

# Audit Highlights

July 2013

## Background:

*The Vendor Master File (VMF) is a foundational element of the Accounts Payable and Procurement processes. The VMF contains vital information about the City's vendors and facilitates their engagement in transactions with the City for the procurement of goods and services.*

*It is essential to effectively maintain this file in order to avoid unauthorized or inappropriate activity, duplicate payments, and inefficiencies.*

*In order to ensure the safeguarding of City resources over the procurement of goods and services, mechanisms should be in place that support the assertion that valid vendors exist to provide quality goods and services at competitive prices in a timely manner in order to meet the stated business objectives of the various Departments and Divisions of the City.*

## Objectives:

*Determine whether:*

*1. Adequate preventative internal controls are in place over vendor validation, setup, modification, and maintenance processes to ensure the prevention of unauthorized, erroneous, or duplicate payments.*

*2. Finance is in compliance with relevant ARS and IRS statutes and regulations, and related departmental policies and procedures.*

## City of Tempe Internal Audit Office

# Audit of the Vendor Master File

**Conclusion: Overall, we determined that there are generally adequate internal controls in place over vendor validation, setup, modification, and maintenance processes to ensure the prevention of unauthorized, erroneous and duplicate payments. We also found substantial compliance with relevant ARS and IRS statutes and regulations, and related departmental policies and procedures. We did identify a few exceptions related to segregation of duties, conflict of interest disclosure, access controls and system integration capabilities. We also identified opportunities for Finance to increase the efficiency and effectiveness of their vendor master file and strengthen their internal control structure.**

**Management and staff made significant efforts to address issues identified by Internal Audit as they surfaced during the course of this audit. They either took immediate corrective action or initiated research into the issues to find solutions.**

## SUMMARY OF RECOMMENDATIONS

We offered recommendations in the following areas:

### Vendor Validation and Setup:

- The implementation of a vendor verification process that adds reasonable assurance of the validity of new vendors is fundamental to the integrity of the Vendor Master File.
- The interface between the CC&B and PeopleSoft systems should be changed to comply with naming conventions.

### Vendor Maintenance & Modification

- Purge inactive vendors, correct duplicate records, and establish access controls over the ability to delete or change vendor names.

### Access Controls:

- Strengthen controls over access to enter new vendors and perform an independent review over vendor modifications.

### Compliance with IRS and ARS:

- Employees should properly disclose conflict of interest situations and supervisor should monitor purchases from these vendors

### Policies and Procedures:

- Conflict of Interest requirements should be formalized into policy and communicated to all employees and involved vendors should be flagged in the system; Accounts Payable policies should be updated and formally approved.

City of Tempe Internal Audit Office



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## SUMMARY OF AUDIT RESULTS

<p><i>Vendor Validation and Setup</i></p>	<p>New Vendors are not adequately validated prior to inclusion in the Vendor Master File.</p> <p>The upload of new vendors from the Customer Care and Billing (CC&amp;B) subsystem do not comply with established naming conventions.</p>
<p><i>Vendor Modification and Maintenance</i></p>	<p>The Vendor Master File is not frequently maintained.</p> <p>Policies and procedures to automatically purge one-time use vendors have not been established.</p> <p>Risks associated with vendor inactivation and potential unauthorized vendor payments are not effectively mitigated.</p>
<p><i>Access Controls</i></p>	<p>System access controls need strengthening.</p> <p>User accounts are not effectively processed upon employee transfers.</p> <p>IT Administrator IDs were not accurately named.</p> <p>Vendor modifications are not subject to independent review.</p>
<p><i>Compliance with IRS and ARS</i></p>	<p>Failure to disclose conflicts of interest created violations of the City's policies and a risk of violation of the Arizona Revised Statutes (ARS).</p> <p>The PeopleSoft system included an amount not subject to tax withholding on a vendor's 1099 tax form reported to the IRS.</p>
<p><i>Policies and Procedures</i></p>	<p>Conflict of interest (COI) laws are not formally included in City procurement policies and employees are not adequately informed or trained on the subject matter.</p> <p>There is no process in place to flag vendors in PeopleSoft with declared conflicts of interest.</p> <p>Departmental purchasing related responsibilities should be reinforced.</p> <p>Accounts Payable Desktop Procedures are incomplete.</p>