

Performance Audit
Master Vendor File Data Reliability

April 2010

City Auditor's Office

City of Kansas City, Missouri

April 28, 2010

Honorable Mayor and Members of the City Council:

This performance audit focuses on the data reliability of the city's vendor master file and the city's use of recommended practices to maintain it. We found that there are no required fields in the master vendor file and limited consensus among Finance, Procurement Services, and Human Relations staff on which data fields are critical. Staff enters information inconsistently, there are duplicate records and data entry errors, and data entry rules are not consistently enforced.

Incomplete records and inaccuracies in the vendor file increase the risk of duplicate or erroneous payments, potential fines, and fraud. It can also have a negative effect on the timeliness of processing vendor payments; properly using, managing, and monitoring the master vendor file; and identifying potential vendors for proposals and bids. It can also prevent the city from accurately reporting vendor payments to the IRS, resulting in fines and penalties.

We identified a number of recommended practices for managing the master vendor file. The city partially follows some of these practices, but could improve efforts to monitor and manage the master vendor file by implementing others. The city does not properly segregate duties; have audit trails turned on for the master vendor file; validate vendor information such as address and phone number; or screen vendors against debarment lists. The city uses the master vendor file for employee reimbursements, allows vendors to provide a P.O. Box as their only address, and may inadequately limit access to set up or change vendor records, which conflict with recommended practices.

We make recommendations intended to improve the completeness, accuracy, and consistency of data in the master vendor file; improve management controls; and decrease the risk of duplicate records, fines, erroneous payments, and fraud.

We shared a draft report with the directors of finance and general services on March 9, 2010. Responses are included as appendices. We appreciate the courtesy and cooperation of staff in the Finance Department, Human Relations Division, and Procurement Division during this audit. The audit team for this project was Douglas Jones and Renata Matos.

Gary L. White
City Auditor

Master Vendor File Data Reliability

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Introduction

Objectives

We conducted this audit of the city's master vendor file under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

We did this audit because the master vendor file is a critical city resource, used to process over \$6 billion in city payments between May 2004 and April 2009.

A performance audit provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.¹

This report is designed to answer the following questions:

- Are the city's practices consistent with recommended practices for managing a master vendor file?
- Is the data in the master vendor file reliable?

Scope and Methodology

Our review focuses on evaluating the reliability (completeness and accuracy) of the data entered into the city's master vendor file and comparing the city's efforts to maintain it to recommended practices. Our audit methods included:

- Interviewing staff from Finance, General Services, and Human Relations to identify policies, procedures, practices, and audit

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p. 17.

criteria, and to understand the process for entering data into the master vendor file.

- Analyzing vendor data we extracted from PeopleSoft Financials on June 4, 2009, to evaluate whether the data in the master vendor file is complete and accurate.
- Reviewing literature and other sources related to managing master vendor files to identify audit criteria and recommended practices for comparison with the city's policies, procedures, and practices.

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 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.

In conducting our audit work, we identified an issue related to records retention in the Procurement Division. We communicated this issue to the director of general services in a separate memorandum.

Information regarding a legal matter has been withheld from this report. No other information was omitted from this report because it was deemed privileged or confidential.

Background

The city's master vendor file is maintained in PeopleSoft. The data in this file is the city's source for vendor information including vendor name, vendor number, contact information, services provided, and tax ID number. The master vendor file is the central reference the city uses to process vendor payments and employee reimbursements; to identify vendors to solicit for proposals and bids; and to file IRS information returns related to vendor payments.

Master vendor file records. There were 17,006 records for active vendors, including city employees, in the city's master vendor file as of June 4, 2009. The master vendor file has five different vendor classifications. (See Exhibit 1.)

Exhibit 1. Active Vendors by Classification

Vendor Classification	Records
R – Supplier	13,115
E – Employee	2,904
A – Attorney	476
P - Real Estate	409
H – Garnishments	102
Total	17,006

Source: PeopleSoft Financials as of June 4, 2009.

A company or person wanting to do business with the city completes a three-part vendor application. Part I contains a form asking for general vendor information (company name, address, contact name, and telephone number), a W-9², and a request for a tax clearance letter. Part II requests information relevant to affirmative action compliance and Part III has a list of standard industry codes for the vendor to identify the goods and services they provide.

Three departments are involved in processing a vendor's application. Staff in the General Services' Procurement Services Division receives the vendor application packet from prospective vendors. Part I of the application is sent to the Finance Department's Accounts Division, Part II is sent to the Human Relations Division (HRD), and Part III is retained by the Procurement Division.

Staff in the Finance Department's Accounts Division create the vendor's master file and inform Procurement and HRD staff that the vendor is in the master vendor file.

Staff in General Services' Procurement Services Division enters information related to the scope of services offered by the vendor into the file. The Human Relations Division enters information about the vendor's Affirmative Action status. After the other departments have entered their part of the vendor's information into the master vendor file, Accounts Division staff approves the vendor's record.

Vendors may also be added to the master vendor file based on a request (email or other note) from a city department to the Accounts Division.

What is data reliability? Reliability means that data are reasonably complete and accurate, given the intended purposes for use, and are not subject to inappropriate alteration. Data are reliable when they are

² Vendors submit IRS form W-9 to provide the city with their name, address, and taxpayer identification number. The information on a W-9 is certified as accurate by the vendor and the city uses this information in setting up a vendor record and validating the vendor.

Master Vendor File Data Reliability

complete (they contain all the data elements and records needed to achieve organizational objectives or purposes) and accurate (the extent to which recorded data reflect the data entered at the source or, if available, in the source documents).

A subcategory of accuracy is consistency, which refers to the need to obtain and use data that are clear and well-defined enough to yield similar results in similar analyses.

Findings and Recommendations

Summary

Current policies and practices for managing the city's master vendor file partially incorporate some recommended practices. Existing data entry rules are not comprehensive or consistently enforced, resulting in duplicate records and inaccurate or inconsistent data entries including prohibited punctuation, misspellings, multiple ways of abbreviating common words, and inconsistent use of the address field. A W-9 is not always obtained from vendors and inactive vendors have not been purged regularly from the master vendor file.

There are also a number of recommended practices or internal controls for managing master vendor files that the city does not follow. Staff was granted access rights in PeopleSoft that resulted in a lack of proper segregation of duties. Audit trails to monitor access and activity in the master vendor file have not been activated. The Accounts Division inadequately validates vendor information and employee reimbursements are made through the master vendor file rather than the payroll system.

Required data entry fields have not been identified in the PeopleSoft system, and limited consensus on critical information exists among the departments and divisions that enter information in the master vendor file. We examined 11 data fields that staff consider critical and found only 2 fields that were filled out for all records.

Incomplete records and inaccuracies in the master vendor file increase the risk of duplicate, slowed, or erroneous payments to vendors; potential fines for improperly filing 1099s with the IRS; not identifying some potential vendors for proposals and bids; not properly being able to monitor the master vendor file; and fraud.

Developing and implementing more comprehensive written policies and procedures can improve management of the master vendor file, the vendor application process, and data reliability.

Master Vendor File Management Could Be Improved

Several recommended practices for managing master vendor files are inconsistently followed; others not at all. Adopting and consistently following more recommended practices, establishing required data entry fields, and improving the method of identifying vendor purchasing codes could improve the management, accuracy, and reliability of the master vendor file.

The City Does Not Fully Follow Recommended Practices

The city partially follows only six of eleven recommended practices we identified for managing vendor data files. (See Exhibit 2.) The practices are from the Institute of Management and Administration, International Accounts Payable Professionals, and accounts payable literature. We compared the recommended practices to policies, procedures, and practices used by the Accounts, Procurement, and Human Relations divisions to manage and enter data into the city’s master vendor file.

Exhibit 2. Recommended Practices for Managing Master Vendor Files

Recommended Practice	Does the city follow the recommended practice?		
	Yes	Partially	No
Establish a written procedure manual to cover every aspect of master vendor file maintenance.		X	
Establish and enforce a policy for data entry formats. Require consistent data entry.		X	
Obtain a W-9 from vendors prior to creating a master vendor file and making payments.		X	
Validate the Taxpayer Identification Number and vendor name using the free IRS TIN matching system.		X	
Restrict or limit the number of people with access to set up or change vendor records in the master vendor file.		X	
Purge inactive vendors regularly. Purge or disable inactive vendor files annually using a prescribed frequency such as no activity for 15, 18, or 24 months.		X	
Ensure segregation of duties controls are exercised when granting access to the master vendor file.			X
Review changes to the master vendor file.			X
Validate the vendor’s address and phone number prior to vendor set-up. Do not accept only a PO Box as a vendor’s address.			X
Check or screen vendors against debarment and other government watch lists prior to vendor set-up.			X
Remove employees from the master vendor file.			X

Sources: *Master Vendor File Maintenance, Audit & Control Best Practices* (Institute of Management and Administration, 2006); *Professional Standards Framework* (International Accounts Payable Professionals, 2009); *Accounts Payable: A Guide to Running an Efficient Department* (Mary S. Ludwig, 1999); and *Accounts Payable and Sarbanes-Oxley: Strengthening Your Internal Controls* (Mary S. Schaeffer, 2006).

Several Recommended Practices Are Not Followed Consistently

The city does not always follow recommended practices for managing the master vendor data file, resulting in a number of inaccuracies and inconsistencies. A W-9 is not always obtained from vendors, making it difficult to validate vendors' taxpayer identification numbers (TINs) with the IRS and properly issue 1099s. Some data entry rules are not enforced and are inconsistent; some TINs are missing or incomplete; the number of people with access to set up or change vendor information may be inadequately limited; and the master vendor file has only been purged once since 2004.

The city does not always request a W-9 prior to setting up a vendor in the system. Recommended practices for managing the master vendor file indicate that a W-9 should be obtained prior to vendor set-up and payment. The W-9 contains the name of the vendor, the address, and the taxpayer identification number (TIN). With this information the city can validate the vendor name and tax ID, and ensure it has the appropriate information to file IRS returns when necessary. Staff from the Accounts and Procurement divisions said the city requires a W-9 from vendors. While the Accounts Division's policies and procedures reference the W-9 as an information source, it is not necessarily a required document. Without a W-9, it is more difficult for the city to obtain an accurate TIN which is used as part of the vendor validation process. About a third (4,857 out of 14,000) of the vendors in the master vendor file did not include a TIN.³

To ensure that needed data is entered into the master vendor file, the director of finance should develop and implement written procedures that request a W-9 from all vendors as part of the process of setting up a new vendor.

Missing or incomplete TINs prevent Accounts Division staff from validating TINs and vendor names. Routinely validating TINs is a recommended practice. The Accounts Division began validating TINs in January 2008, using the IRS TIN matching service. Staff reported they validated all vendor TINs in the master vendor file at that time and they now validate TINs for new vendors when W-9s are requested as part of the vendor application process.

³ Our review excluded vendors coded as "Employee" and vendors coded as garnishments.

We reviewed vendor records established since February 2009 and found that 40 of 465⁴ new vendor records did not include a TIN. Staff reported they determined the majority of these vendors did not need to submit a W-9 because 1099s would not be issued to those vendors. Additionally, 18 of the 9,176 vendor records that had a TIN did not have all nine digits.

Missing or erroneous TINs can result in the city not properly issuing 1099s⁵ to vendors and the city receiving backup withholding notices⁶ from the IRS along with potential penalties and fines. Correcting issues related to inaccurate 1099s can also take additional staff time. By obtaining a W-9 and verifying the TIN the city can also confirm the vendor is a legitimate entity. Missing or erroneous TINs could also increase the risk of fraud.

The director of finance should develop and implement written policies and procedures that require staff to validate and enter TIN information for all vendors in the master vendor file.

Data entry format rules are not enforced and are contradictory.

Establishing and enforcing data entry formats is a recommended practice. Our review of the master vendor records identified a number of inaccuracies and inconsistencies in the way information was entered into the master vendor files. The Accounts Division has four data entry rules, including some that contradict others, making it difficult to understand what data entry formats staff is supposed to follow.

Vendor records include prohibited punctuation. The Accounts Division's written procedures for setting up a vendor file indicate that punctuation is never to be used in master vendor file data fields except for an apostrophe (') or a dash (-). We examined the 'Name' data field and identified 2,072 data entries that include prohibited punctuation. Not enforcing data entry rules for punctuation increases the risk that duplicate vendor records will be created and used which increases the risk of erroneous and duplicate payments.

Vendor records include misspellings. During our review of the data in the master vendor file we noticed that some words in the "Name" and "Address" fields were misspelled. Rather than identifying all misspelled

⁴ Total number does not include vendors coded as "Employee" or "HCM" (garnishments), and "one-time" vendors.

⁵ The city is required to issue, with some exceptions, an IRS Form 1099-MISC to individuals, partnerships, or businesses paid more than \$600 during the year and to file a copy of the 1099-MISC with the IRS.

⁶ The city may receive a backup withholding notice from the IRS notifying the city that it is responsible for withholding taxes due to missing or incorrect taxpayer identification numbers associated with Form 1099 information returns.

words, we examined the data to identify illustrative examples. Some of the misspellings we found in the 'Name' field were "CONTRUCTION" rather than "CONSTRUCTION", "LAWNMOVER" rather than "LAWNMOWER", and "ASSOCATION" and "ASSOCIAQTION" rather than "ASSOCIATION". Spelling errors can make it difficult to locate the correct vendor when searching the master vendor file, cause duplicates records to be created, and increase the risk of fraud.

The first line of the 'Address' field was not always used to enter an address. We found 4,556 out of 23,849⁷ address records where the first line of the address does not contain the vendor's address. These records had part of the vendor's name, a department name, or "Attention To" followed by a person's or department's name.

PeopleSoft has two fields for vendor name, but when the city customized the check writing process in order to use a separate check writing system, it caused the second name field in PeopleSoft not to print on the check. As a workaround to this problem, staff uses the first line of the address field to enter information related to the vendor name. However, when information other than an address is on the first line of the address field, it decreases Finance's ability to monitor or manage the master vendor file (e.g. Finance cannot easily monitor for vendors whose address matches an employee address or vendors who only have PO Box as an address; or look for duplicate vendors based on the address field). To improve consistency and reduce the risk of duplicate vendors, the director of finance should evaluate options to ensure that only address information is entered into the address fields in the master vendor file.

Abbreviations are used inconsistently. Our review of the data in the 'Name' and 'Address' fields found no consistent manner for abbreviating certain words. (See Exhibit 3.) The Accounts Division's written policy does not adequately address abbreviations. We also identified about 2,300 'Address' field records in which Post Office Box was entered 23 different ways. Inconsistent abbreviations on the name field can lead to creation of duplicate vendors increasing the risk of duplicate payments. Inconsistent abbreviations in the address field can lead to delays in payments and make it harder to monitor the master vendor file for improper use (e.g. matching employee address to vendor address or searching for PO BOX).

⁷ An individual vendor record may have more than one address record.

Exhibit 3. Examples of Inconsistent Abbreviations

Word	Data Entry Variations
Incorporated	INC, INC., INCORPORATED
Limited Liability Corporation	LLC, LLC., L.L.C.
Street	STREET, ST, ST.
Suite	SUITE, STE, STE.
Post Office Box	PO BOX, P O BOX, P.O. BOX, P.O BOX

Source: PeopleSoft Master Vendor File.

Written policies are sometimes contradictory. The Accounts Division’s written procedures state that staff are to “Always use capital letters” and “Never use punctuation, except for the apostrophe (‘) and the dash (-).” However a subsequent procedure states “Never separate street name they should be like (NW N.W. North WEST)”, which contradicts the two previous instructions.

Prohibited punctuation, misspellings, and inconsistencies in abbreviations could cause difficulties when searching the master vendor file and mailing payments or other information to vendors. Inconsistent spellings and abbreviations can also lead to the creation of duplicate records, misaddressed payments, or payments that take longer to reach the vendor, as well as fraudulent activities.

The United States Postal Service has issued a publication designed to help standardize address information and enhance the processing and delivery of mail.⁸ This publication contains state, geographic directional, street, address, and business word abbreviations, which could help improve consistency in the master vendor file.

To improve the consistency of the data being entered into the master vendor file, the director of finance should develop and implement a more comprehensive and consistent set of data entry rules.

Restrict the number of people with access to set up or change vendor records in the master file. Twenty-three employees in Finance, Human Relations, Procurement, and Information Technology have access to at least create and modify (15 employees) or only modify (8 employees) master vendor records. According to recommended practices, the number of people with access to set up or modify vendor records should be limited. Although only eight of these individuals can approve a vendor record, a large number of individuals with the ability to create and/or modify vendor records increases the potential that data in the vendor records will be incomplete and/or inaccurate due to variations in data entry format. It also increases the potential for fraudulent activities.

⁸ United States Postal Service, *Publication 28: Postal Addressing Standards*, July 2008.

The director of finance should ensure that the number of city staff with access to create and/or modify vendor records is limited to those staff members with a valid need or job requirement.

The master vendor file should be purged more often. Recommended practices indicate that vendor records should be purged or deactivated on an annual basis by removing vendors that have had no activity during the preceding 15 to 24 months from the active vendor files.

Vendor records that could be purged based on recommended practices	
<i>Inactive period</i>	<i>Records that could be purged</i>
15 months	5,397
18 months	4,732
24 months	3,612

Source: PeopleSoft master vendor file as of 06/04/2009 and vendor payment history query as of 06/11/2009.

Accounts Division management reported they purged the master vendor file for the first time in November and December 2007, by inactivating vendors with no activity prior to April 30, 2005. However, our review of the master vendor file and vendor payment history found about 2,600 active vendors that have not received any payments since at least April 30, 2005.

Inactive vendors should be periodically purged from the master vendor file in order to reduce the number of records that need to be maintained, managed, and monitored. Reducing the number of active vendor records also reduces the risk of errors, duplication of records, and fraud.

The Accounts Division’s written procedures do not address when or how to purge⁹ vendors from the master vendor file. Division management is planning to purge the master vendor file once a year by inactivating vendors with no activity over the preceding 36 months.

The director of finance should develop and implement written policies and procedures that require inactive vendors be purged from the system on an annual basis. Written policies should also establish a time frame of 15 to 24 months, to determine which vendor files will be considered inactive and purged from the active list of vendors.

⁹ Purged files are not necessarily deleted from the city’s systems, they are inactivated. This way the city retains the data related to the vendor, but they are not in the active list of vendors.

City Could Implement More Recommended Practices

The city does not follow five recommended practices for managing master vendor data files. Finance should ensure incompatible duties are segregated when granting access to the master vendor file and review changes to the master vendor file. These internal controls reduce the risk of fraud or improper use of the master vendor file and data inconsistencies. Finance should also validate the vendor information prior to vendor set up by confirming the address and phone number and checking vendors against debarment and other government watch lists. And to reduce the number of vendor records, Finance should also determine whether it is feasible to use the city’s payroll system to reimburse employee expenses.

Segregate incompatible duties related to managing the master vendor file. Two Accounts Division staff members have PeopleSoft access rights that give them the ability to create/modify and approve a vendor record, create and approve a purchase order, and create and approve a voucher. Another six Finance staff members have varying access levels that at a minimum allow them to create/modify and approve a vendor record. (See Exhibit 4.) The city’s external auditors identified a significant deficiency related to segregation of duties associated with purchases and cash disbursements noting that certain individuals had access rights to initiate and authorize purchases, approve invoices for payment, and change vendor master files.¹⁰

Exhibit 4. Incompatible PeopleSoft Access Rights for the Master Vendor File

Finance Employee	Vendor Record			Purchase Order		Voucher	
	Create	Modify	Approve	Create	Approve at 3rd level	Create	Approve at 3rd level
A	Y	Y	Y	Y	Y	Y	Y
B	Y	Y	Y	Y	Y	Y	Y
C	Y	Y	Y	Y			Y
D	Y	Y	Y				Y
E	Y	Y	Y				Y
F	Y	Y	Y			Y	
G	Y	Y	Y			Y	
H	Y	Y	Y			Y	

Source: Information Technology Department PeopleSoft Access Records.

Segregating incompatible duties is a basic internal control for ensuring that no employee is in a position to commit an irregularity and then conceal the irregularity. A single individual should not be able to authorize a transaction, record the transaction in the accounting records,

¹⁰ Management Letter from BKD, LLP to the City Council’s Finance and Audit Committee, October 3, 2009, p. 2. This management letter accompanied the Fiscal Year 2009 Comprehensive Annual Financial Report.

and take custody of the asset resulting from the transaction. Lack of segregation of duties increases the risk of fraud and decreases the likelihood of identifying irregularities.

Staff responsible for approving master vendor files should not be able to create or modify a vendor record, create and approve purchase orders, and create and approve payments. The director of finance should ensure that incompatible duties are segregated when assigning staff access rights to the master vendor file.

Enable PeopleSoft's audit trail to track changes to the master vendor file. Recommended practices identify audit trails as a critical internal control for information systems that show who has accessed an information system and what changes the user has performed. Audit trails can be used to identify potential unauthorized changes. With the lack of segregation of duties and the high number of staff with access rights, audit trails become even more important.

Finance Department management told us a decision was made during the PeopleSoft implementation phase not to turn on audit trails because they would take up too much data storage space on the city's computer system. PeopleSoft has the capability to maintain a record of audit trails and according to IT staff, it is possible to set up audit trails for select fields in the master vendor file. Enabling the audit trail function for the master vendor file would allow management to review changes to vendor records and who changed the record.

Audit trails should be enabled for the master vendor file and periodically reviewed by management to identify questionable transactions or overrides to normal processes. In addition to periodic monitoring, audit trail data should be periodically updated and purged as a way to manage the amount of data storage space and limit the size of the audit trail reports produced by the system. The director of finance should identify critical data fields in the master vendor file, ask ITD to enable the audit trail function for those fields, and develop policies and procedures for monitoring and managing audit trail reports.

Validate vendor addresses or phone numbers. Companies or individuals applying to become a city vendor and the information they provide such as address and phone number should be evaluated to ensure they are a valid business. Inadequate validation of prospective vendors and the information they provide increases the risk of inaccurate information being entered into the master vendor file as well as the potential for fraudulent activity. New vendor's information can be validated through a number of public and commercial services. In

addition, online phone directories, such as switchboard.com, whitepages.com, whitepagesnow.com and 411.com are available free of charge.

The Accounts Division accepts a post office box as a vendor's only address; however, staff cannot validate a vendor's existence as a valid business without having a street address. In addition, having only a P.O. Box is a red flag for fraudulent activities. The master vendor file contains over 1,300 vendors whose only address is a P.O. Box.¹¹

The Accounts Division does not have written procedures on validating addresses or phone numbers and staff reported they do not validate them. All vendor records have some type of information in the 'Address' field, but only about a fourth (3,310 out of 14,102)¹² have a phone number in the master vendor file.

Staff said they only search for information about a company when they cannot read the handwriting on the vendor application. A more thorough validation process might have prevented at least one vendor payment from being sent to the wrong address. The address on the W-9 provided by the vendor (there was no vendor application and no phone number in the record) was obscured and staff entered an incorrect digit. As a result, the city sent a \$1,500 vendor payment to the wrong address.

The director of finance should develop and implement a method of validating vendors and the information they provide prior to their approval as a city vendor. The director of finance should also require a physical address and a phone number be obtained for all vendors.

Check vendors against debarred vendor lists prior to approval.

Accounts Division staff told us that they do not check businesses applying to be a city vendor against any state or federal debarment list or any other lists of excluded persons and companies and that the city does not have a written policy that restricts debarred entities from becoming a city vendor. Staff also said that departments should be checking or screening vendors against debarment lists as part of the city's contracting process for contracts involving federal funds. It is a recommended practice to check vendors against debarment lists as part of the process for evaluating and validating a vendor's information.

Checking vendors against appropriate debarment lists as part of the city's vendor set up process reduces the risk of the city conducting business

¹¹ Because of inaccuracies and inconsistencies in the data fields, we were unable to identify all vendor records that only have a P.O. Box for an address.

¹² Total number of active vendor records is 17,006, but we excluded 2,904 records that were coded as "employee".

with an individual or company that has previously engaged in unacceptable activities or practices and should not receive public monies, or put the public at risk of inferior or unlawful performance. The city manager should implement a policy to restrict debarred individuals or companies from becoming a city vendor and direct city staff to check debarment lists prior to setting up vendors in the master vendor file.

Remove employees from the master vendor file. The master vendor file includes 2,904 records coded as “employee”. Our review of the data has also identified at least 44 employees who are not coded as ‘employee’. Removing employees from the master vendor file reduces the number of records in the master vendor file and reduces the risk of fraud.

PeopleSoft allows reimbursements for employees to be paid through payroll. According to a PeopleSoft engineer, an organization can reimburse employees through payroll without any customization. The city would need to implement the Expense module which was purchased in 2003. The reimbursement amount may be added to the employee’s regular paycheck or paid in a separate check. Different types of reimbursements (e.g. travel expenses) can be tracked by creating different earnings codes for each expense type.

**Vendor Payments
Erroneously Sent to Former
City Employee**

Accounts Division staff reported a known instance of the city erroneously making several payments, totaling about \$2,500, to a former employee that should have been paid to a vendor. The former employee cashed the checks.

The employee had the same name as the company that should have received the payments. The wrong vendor was selected when the payment was set up in PeopleSoft.

The city became aware of the problem when notified by the vendor that they had not received the payments.

Staff said they immediately inactivated the former employee’s vendor record and put a practice in place to inactivate employee vendor records when employees terminate their employment with the city.

To reduce the number of vendor records, the director of finance should work with ITD to evaluate the feasibility of implementing the PeopleSoft Expense module to reimburse employee expenses.

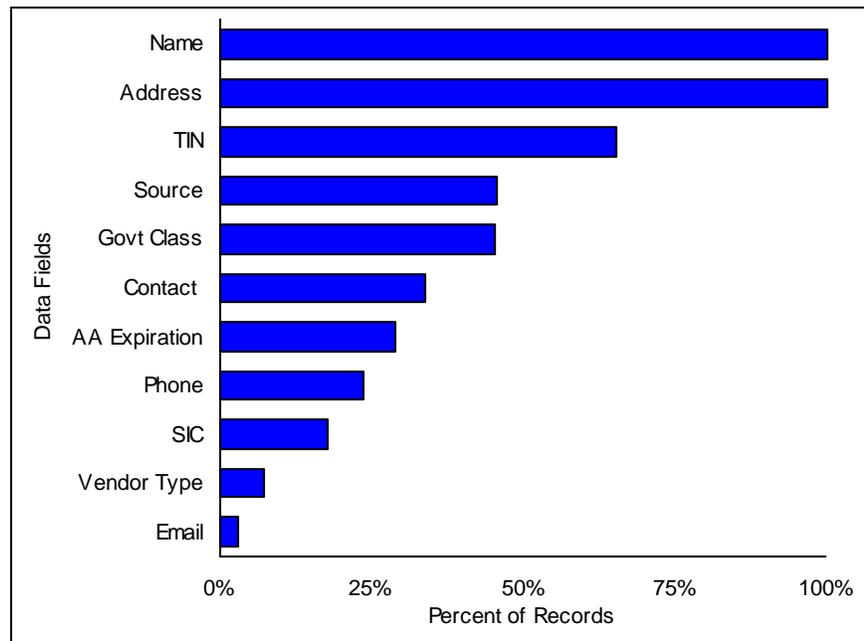
Comprehensive Policies Should Improve Master Vendor File Data Reliability

Because written policies and the city's PeopleSoft system do not currently specify any required master vendor file information, only 2 of 11 data fields, identified as critical by city staff, were filled out for all vendor records. Duplicate vendor records exist. The process used to identify which goods and services can be supplied by vendors increases the risk that the information in the master vendor file will be incomplete and inaccurate. Incomplete records and inaccuracies could adversely affect vendor payment processing, reduce the likelihood of identifying all potential vendors for proposals and bids, and increase city costs through erroneous or duplicate payments, fines, penalties, and fraud. Comprehensive written policies should be established to improve the reliability of the master vendor file.

Required data fields should be established. Written policies and procedures do not identify what information is required when adding a vendor to the master vendor file. The city's PeopleSoft system does not currently specify any required fields. When we asked staff from the Finance Department and the Human Relations and Procurement Services divisions that regularly use the master vendor file which data fields were critical in the course of their work, they identified 11 data fields.¹³ Only four were identified by staff in all three departments/divisions.

We downloaded the master vendor file and evaluated the records for completeness for the fields staff identified as critical. We excluded records for employees and garnishment payments from our evaluation. Out of the 11 fields identified by staff, only the 'Name' and 'Address' fields were completed for all vendor records. The remaining data fields staff identified as critical were filled to varying degrees. (See Exhibit 5.)

¹³ A complete list and description of the important data fields is included in Appendix A.

Exhibit 5. Information Contained in the Master Vendor File¹⁴

Source: PeopleSoft Financials – Master Vendor File as of 06/04/2009.

To improve the completeness of information in the city’s master vendor file, the director of finance should work with the directors of general services and human relations to identify data fields considered critical by each department. Once identified, the finance director should ensure the critical fields are required when new vendors are added.

Duplicate vendor records should be identified and eliminated. The master vendor file contains at least 430 duplicate vendor records based on TIN and 280 duplicates based on vendor name.¹⁵ To identify duplicate records we used TINs to look for different vendor IDs using the same TIN and vendor names to look for different vendor IDs with the same vendor name. These methods may not identify all duplicates because there are over 7,800 vendor records without TINs, and vendor names must be spelled exactly the same way to find name matches. Slight misspellings or differences in using abbreviations in a vendor’s name or address can lead to the creation of duplicate vendor records.

¹⁴ For purpose of identifying blank or incomplete data fields, we excluded the Employee and Garnishment vendor classifications because some of the information identified as “important” is not needed/required for those records (e.g. the city does not need a contact name for an employee in the master vendor file). This resulted in 14,000 records being reviewed. When reviewing the Source, Govt Class, AA Expiration, and SIC data fields, we only counted the blank or incomplete data fields for vendors classified as Suppliers. This resulted in 13,115 records being reviewed.

¹⁵ We excluded vendor records for attorneys from this analysis as they may have multiple vendor IDs because they receive a new vendor ID for each settlement case. There may also be other legitimate reasons for duplicate vendor records such as making payments to the same company, but to different locations.

Incomplete and/or inaccurate data impacts the city’s ability to identify and remove duplicate records from the master vendor file. Duplicate vendor records also decrease the ability of the city to accurately identify all payments received by an individual vendor, and can also increase the risk of duplicate payments and fraud.

To improve the accuracy of the master vendor file, the director of finance should develop and implement written policies and procedures to identify and eliminate duplicate vendor records.

Modify the method used to identify the goods and services a vendor can supply to increase data accuracy. The city uses the National Institute of Government Purchasing (NIGP) codes to identify the goods and service provided by vendors in the master vendor file. The city’s vendor application packet includes a list of 3-digit NIGP codes for vendors to identify the goods and services they provide.

Procurement Services Division staff said they use the 3-digit NIGP codes from the application to enter 7-digit NIGP codes into the vendor master file. Staff reported they are able to determine which 7-digit code(s) should be used to describe a vendor’s goods and services in the master vendor file based on the 3-digit code provided by the vendor. If unable to determine which code(s) to use, staff said they contact the vendor to obtain the additional needed information. There are almost 32,000 NIGP codes, allowing for very specific identification of goods and services and a vendor may have more than one NIGP code in the city’s master vendor file.

National Institute of Governmental Purchasing (NIGP) Codes	
The first three digits of the NIGP code refer to broader categories, the next two digits narrow the category, and the last two digits identify a very specific good or service within the category.	
<u>NIGP</u>	<u>Description</u>
0050000	Abrasives
0051400	Abrasives, Coated: Cloth, Fiber, Sandpaper, Etc.
0051453	Sandpaper, Abrasive, Garnet Cabinet, 9 In. X 11 In.
0051454	Sandpaper, Abrasive, Garnet Finishing, Open Coat, 9 In. X 11 In.

Based on the large number of possible codes and the fact that staff determines vendors’ last 4 digits of the NIGP code, there is a risk that the data in this field is inaccurate or incomplete, resulting in the city not being able to identify all potential vendors when soliciting proposals or bids.

The director of general services should develop and implement policies and procedures to ensure that vendors' NIGP codes are accurately identified and entered into the master vendor file.

Complete reporting of vendor payments to the IRS depends on accurate vendor file data. The city is required to file information returns (1099s) for certain business transactions of \$600 or more. The city prepares these returns using information in the master vendor file. The city could be penalized by the IRS for failure to file correct information returns and for failure to furnish correct payee statements. The IRS may assess a penalty of \$50 per return with a maximum penalty of \$250,000 per year for failure to file and a maximum penalty of \$100,000 per year for failure to furnish correct payee statements.¹⁶ The city could also be responsible for the tax liability associated with unfiled or inaccurate 1099s.

Incomplete records and inaccuracies in the master vendor files also increase fraud risk. According to a 2008 report by the Association of Certified Fraud Examiners, billing schemes which may be prevented or detected by sound master vendor file controls make up about 24 percent of all fraud cases with a median loss of \$100,000 per incident.¹⁷

Red Flags for Potential Fraud

- An employee's home address matches a vendor's address.
- An employee's initials match a vendor's name.
- Checks are written to "cash."
- Vendor's address is a P.O. Box or mail drop.
- Vendor data is missing.
- Vendor data is found to be formatted illogically.
- Vendor name consists of initials or vague business purpose.
- Lack of segregation of duties.
- Vendor addresses do not agree with vendor application or multiple remittance addresses for the same vendor.
- No or inadequate documentation for additions, changes or deletions to the master vendor file.

Sources: "Detecting Occupation Fraud: Billing Schemes", Mark W. Lehman and Marcia L. Weidenmier, *The CPA Journal*, New York, April 2005; *Fraud Detection: Red Flags*, Protiviti KnowledgeLeader, October 30, 2000; *Billing Schemes, Part 1: Shell Companies That Don't Deliver*, Joseph T. Wells, Association of Certified Fraud Examiners, July 2002; *Enemies Within*, Joseph T. Wells, Association of Certified Fraud Examiners, December 2001.

¹⁶ In March 2010, the U.S. House of Representatives passed HR 4849 which includes a provision increasing the penalties for failure to file correct information returns from \$50 to \$100 per return and the maximum annual amount from \$250,000 to \$1,500,000. This bill has been sent to the U.S. Senate.

¹⁷ *2008 Report to the Nation on Occupational Fraud and Abuse*, Association of Certified Fraud Examiners.

Establish comprehensive written procedures for managing the master vendor file. The Accounts Division has written procedures that show the navigation in PeopleSoft for setting up vendor records, provide some guidance related to data entry rules, describe coding for IRS reporting, identify required documents for address changes, and provide directions for filing documents.

However, these procedures do not adequately:

- address how data or information should be entered (naming/spelling conventions),
- address which data fields the city has determined are critical or required,
- address what documents are required from vendors,
- address how often vendor files should be purged,
- provide operational guidance related to the vendor application process,
- require validating vital vendor information,
- require checking vendors against debarment lists,
- identify responsibilities for entering and maintaining the data, or
- specify how the data or changes to records will be monitored.

Also, the division's rules allow vendor data to be provided either through a completed vendor application or an e-mail from a city department, but does not specify when an e-mail will suffice or what vendor information should be included in the e-mail.

Procurement Division staff told us they do not have any written policies or procedures related to managing their process for entering information into the master vendor file or data entry formats.

The Human Relations Division has written procedures that provide staff with instructions for entering vendor affirmative action information into the master vendor file and the fields where address, contact, email address, and phone number information should be entered.

Lack of comprehensive policies and procedures can lead to an inconsistent process that adversely affects how vendor applications are processed and evaluated and the type and quality of the data being entered into the master vendor file. Both can cause incomplete and inaccurate data in the master vendor file.

To ensure a consistent process and improve the reliability of the data in the master vendor file, the director of finance should work with the directors of general services and human relations to develop and

implement policies and procedures that ensure complete, accurate, and consistent data is maintained in the city's master vendor file. Procedures should outline the vendor application process; contain operational information such as who is responsible for entering, maintaining, and monitoring the data; how data and information should be entered (naming, spelling, punctuation, and abbreviation rules); which PeopleSoft data fields are required; what documents are required from vendors; whether vendor information provided by a department through an informal method (e.g. e-mail) is acceptable and if acceptable, specify what information should be included in the informal notification; and how often inactive vendor files should be purged.

Recommendations

1. The director of finance should develop and implement written policies and procedures that request all vendors provide a W-9 and direct staff to validate and enter TIN information for all vendors in the master vendor file.
2. The director of finance should evaluate options to ensure that only addresses are entered into the address field in the master vendor file.
3. The director of finance should limit the number of city staff with access to create and/or modify vendor records to those staff members with a valid need or job requirement.
4. The director of finance should establish a time frame of 15 to 24 months to identify vendors considered inactive and purge inactive vendors from the master vendor file annually.
5. The director of finance should ensure that incompatible duties are segregated when assigning access rights to the master vendor file.
6. The director of finance should ask the Information Technology Department to enable the PeopleSoft audit trail function for critical data fields in the master vendor file, and develop policies and procedures for monitoring and managing audit trail reports.
7. The director of finance should develop and implement written policies and procedures outlining a process for validating a vendor by requiring all vendors to provide the city a physical address and a phone number and requiring staff to verify this information and check debarment lists before setting up a vendor in the master vendor file.

Master Vendor File Data Reliability

8. The director of finance should work with Information Technology to evaluate implementing the PeopleSoft Expense module and using the city's payroll system instead of the master vendor file to reimburse employee expenses.
9. The director of finance, with input from the directors of general services and human relations, should identify required and optional data entry fields in PeopleSoft. Once identified, the director of finance should ensure the critical fields are required when new vendors are added to the master vendor file.
10. The director of finance should develop and implement written policies and procedures to identify and eliminate duplicate vendor records.
11. The director of finance should work with the directors of general services and human relations to develop and implement comprehensive policies and procedures to ensure complete, accurate, and consistent data is maintained in the city's master vendor file.
12. The director of general services should develop and implement policies and procedures to ensure that vendors' National Institute of Government Purchasing codes are accurately identified and entered into the master vendor file.
13. The city manager should implement a policy to restrict debarred individuals or companies from becoming city vendors.

Appendix A

Master Vendor File– Important Data Fields

The vendor master file has numerous fields. We talked with staff from different departments that use the master vendor file and they told us what information or data fields they needed from the master vendor file in order to do their job. (See Table 1.) We focused our data analysis on the “important” fields identified by staff.

Table 1. Critical Fields in the Master Vendor File

PeopleSoft Field	Finance	Procurement	HRD
Vendor name	X	X	X
Address	X	X	X
Tax ID number	X		
Contact name	X	X	X
Phone number	X	X	X
Email address		X	X
Vendor type	X		
Source			X
Expiration date (AA)			X
Gov class		X	X
Standard Industry Code (SIC)		X	

Source: Interviews with Finance, Procurement Services, and Human Relations staff.

Explanation of critical fields:

Vendor name: vendor name.

Address: vendor address.

Tax ID Number (TIN): vendor’s taxpayer identification number.

Contact name: vendor’s contact name.

Phone number: vendor’s phone number.

Email address: vendor’s email address

Vendor type: vendor types include: employee 1099-N, government agency, incorporated 1099-N, legal 1099-Y, refuse rebate 1099-Y, limited liability corp. 1099-Y.

Source: ownership (OWN) or Affirmative Action (AA). This field is in the government classification part of the master vendor file. It classifies whether the proceeding information in the file is related to ownership codes or affirmative action information.

Expiration date AA: affirmative action expiration date.

Gov class: Government classification for the affirmative action.

SIC: Standard industry classification code. This is a set of 7 digit numbers that signifies the vendor's scope of work. The city uses the NIGP codes as its SIC.

Appendix B

Director of Finance's Response



Finance Department



DATE: April 15, 2010
TO: Gary White, City Auditor
FROM: Randall J. Landes, Director of Finance *RJL*
RE: Response to Draft Report of Master Vendor File Data Reliability

In response to the aforementioned draft report, the Finance Department has reviewed your recommendations and offers the following responses, as outlined below. Based upon our review of the draft report, we found no mention of fraudulent activities but rather a number of policy and procedural recommendations, which we believe will both improve the master vendor file's accuracy and help the city avoid potentially fraudulent activities going forward.

Recommendation #1: The director of finance should develop and implement written policies and procedures that request all vendors to provide a W-9 and direct staff to validate and enter TIN information for all vendors in the master vendor file.

Response: Agree. The director of finance will instruct staff to develop and implement written policies and procedures that request vendors to provide a W-9 and direct staff to validate and enter TIN information for vendors in the master vendor file when required by the Internal Revenue Service (IRS). However, it should be noted that the city cannot require/demand a TIN from a vendor if the City is not required to report the payments made to the vendor. Refunds, reimbursements to interviewees, board member or other stipends, foreign entities that do not have a United States issued TIN, are among many other reasons the City would not be required to report a payment to the IRS.

Recommendation #2: The director of finance should evaluate options to ensure that only addresses are entered into the address field in the master vendor file.

Response: Agree. The director of finance will evaluate the cost of purchasing a new check printing system and the cost to customize PeopleSoft to only place addresses in the address field in the master vendor file.

Recommendation #3: The director of finance should limit the number of city staff with access to create and/or modify vendor records to those staff members with a valid need or job requirement.

Response: Agree. The director of finance will limit the ability to create a vendor record to staff in Accounts and will review those staff in General Services and Human Relations departments who have the ability to modify a vendor record. As is current practice, only staff in the Accounts Division will have the authority to approve a vendor.

Recommendation #4: The director of finance should establish a time frame of 15 to 24 months to identify vendors considered inactive and purge inactive vendors from the master vendor file annually.

Response: Agree. The director of finance will establish a time frame of 24 months to identify vendors considered inactive and, if appropriate, inactivate them in the master vendor file on an annual basis in preparation for an annual purge. The director will also establish a time frame of 30 months to purge them from the master vendor file on an annual basis. A total of 4,595 vendors, who had not received a payment since April 30, 2007, were inactivated on November 24, 2009. A purge of these same vendors will be completed by July 1, 2010. Thereafter, vendors who have not received a payment since April 30, 2008, will be inactivated by July 30, 2010 and a purge of those vendors will occur immediately after the completion of the 2010 audit but no later than December 31, 2010.

Recommendation #5: The director of finance should ensure that incompatible duties are segregated when assigning access rights to the master vendor file.

Response: Agree. The director of finance has modified incompatible duties and will ensure that, in the future, incompatible duties are segregated when assigning access rights to the master vendor file. When this is not possible, reports will be ran monthly to ensure that mitigating controls are in place to provide explanation of any events that may appear to not comply with an appropriate segregation of duties. Per Exhibit 4 on page 12 of the audit, employee A can no longer approve vendors, purchase orders or vouchers; employee B can no longer approve vouchers; employee C can no longer create purchase orders, employee D can no longer create or modify vendors; employee E has left city employment; employee F can no longer approve vendors; and employees G and H have left city employment.

Recommendation #6: The director of finance should ask the Information Technology Department to enable the PeopleSoft audit trail function for critical data fields in the master vendor file, and develop policies and procedures for monitoring and managing audit trail reports.

Response: Agree. The director of finance will review the cost to provide audit trail function for critical data fields in the master vendor file and, if affordable, will develop policies and procedures for monitoring and managing audit trail reports. It is anticipated that the fields of name1, address1, address2, TIN and withholding box will be used for an audit trail.

Recommendation #7: The director of finance should develop and implement written policies and procedures outlining a process for validating a vendor by requiring all vendors to provide the city a physical address and a phone number and requiring staff to verify this information before setting up a vendor in the master vendor file.

Response: Agree. The director of finance will develop and implement written policies and procedures for validating a vendor's physical address and phone number.

Recommendation #8: The director of finance should work with Information Technology to evaluate implementing the PeopleSoft Expense module and using the city's payroll system instead of the master vendor file to reimburse employee expenses.

Response: Agree. The director of finance will work with Information Technology to evaluate implementing the PeopleSoft Travel and Expense module with the next upgrade of PeopleSoft from version 8.9 to a higher version; except in those cases of reimbursements for petty cash or other business related change funds. In the mean time, employees will continue to be set up in the vendor master file with a vendor number that begins with the letter "E" followed by the employee's six (6) digit payroll/security identification number.

Recommendation #9: The director of finance, with input from the directors of general services and human relations, should identify required and optional data entry fields in PeopleSoft. Once identified, the director of finance should ensure the critical fields are required when new vendors are added to the master vendor file.

Response: Agree. The director of finance will work with the other affected departments to identify required and optional data entry fields in PeopleSoft and will ensure that the critical fields are required when adding most new vendors to the master file. The director of finance does not anticipate that every "critical" field will be needed for all vendors, especially in cases of restitution, settlement, acquisition, etc.

Recommendation #10: The director of finance should develop and implement written policies and procedures to identify and eliminate duplicate vendor records.

Response: Agree. The director of finance will develop and implement written policies and procedures to identify and eliminate duplicate vendor records in those cases where duplications truly exist. There are some instances where a vendor has multiple remittance addresses resulting in the appearance of duplicate.

Recommendation #11: The director of finance should work with the directors of general services and human relations to develop and implement comprehensive policies and procedures to ensure complete, accurate, and consistent data is maintained in the city's master vendor file.

Response: Agree. The director of finance will work with General Services and Human Relations to develop and implement comprehensive policies and procedures to ensure complete, accurate, and consistent data is maintained in the city's master vendor file; however, each portion of the master vendor file that is specific only to General Services and Human Relations (e.g., affirmative action expiration date) will be maintained by those respective departments.

Appendix C

Director of General Services' Response



INTER-DEPARTMENTAL MEMO

GENERAL SERVICES DEPARTMENT

Procurement Services Division
 1st Floor, Room 102 W, City Hall
 Telephone: (816) 513-1161
 Fax: (816) 513-1156



DATE: April 12, 2010
TO: Gary White, City Auditor
FROM: Gerald Smith, Director of General Services Department 
RE: Vendor File Data Reliability/NIGP Commodity Codes

Recommendation 12: The Director of General Services should develop and implement policies and procedures to ensure that Vendors' National Institute of Government Purchasing codes are accurately identified and entered into the master vendor file.

Response: Agree. The Procurement Services Division will continue to utilize NIGP 7-Digit Class-Item Codes in PeopleSoft for all Vendors. Procurement Services considers that NIGP commodity codes are able to accurately capture the Vendors' true scope of work. To ensure that a Vendor's assigned commodity codes are a true representation of the products and services to be provided, the Procurement Services Division will adhere to the following policy/procedure:

1. Procurement Services has repositioned the Commodity Codes next to the Supplier Application to make them more accessible to the public when completing the Supplier Application.
2. Procurement Services will institute a new search drive in the commodity code section on the Supplier Application. A new Supplier or an existing Supplier will have the ability to accurately look up their own scope of work or add to their existing service or scope of work.
3. The Supplier Relations Coordinator will follow up with Vendors who fail to submit any commodity codes and assist them regarding how/where to look up their commodity codes so that a scope of work, service, etc., can be identified with their vendor number.
4. All walk-in Suppliers/Vendors will be guided through the process by the Supplier Relations Coordinator to ensure their information is accurately coded in the system.

The Procurement Services Division will implement the above listed policy/procedure effective immediately to ensure the problem in the Master Vendor File Data Reliability is rectified.

If you have any questions, please feel free to contact me at 816-513-1437.

cc: Cedric Rowan, Manager of Procurement Services
 Renee Haskin, Assistant Procurement Manager
 Brian Hernandez, Supplier Relations Coordinator

Appendix D

City Manager's Response



Office of the City Manager



DATE: April 23, 2010
TO: Gary L. White, City Auditor
FROM: Troy M. Schulte, Interim City Manager
RE: Master Vendor File Data Reliability Audit Report

A handwritten signature in blue ink that reads "Troy M. Schulte".

Response to Recommendation 13:

The city manager should implement a policy to restrict debarred individuals or companies from becoming city vendors.

Agree – The city manager will investigate the impact of such a policy. The city manager will then determine if the benefit outweighs the cost of checking every vendor against the federal debarred list prior to setting them up on the vendor file. For example, certain vendors that are due payments such as refunds would have to be set up even if they were on the debarred list. Additionally, current City procedures already call for verifying that a vendor is not on the federal debarred list prior to entering into a contract if the contract involves state or federal funding.