate payments, and reduce inefficiencies. Inaccurate, incomplete, unauthorized or duplicate vendor records could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse.

In addition to vendors that provide goods and services, the Vendor Master File is used to facilitate non-salary expense reimbursements to employees¹ and contains vendor records related to refunds to property owners for overpayment of taxes, utility fees and rebates, site acquisitions, payment of risk management liabilities and claims, and other one-time payments. Individuals (i.e., landlords, property managers and customers) participating in the City's Section 8 Housing Program that receive monthly housing assistance payments or utility assistance payments are also included in the Vendor Master File database.

At the time of our audit, there were 252,249 site records tied to 193,352 primary vendors (138,743 Active and 54,609 Inactive). **Exhibit 1** provides an aging of the vendor records by status.

Exhibit 1. Vendor Status by Year Created



¹ Employees are set up as a vendor for two purposes: (1) to facilitate employee expense reimbursements for travel, membership fees to professional organizations, training costs, etc.; and, (2) to facilitate the petty cash replenishment process.



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The Vendor Master File identifies vendors that require an Internal Revenue Service (IRS) Form 1099. The IRS imposes penalties for failure to file information returns with the IRS (as well as payees) on a timely basis. The IRS may assess penalties if a filer fails to include all of the information required to be shown on a return (e.g., taxpayer's TIN²) or reports incorrect information (e.g., incorrect dollar amount)³.

The City's procurement and accounts payable processes depend on a properly managed and functioning Vendor Master File. Regular interaction and maintenance of the vendor data is primarily the responsibility of Finance/Accounts Payable (Accounts Payable). Accounts Payable is responsible for maintaining and monitoring compliance with the Vendor Master File policies and procedures. However, City departments are responsible for gathering and providing updated vendor information related to department procurements (i.e., purchases less than \$5,000). Information related to vendors selected during formal procurement processes is provided to Accounts Payable by Finance/Purchasing.

Vendor Master File processes include receiving, verifying, and entering vendor-related information as well as changing, maintaining, and deactivating or merging vendor data when required. **Exhibit 2**, on the next page, provides a pictorial view of the vendor management process.

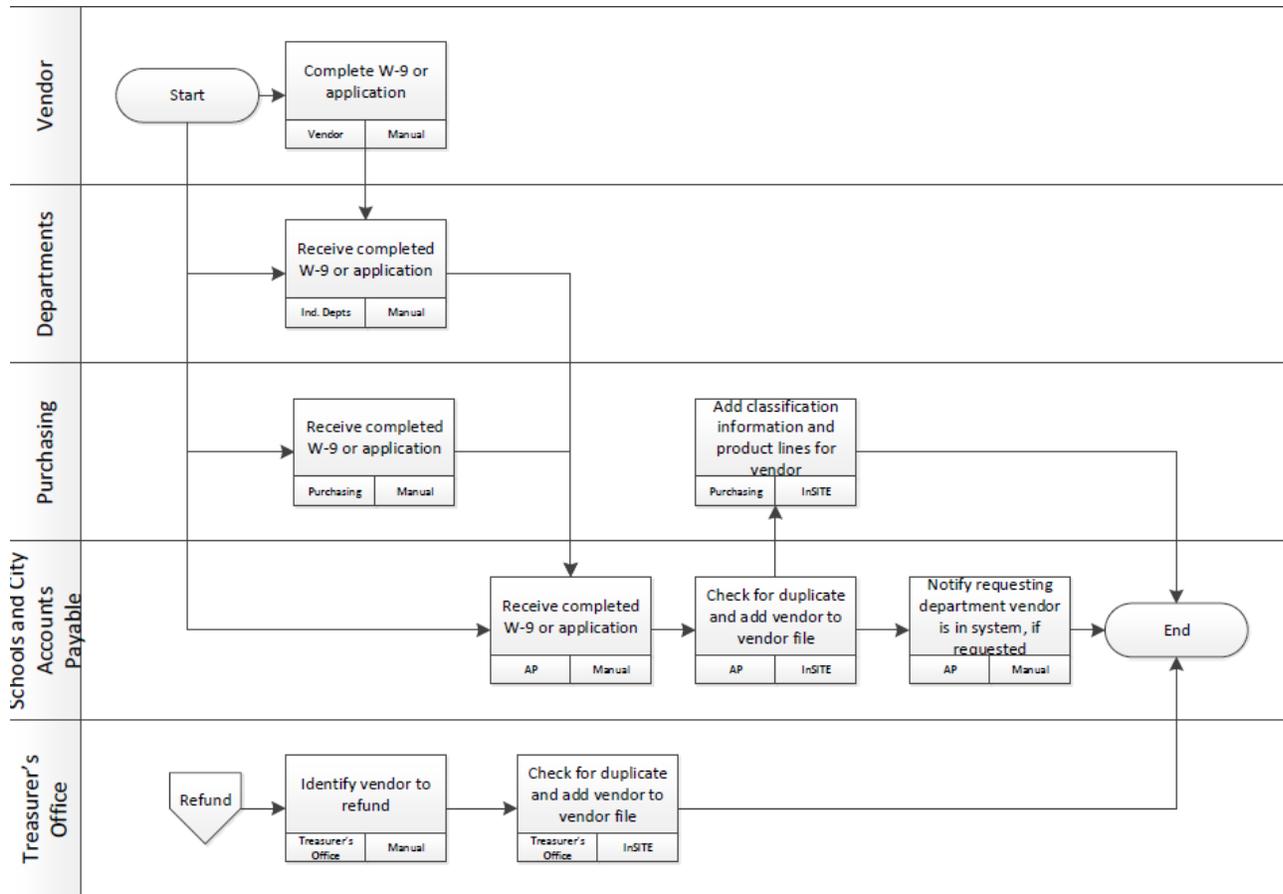
² A Taxpayer Identification Number or "TIN" is assigned either by the Social Security Administration (i.e., Social Security Number) or by the Internal Revenue Service (i.e., Federal Employer Identification Number).

³ The IRS can issue a penalty of \$50 to \$270 for each form that is not provided timely, with a maximum penalty of \$3,282,500 per year. The penalty for Form 1099s that have intentionally been disregarded and not issued is the greater of \$530 per form or 10% of the amount required to be reported, with no maximum penalty. It is important that the information contained in the Vendor Master File is accurate and complete as it relates to 1099 information to minimize the risk of incurring IRS penalties.



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Exhibit 2. Vendor Management Process



The majority of the City's Vendor Master File input process is centralized within Accounts Payable, based on information received from other City departments/divisions. Accounts Payable can add, edit, and merge all components of the Vendor Master File. The City Treasurer's Office can set up Refund Only payments using immediate pay terms; these Vendors are set up as "One Time" vendors with an inactive date of 30 days out. Finance/Purchasing can update the Contact Directory, Business Classification, and Products and Services information only.

The City intends to transition its existing Oracle E-Business Suite (InSITE) financial management functionality to Oracle Enterprise Resource Planning (ERP) Cloud utilizing the Oracle Software-as-a-Service (SaaS) Cloud Platform to streamline and modernize core administrative and financial business processes leveraging technology trends to promote efficiencies, transparency, and value to its stakeholders on July 1, 2020. Vendor (supplier) management is a key component of the transition.

Our audit focused on the policies, processes and procedures related to the City's Vendor Master File in place at the time of the audit.



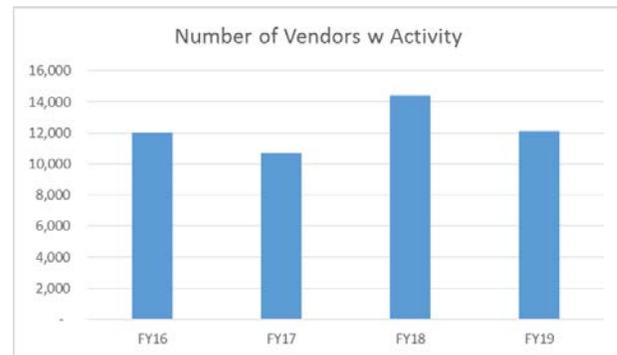
Findings and Recommendations

1. *Ensure the Accuracy and Completeness of Vendor Data*

The Vendor Master File is the repository for key information about City vendors such as vendor name, address, contact information, payment information and tax identification and reporting information. It is a crucial component of the Procure-to-Pay process and as such, the data housed within should be accurate, complete and reliable.

At the time of our audit, there were 252,249 site records tied to 193,352 vendors (138,743 (72%) Active and 54,609 (28%) Inactive). Only 44,450 vendors have experienced financial activity during the last four (4) years. Please see **Exhibit 3**. Each primary vendor is represented by one or more sites. There are 1,490 active vendors with no active sites.

Exhibit 3. Vendors with Financial Activity



We reviewed the primary vendor data for accuracy and completeness and found a number of inconsistencies and/or omissions in key fields such as Vendor Type, Organization Type, Tax ID Number, and Contact Information (i.e., Name, Telephone Number and Email Address). **Exhibit 4** provides a summary of the omissions by type.

Exhibit 4. Site Record Omissions by Key Field

Key Field	Number of Omissions	% of Total
Tax Id Number	45,127	18%
Vendor Type	36,970	15%
Organization Type	37,369	15%
Address Line1	9,845	4%
City	4,540	2%
Postal	4,702	2%
State	4,836	2%
Country	137,456	54%
Area	72,112	29%
Phone	68,878	27%
Email Address	94,545	37%
Terms	52,695	21%

The Vendor Master File originated in 1998. Information requirements and data entry standards have changed over time resulting in some of the omissions and inconsistencies.



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Exhibit 5 provides a glimpse of one of the inconsistencies found. We found similar data entry errors in all key fields.

Exhibit 5. Did you mean Virginia Beach?

City_State	#	City_State	#	City_State	#	City_State	#
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA	5	VIRGINIA BEACH_VA1	1	VIRGINIA EBACH_VA	20
V_	1	VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA23451	2	VIRGINIA EBEACH_VA	1
V_VA	3	VIRGINIA BEACH_VA	4	VIRGINIA BEACH_VA23454	1	VIRGINIA EEACH_VA	2
VABCH_VA	1	VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA23456	1	VIRGINIA NEACH_VA	1
VA BEACH_VA	44	VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA_Q	1	VIRGINIA VABEACH_23454	1
VA. BEACH_VA	2	VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VAS	2	VIRGINIA_VA	6
VABCH_VA	5	VIRGINIA BEACH_VA	10	VIRGINIA BEACH_VIRGINIA	14	VIRGINIAB BEACH_VA	2
VIRGINIA BEACH_VA	2	VIRGINIA BEACH_VA	12	VIRGINIA BEACH_VQ	1	VIRGINIAB EACH_VA	7
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VT	2	VIRGINIABEACH_VA	20
VIRGINIA BEACH_VA	9	VIRGINIA BEACH_23454	2	VIRGINIA BEACH_WA	1	VIRGINIAF BEACH_VA	1
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_23455	1	VIRGINIA BEACH_VA	1	VIRGINIAS BEACH_VA	1
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_23462-4569	1	VIRGINIA BEACHVA_VA	1	VIRGINIOA BEACH_VA	1
VIRGINIA BEACH_VA	9	VIRGINIA BEACH_23464	1	VIRGINIA BEACHC_VA	1	VIRGINIA BEACH_VA	1
VIRGINIA BEACH_VA	2	VIRGINIA BEACH_A	1	VIRGINIA BEACHQ_VA	1	VIRGINIA BEACH_VA	131
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_AV	2	VIRGINIA BEACHV_VA	2	VIRGINIABEACH_VA	1
VIRGINIA BEACH_VA	114	VIRGINIA BEACH_BA	2	VIRGINIA BEACHVA_23454	1	VIRGINIA BEACH_VA	9
VIRGINIA BEACH_VA	37	VIRGINIA BEACH_BEACH	1	VIRGINIA BEACHVA_VA	1	VIRGINIA BEACH_VA	1
VIRGINIA BEACH_VA	3	VIRGINIA BEACH_CA	3	VIRGINIA BEADCH_VA	1	VIRGINIA BEACH_VA	13
VIRGINIA BEACH_VA	6	VIRGINIA BEACH_NO	2	VIRGINIA BEAH_VA	3	VIRGINIA BEACH_VA	118
VIRGINIA BEACH_VA	15	VIRGINIA BEACH_PA	1	VIRGINIA BEAHC_VA	9	VIRGINIA BEACH_VA	12
VIRGINIA BEACH_VA	48	VIRGINIA BEACH_SU	4	VIRGINIA BEAQCH_VA	1	VIRGINIA BEACH_VA	3
VIRGINIA BEACH_VA	5	VIRGINIA BEACH_UT	5	VIRGINIA BECAH_VA	1	VIRGINIA BEACH_VA	1
VIRGINIA B_	1	VIRGINIA BEACH_V	1	VIRGINIA BECH_VA	26	VIRGINIA BEACH_VA	1
VIRGINIA BACH_VA	1	VIRGINIA BEACH_VA	14	VIRGINIA BECHA_VA	1	VIRGINIA BEACH_VA	2
VIRGINIA BAECH_VA	5	VIRGINIA BEACH_VA	90,909	VIRGINIA BEQACH_VA	1	VIRGINIA BEACH_VA	40
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA 23452	1	VIRGINIA EABCH_VA	1	VIRGINIA BEACH_VA	3
VIRGINIA BEACH_VA	1	VIRGINIA BEACH_VA'	2	VIRGINIA EACH_VA	5	VIRGINIA BEACH_VA	1
						Total	91,792
						Number of Errors	883

We also identified 968 possible duplicate vendors based on Vendor Name.

Vendors are added and/or vendor data is modified at the request of departments or Finance/Purchasing and must have a completed W-9 or Housing *Request for Tax Identification Number and Certification Form*. Neither form provides all the necessary Contact, Business Classification, and Products and/or Services information to ensure the vendor record is complete. Additions and/or changes do not require departmental or Accounts Payable management approval.

The City's policy, AD 4.08 *Purchasing and Payment Requirements*, adopted in January 2007, provides departments with overall guidance on procedures and financial requirements designed to provide fiscal control and accountability for purchasing and payments.

Written procedures establishing responsibility, information requirements, and data entry standards, last updated April 22, 2016; also provide step-by-step instructions for adding, updating and merging vendors and sites. These procedures require:



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- Two-factor verification (i.e., vendor name and TIN) that the vendor does not exist in the Vendor Master File.
- Matching of vendor name and the taxpayer identification number (TIN) provided by the vendor with the online Internal Revenue Service TIN matching program.
- Address verification and standardization via the USPS.
- Office of Foreign Assets Control (OFAC) verification.

Verification and information requirements differ slightly for one-time vendors. Employees are entered into the Vendor Master File via the Human Resources module.

Accounts Payable sends a reply email confirmation for vendor additions and changes submitted via email to the requestor, not to the vendor. Requests submitted via phone, fax or mail do not receive a confirmation response.

Independent (secondary) review and verification of the accuracy and completeness of data input occurs only during the training period for Accounts Payable staff. Reports are available to review additions and changes to the Vendor Master File, but are not currently reviewed by management on a regular basis.

We traced a random sample of 35 active vendors to supporting documentation to ensure compliance with policies and procedures and accuracy of the vendor data. The results of our review are as follows:

- One (1) vendor where the current address was not supported by supporting documentation.
- One (1) vendor where the Name and TIN were reversed when entered for OFAC verification.
- One (1) vendor with an incorrect organization type. The organization type aids in the determination of whether or not a 1099 is required.
- One (1) vendor where the tax reporting information was not entered in the Vendor record.
- Two (2) vendors where TIN information was provided, but not entered in the Vendor record.

The exceptions noted above have been discussed with management and where warranted will be corrected.

Best practices suggest management regularly review reports of additions and changes made to the Master Vendor File to ensure data integrity. This review also serves as a frontline defense against employee fraud through manipulation of the Master Vendor File and as a fraud deterrent (i.e., if employees know the entries will be closely reviewed and scrutinized, that may be enough to prevent inappropriate changes to the Master Vendor File).

Periodic deactivation of non-active vendors and sites (based on pre-determined criteria) is a common best practice as well as an effective internal control designed to prevent erroneous and/or



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fraudulent payments. Accounts Payable does not have a process in place to periodically deactivate non-active vendors. Duplicate vendors are merged at the time of discovery.

A thorough review of the City's Master Vendor File has not been performed since the upgrade to InSITE in 2012. Best practices encourage keeping the vendor file free of inactive vendors and erroneous data by regularly reviewing the file on at least an annual basis. A "clean" vendor file will decrease the opportunity for remittance errors and fraudulent vendor practices and will increase user efficiency.

As the City moves forward with the transition to Oracle Enterprise Resource Planning (ERP) Cloud, the integrity, accuracy and completeness of the Vendor Master File becomes even more crucial.

Recommendations

To ensure the accuracy and completeness of City's Vendor Master File, management should:

- 1.1 Ensure all required fields are populated for active vendors subject to conversion criteria established for the transition to Oracle Enterprise Resource Planning (ERP) Cloud and, the information is accurate. Given the current state of the vendor data, we recommend ensuring only those vendors absolutely necessary for continuity of operations be transitioned.
- 1.2 Re-implement the use of a standardized format for requesting vendor additions and modifications including authorization by appropriate departmental staff and certification as to accuracy by the vendor. The request should include all required information necessary to ensure completeness of the vendor record. The request should be maintained in the vendor record. The requestor, as well as the vendor, should be notified when the addition or modification is completed.
- 1.3 Explore opportunities for sending a system-generated confirmation to vendors whenever they are added or when there are changes made to a vendor's information. Address changes for existing vendors should be sent to both the new and old addresses.
- 1.4 Establish criteria for deactivation of vendors and implement a process to regularly deactivate vendors meeting the criteria.
- 1.5 Implement an annual review process.
- 1.6 Update policies and procedures governing all major aspects of vendor management processes to ensure they define expectations, responsibilities and represent current requirements and practices.



2. Ensure Compliance with the Conflict of Interest Act

As part of our analytical review of the vendor data, we matched vendor addresses to active employee addresses. We identified 32 vendors that share addresses associated with current employees. The identified vendors have received at least one payment from the City in the last four years.

AD 4.08 Purchasing and Payment Requirements permits payments to employees in certain circumstances if:

- (1) the services are **not** related to salaried duties;
- (2) the services are **not** provided during the employee's work hours;
- (3) the services are **not** provided to the employee's department;
- (4) the secondary employment has been authorized by the employee's department in accordance with *HR Policy 1.03 Employment in Second Jobs*; and,
- (5) the City Attorney's Office has opined in writing that the proposed contract would not violate the Virginia Conflict of Interests Act.

In each of the circumstances, the employee is responsible for identifying themselves as a City employee when proposing to provide contracted services to any department, either directly or through a secondary employer. Additionally, the employee must disclose all pertinent facts and obtain a written opinion from the City Attorney's Office regarding whether any of the following violate the Virginia Conflict of Interests Act:

- (1) Any contract directly between the employee or his/her spouse and the City;
- (2) Any contract between the City and a business for which the employee or his/her spouse works or which the employee or his/her spouse owns (either partially or entirely); and,
- (3) Any contract between the City and a business for which the employee or his/her spouse works or owns (either partially or entirely) is providing subcontracting services to the City contractor.

Failure by the employee to notify the department of current City employment or to follow the procedures detailed above may result in disciplinary action. Violation of the Virginia Conflict of Interests Acts could also subject the employee to criminal prosecution and/or additional disciplinary action, up to and including termination of employment.



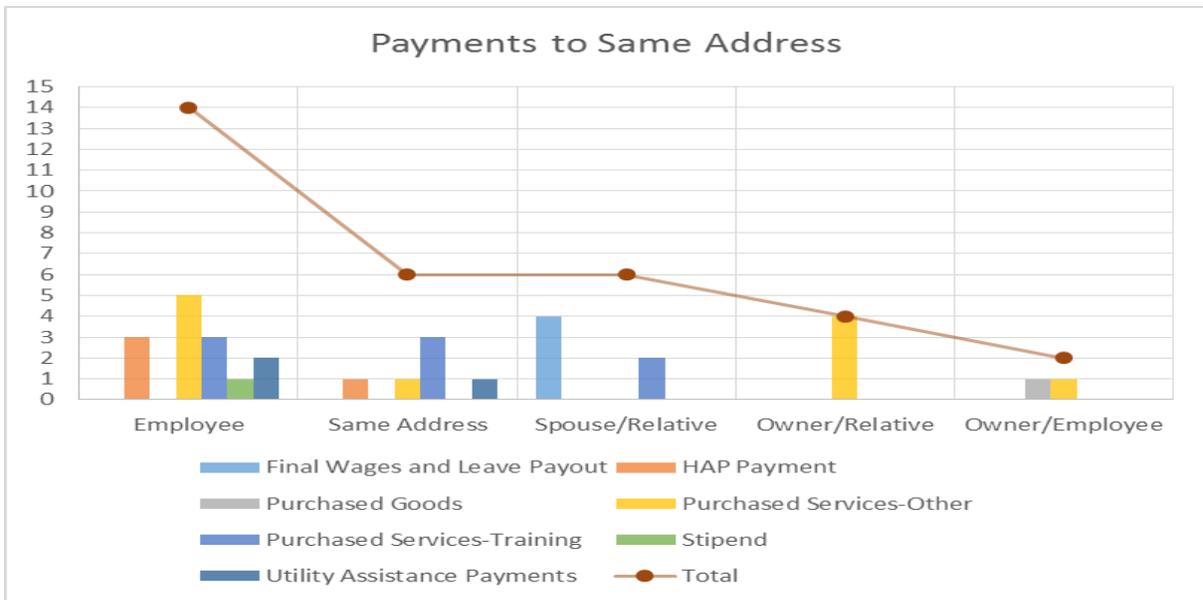
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Formal solicitations include the following paragraph:

Representation Regarding City Employment; Conflict of Interest:

Contractor represents at the time of contracting and through the pendency of this Agreement that no one with an ownership interest in the Contractor or the Contractor's corporate entity, if applicable, or other employee of the Contractor is also an employee of the City of Virginia Beach, specifically in the City Department initiating or overseeing this Agreement. Contractor further represents that no individual with an ownership interest in the Contractor or the Contractor's corporate entity, if applicable, or other employee has a spouse, other relative or person who resides with the individual that is currently an employee of the City of Virginia Beach, specifically in the City Department initiating or overseeing this Agreement. Should the Contractor have reasonable belief of a possible conflict of interest, that issue should immediately be brought to the attention of the City's Purchasing Division for review.

Exhibit 6. Payments to Same Address



Of the 32 vendors with a potential conflict, all but one met the criteria for allowable payments. That payment is still under review.



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Recommendations

To increase awareness and ensure compliance with the City's HR Policy 1.03 Employment in Second Jobs, AD 4.08 *Purchasing and Payment Requirements* and the Virginia Conflict of Interest Act, management should:

- 2.1 Ensure staff responsible for selecting vendors for goods and services are aware of the City's conflict of interest and disclosure policies, and develop a form or other document to provide staff an opportunity to disclose any perceived or actual conflicts that arise during the vendor selection process.
- 2.2 Include a statement regarding conflicts of interest on the Vendor Registration Form.



3. Enhance Segregation of Duties over Vendor Management Functions

Segregation of duties is a vital element of internal control and should be designed in a way that limits an employee's ability to perform incompatible or unnecessary tasks.

Controlling access to the Vendor Master File is key to safeguarding the data because:

- Proper access rights reduce the risk of unauthorized employees adding vendors or changing data on existing vendors.
- Separating the ability to create vendors from purchasing and the actual payment of vendors mitigates the risk of fraudulent activity.

At the time of our review, there were three (3) employees tasked with creating, updating, and merging vendor records in Accounts Payable, four (4) responsible for creating vendor records in the City Treasurer's Office and three (3) in Purchasing tasked with updating certain portions of vendor records. These employees have been granted specific access rights to perform these functions within the City's financial system.

Others with access include the Accounts Payable Supervisor and three (3) employees in the Financial Services Division tasked with supporting Accounts Payable.

We reviewed access rights to the Vendor Master File and to the various responsibilities of the employees granted those rights. We noted the following during our review of this access:

- The responsibilities granting these rights to staff in Accounts Payable and the City Treasurer's Office include an inherent conflict (i.e., supplier entry and maintenance v. process invoices into payments).
- The City Treasurer's staff does not need the ability to merge vendors which is included in the responsibility assigned to three of the four department users.
- None of the three (3) employees in Purchasing with access to update vendor information had accessed the responsibility in more than 30 days at the time of our review.

System access should be limited to only those employees that require it to fulfill their job duties. Responsibilities should be reviewed on a regular basis to limit conflicts and to prevent users with incompatible duties from being added in the future. Incompatible duties and an excessive number of users with the ability to make changes could increase the risk of a fraudulent vendor being added to the Master Vendor File.



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Recommendation

To strengthen internal control and limit the number of employees with access to the vendor master file, we recommend management:

- 3.1 Review assigned responsibilities on a regular basis to assess the level of access, identify possible conflicts and ensure that the responsibilities assigned are necessary for day-to-day fulfillment of job duties.

Conclusion

Based on the results of our audit, the policies and procedures in place are adequate to reasonably ensure accuracy and reliability of vendor information, deter and detect improper payments and reduce the risk of loss to an acceptable level, except as noted herein. However, opportunities exist to enhance the design and operating effectiveness of key controls to improve the completeness, accuracy, and validity of the Vendor Master File data.

Acknowledgements

We would like to thank the management and staff of Finance, particularly Accounts Payable, Financial Services and Purchasing, for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations and suggestions. We would also like to thank the management and staff of the Oracle Program Group within Information Technology for their assistance.



City of Virginia Beach

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INTER-OFFICE MEMORANDUM

DATE: August 20, 2019
TO: Lyndon S. Remias, City Auditor
FROM: Alice M. Kelly, Director of Finance
SUBJECT: Audit of City's Vendor Master File

Thank you for your office's hard work in conducting the audit of the City's Vendor Master File. Maintaining a complete and accurate database of vendor information is critical to the success of compliance regarding the City's procurement process. Although there were no findings of financial misconduct, there are some compliance areas and areas for improvements identified that will be addressed either immediately or as part of the implementation of the new ERP system next year (July 2020).

Please find attached the City's detailed response to each of the Audit's recommendations.

The Audit has proved useful as the City works to identify best practices in implementing ERP.

AMK/lb

Enclosure

cc: Thomas M. Leahy, Deputy City Manager
Amy D. Daniels, Financial Services Administrator
Michelle L. Bailey-Pittman, Accounts Payable Supervisor

City of Virginia Beach
Audit of City's Vendor Master File
Response to Auditor's Recommendations
August 21, 2019

#	Recommendation	Mgmt Agrees		Date Completed	Comments
		Yes	No		
1.1	Ensure all required fields are populated for active vendors subject to conversion criteria established for the transition to Oracle Enterprise Resource Planning (ERP) Cloud and, the information is accurate. Given the current state of the vendor data, we recommend ensuring only those vendors absolutely necessary for continuity of operations be transitioned.	x		7/1/2020	Currently -Vendors with no activity for more than 1 year will be inactivated but will remain in the system. If a vendor is inactive for a period of 3 years or more, they will be removed from the vendor listing. There are items like tax ids that are not required for one time refunds and countries are populated automatically in Insite. For the new ERP the conditions for the extract have been identified. Only vendors paid in the last 18 months will be moved for City and vendors paid in the last 3 years will be moved for Schools. Duplicate Vendors that exist in both City and Schools will be eliminated and the vendor database fields for all vendors moved to the new systems will have all their required fields populated or will be populated prior to the July 2020 go live date.
1.2	Re-implement the use of a standardized format for requesting vendor additions and modifications including authorization by appropriate departmental staff and certification as to accuracy by the vendor. The request should include all required information necessary to ensure completeness of the vendor record. The request should be maintained in the vendor record. The requestor as well as the vendor should be notified when the addition or modification is completed.	x		5/2020 and 9/1/2019	An electronic version of the Vendor Registration Form will be included with the new ERP system. The form will include all required information necessary to ensure completeness of the vendor record and reporting requirements. The request will be maintained in the vendor record and both the vendor and requestor will be notified once the modification is complete. Prior to implementation of ERP system, the current form will be revised to include information necessary to ensure completeness of the vendor record as well as satisfy reporting requirements. Any changes/updates to the vendor file will require additional approval. Country fields are now automatically populated in Insite and will be in the new ERP.
1.3	Explore opportunities for sending a system-generated confirmation to vendors when they are added or when there are changes made to a vendor's information. Address changes for existing vendors should be sent to both the new and old addresses.	x		5/1/2020	As part of the new ERP, a system-generated confirmation to vendors will be done when vendors are added to the vendor database or changes to an existing profile changes. Address changes will be sent to both the old and new addresses.
1.4	Establish criteria for deactivation of vendors and implement a process to regularly deactivate vendors meeting the criteria.	x		9/30/2019	The City will implement a new process whereby vendors will be de-activated in the system once they meet certain established criteria. This will be a periodic process whereby information is provided to management regarding vendors that meet the established criteria. The information will be reviewed to ensure the vendors meet the established criteria and if so - we will proceed with the de-activation process. Vendors that have been de-activated will have to go through the new vendor setup process again should they decide to do business with the City again.

1.5	Implement an annual review process.	X		9/30/2019	City will implement a quarterly (not annual) review of the vendor database which will allow management to identify those vendors that meet a certain established criteria for deactivation. This new process will keep the vendor database more up-to-date at all times. Once approved by the AP Supervisor, the Financial Analyst will proceed with the de-activation process. Once de-activated, the vendor will have to go through the initial setup process established for new vendors. Updated written procedures will be completed and implemented by December 2019.
1.6	Update policies and procedures governing all major aspects vendor management processes to ensure they define expectations, responsibilities and represent current requirements and practices.	x		9/30/2019	The City will update existing Policies and Procedures associated with vendor management in the next month to improve processes. A major review of the process will take place again once the City updates the ERP system to Oracle Cloud.
2.1	Ensure staff responsible for selecting vendors for goods and services are aware of the City's conflict of interest and disclosure policies, and develop a form or other document to provide staff an opportunity to disclose any perceived or actual conflicts that arise during the vendor selection process.	x		9/30/2019	During ERP training, both current and new system staff will be made aware of their responsibility under the Conflict of Interest Act. Forms will be available to staff providing an opportunity to provide any perceived conflicts that arise throughout the process. Revised Forms will be completed for use by the end of September.
2.2	Include a statement regarding conflicts of interest on the Vendor Registration Form.	x		9/30/2019	A statement regarding conflict of interest is currently being drafted to add to the Vendor Registration Form.
3.1	Review assigned responsibilities on a regular basis to assess the level of access, identify possible conflicts and ensure that the responsibilities assigned are necessary for day-to-day fulfillment of job duties.	x		every 6 months beginning 9/30/19	Assigned responsibilities will be reviewed on a regular basis as part of the IT security review to ensure levels of access are sufficient to avoid conflicts. Purchasing staff with access to vendor update have been deleted.