OFFICE OF AUDITOR GENERAL

Vendor Management
Audit

March 1, 2008

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Vendor Management Audit
Executive Summary

OBJECTIVE

The Vendor Management Audit will evaluate the internal controls, procedures and functionality of the Vendor Management process. A review of the internal control environment will determine if controls are appropriately designed and operating in this area to properly record and approve acceptable vendors for the District.

SCOPE

The scope of the Vendor Management Audit was limited to the clean-up process of existing information for PeopleSoft 8.9 Upgrade through the implementation and its conversion effective July 15, 2007. We evaluated the related controls and processes utilized in the PeopleSoft financial system from the application process of the vendor through the approval of the vendor within the automated system. We included the retention of paper documents and the procedures for change management.

We collaborated with the various Purchasing staff to understand the current control environment. Purchasing has been deemed responsible for the vendor management files. We tested the process and the pertinent data within the PeopleSoft 8.9 system under the direction of Purchasing. Employees are also set-up in vendor management in order to reimburse employees for expenses incurred for the District. This portion was included in our testing. At the time of the audit, the purchasing department was still updating vendor records and will continue through the addition of eProcurement.

Information concerning the database administrator's user id provided via vendor screens was not made available to us. Information has been requested to independently verify data provided in an effort to understand the controls and security in relation to vendor management. The information was never received for our review.

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CONCLUSION

A tremendous effort has been made by the Purchasing Department to update the vendor files within the PeopleSoft 8.4 environment for conversion to the new 8.9 environment. Improvements are still necessary for operating activities as well as system improvements. Our suggested recommendations would improve the completeness and accuracy of information, timeliness of changes, strengthening existing controls, efficiency of workflow and the security of our control systems.

Purchasing and Accounts Payable should work together to develop clear, concise written documentation concerning the request for vendor information, recording of information, change management within the electronic environment and communication to all District staff. The ideal situation would be to have a designated person responsible for the entire operation of the vendor file. Best practice is having vendor maintenance separate from purchasing and accounts payable. The designated person(s) is responsible for all areas of vendor set-up from obtaining applications, W-9, updating information, accuracy, and processing of compliance issues and reports.

We recommend that improvements be acted upon immediately since vendor management is an integral component in the payment of the District's vendors. To further facilitate these improvements, the Office of Auditor General is requesting that an upcoming IT audit be given full view of system security of this area.

Vendor Management Audit
Summary of Recommendations

Rec #	Audit Recommendations
1.	*Implement the requirement that all vendors, including sports officials and one-time vendors complete the Form W-9.*
2.	*Establish and implement the procedures, both operational and system for the efficient flow of the Form 1099 process.*
3.	*Develop and implement clear procedures for the use of the one-time vendor set-up and single-payment vendor set-up within the PeopleSoft 8.9 system.*
4.	*Develop procedures to review and update existing vendor files set up for employees.*
5.	*Develop a procedure for verification of vendor information submitted on the application and Form W-9.*
6.	*Develop a monitoring process for operating management to review system modifications made by IT staff.*
7.	*Re-evaluate the access individuals have to all screens within the vendor management system and align with their assigned business responsibilities.*
8.	*Develop change management procedures for vendor management screens to include personnel changes, monitoring of changes, and approval.*

OBSERVATION #1

Tax Requirements

Requirement of W-9 form

The Federal Form W-9 is not being requested from all vendors for documentation prior to vendor payment. It was noted that sports officials and one-time vendors are not completing this required Federal form within the Central Office and the individual schools. Vendors regardless of the materials, supplies or services provided the district, should be required to complete the Form W-9.

It is the responsibility of the District to provide the Federal government and the vendor with a Form 1099 reporting payments made to particular vendors. Accumulated payments over $600 for the calendar year are to be reported to the vendor and the Internal Revenue Service. If the District does not comply or incorrectly reports this information it may cause fines to be levied upon the District.

RECOMMENDATION and MANAGEMENT RESPONSE

Establish and Implement the requirement that all vendors, including sports officials and one-time vendors complete the Form W-9.

Management Responses: For all approved vendors, W-9 Forms are required and kept on file in Purchasing. For sports officials, some coaches and security personnel, a copy of the W-9 Form is kept in the Athletic Department by Karen Cottrone-Young. The new procedure is as follows, effective February 3, 2008:

- Karen Cottrone-Young will keep the original W-9 Form on file in her office.
- She will make a copy of the W-9 Form for a new individual not in the vendor file or not "approved" in the vendor file, who will need to be paid and attach the W-9 Form copy to the claim voucher.

Purchasing is in support of the District following best practice by having a separate department maintain the vendor file.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing.

Due Date: Implemented as of February 3, 2008

OBSERVATION #2

Form 1099 System Testing

This is the first year that Accounts Payable will be responsible for the entire 1099 process. In years past, the process was completed by Accounts Payable and the IT staff. Accounts Payable will now be responsible for the verification of information, review of reports, approval of accumulated information, running the Form 1099 and summary report 1096, mailing to vendors, filing reports with vendors and the IRS, correction of information after processing, and responding to notices from the IRS.

At the time of the audit, the procedure and testing of this process was not completed. During the audit the year-end process has been developed and tested. Problems have been noted concerning the accurate recording of vendor status to produce 1099s. Although sending 1099s to a vendor when it is not necessary is not a concern, the exclusion of a vendor that should have a 1099 could result in penalties on the vendor and the District. Employees involved with the vendor files should be educated to understand the proper recording of vendor status for 1099 processing.

RECOMMENDATION and MANAGEMENT RESPONSE

Establish and implement the procedures, both operational and system for the efficient flow of the Form 1099 process.

Management Responses: The Accounts Payable Department issued 1099's on January 31, 2008 for the first time utilizing PeopleSoft 8.9. There were many lessons learned. We are currently working with the IT Department to document the process and procedures. We anticipate having written documentation for review by May 2, 2008. Upon completion, we will forward the document to the OAG.

Responsibility: Vince Carfagna, Chief Financial Officer; Cathy Peets, Interim Director of Accounting; Christina Jones, Accounts Payable Supervisor

Due Date: May 2, 2008

OBSERVATION #3

Recording of Vendor Information

Vendor Set-up

The set-up procedures for use of a one-time vendor and the use of single-payment vendors have not been clearly defined. The PeopleSoft 8.9 environment permits two ways of establishing a vendor for a one-time payment. The current handling of the payment for one time vendors is the same as the 8.4 environment. This environment required all information such as name, address, vendor identification, etc. to be completed in set-up. After the one-time payment, the status of the vendor electronically goes to "inactive". The additional way, called single-payment, allows a vendor to be set-up as a vendor but does not require all the information needed for a regular set-up.

A consistent procedure for processing one-time vendors should be established and communicated to all users. The procedure should be documented. Improper and/or inconsistent processing of one-time vendor payments will cause confusion for all related staff. Improper set-up could cause insufficient documentation to be received and the improper filing of federal forms at year end. It may also increase the risk of duplicate vendors being placed in the system.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop and implement clear procedures for the use of the one-time vendor set-up and single-payment vendor set-up within the PeopleSoft 8.9 system.

Management Responses: The "one-time" payment set-up is determined by Accounts Payable and is in the identifying information field labeled "Persistence". The "Single Pay" set-up will not used. The procedures are the same for one-time vendor as with other vendor set-up. An application, W-9 and approval by Purchasing are required before payment can be made to the vendor.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing

Due Date: Implemented

Vendor Management Audit
Observation, Recommendations and Action Plans

OBSERVATION #4

Employee Set-up in Vendor Files

[redacted]

Through our testing we noted that terminated employees are not changed to inactive status, vendors have been marked as employees, and others have no activity since 2003.

Since management has made the decision to use the accounts payable system to make payments, excluding employee salary, then the vendor records marked as employees should be reviewed and changes made to bring information up to the quality of accuracy in other vendor files.

[redacted] Best practice for employee payments is to have all payments made through the payroll system. This includes reimbursements as well as additional types of earned income.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop procedures to review and update existing vendor files set up for employees at least annually for year end reporting.

Management Responses: Purchasing has communicated to Accounts Payable the need to deactivate any employees in the Vendor file that are no longer employed by the District. Accounts Payable is responsible for the maintenance of employee data recorded in the vendor files of People Soft. Accounts Payable has not agreed to this solution. Discussions will be held between Purchasing and Accounts Payable to resolve this issue. Procedures and responsibilities will be written by July 1, 2008.

Purchasing is in support of maintaining all payments to employees through the payroll system. We have also requested and support the implementation of an individual separate from Purchasing and Accounts Payable to maintain the vendor files. This would strengthen the internal controls related to vendor files.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing; Cathy Peets, Interim Director of Accounting

Due Date: July 1, 2008

OBSERVATION #5

Verification of Vendor Information

Information is received from vendors through the use of an application and the Form W-9. Pertinent information such as name, address, ownership of the company, Federal Identification Number/Social Security Number (FIN/SS), and other required information for proper payment of services and/or goods received are found on these two forms. The information received from the vendor is not verified for correctness. Although the application and the Form W-9 are signed by an appropriate person within the vendor establishment, it is not known whether the information is accurate.

Verification of key information of the vendor should be performed by the District. Incorrect FIN/SS, addresses, and entity status of a vendor may result in unnecessary work at calendar year-end in submitting 1099s. Submission of incorrect information could result in fines to the District due to misfiling of tax information. Management has been informed of a Federal website that may be a possibility for vendor verification.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop a procedure for the verification of vendor information submitted on the application and Form W-9.

Management Responses: A Vendor File Procedures Manual was developed dated November 29, 2007. Along with the Form W-9, Purchasing has also implemented the use of the Form W-8BEN. This form is to be used for foreign vendors of the District. The procedures will be the same as those for the Form W-9. Both forms will support due diligence of confirming accurate vendor name and number. Incorrect information submitted on these forms constitutes perjury on the part of the vendor. Purchasing is investigating methods of verifying certain vendor information. It will be decided how the investigation will be completed, who is responsible and what information is to be verified. Purchasing is in support of the District following the best practice of having a separate department maintain the vendor file. As increase compliance measures are put into place at the District, it would strengthen internal controls and allow for better and timely verification of vendor information and corrections for the vendor files.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing

Due Date: July 1, 2008

OBSERVATION #6

System Security

IT Staff Access

It appears that individuals within the IT function have unrestricted access to vendor pages with the capability to update and add vendor identifying information and also approve the changes made within the system. It is not known if an audit trail of vendor modifications and approvals exists outside of the IT function. In addition there is a DBA ID that appears to be a shared ID amongst the DBA group. Along with this, Purchasing and Accounts Payable may have been given conflicting roles within the vendor management area. This shared ID makes it impossible to know who administered changes to the production data.

Understanding that IT must have access to make necessary program changes, it should not include changes to data. Monitoring IT changes should be completed by an individual outside of the department to strengthen the control environment. A conflict of system access and functional roles could result in improper changes that may place the District in a potential fraudulent situation.

Procedures should be developed to include the monitoring of changes made within the vendor management screens as well as access to those screens.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop a monitoring process for operating management to review system modifications made by IT staff.

Management Responses: Program level changes, other than update and/or maintenance patches, are direct request from the business owner and are considered customizations. All customizations must be signed off by the Business Services Managers (Accounting, Purchasing, Budget, IT). Stronger controls will be developed for data changes by activating the "audit" function on particular fields. When this is activated any changes made to particular fields with the "audit' function initiated will have information stored that will specify the Userid and datetime stamp of any changes that were made to those fields. Purchasing will work with IT to identify fields that are candidates for this function and to establish a procedure for review of information.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing; Ford Greene, CIO

Due Date: July 1, 2008

OBSERVATION #7

Staff Access to Vendor Screens and Authority

In our audit of vendor management access, it was noted some individuals had system access, but did not require the functionality for their positions. This is a concern since it is not clear whether system access monitoring occurs by role, screens, and operator preferences.

A control is in place to enforce that all vendor additions and changes must be approved by an individual designated within the purchasing department. Access to vendor system screens and the roles of the individual apparently are not tightly structured. The audit team requested information to independently verify data provided in an effort to understand why and if this was due to maintenance timing or other legitimate business reasons. This information was requested by OAG but never received.

Many organizations (best practice) have a separate department from purchasing and accounts payable maintain the vendor information, which includes access to the data, authorization, as well as obtaining documentation, maintaining accuracy and processing vendor information.

RECOMMENDATION and MANAGEMENT RESPONSE

Re-evaluate the access individuals have to all screens within the vendor management system and align with their assigned business responsibilities.

Management Responses: Gary Smith and Deborah Tracey from Purchasing are the only individuals with security rights to approve a vendor. In Accounting, Christina Jones, Sue Harriff, Kathy Stewart, and Joya Ferguson have security to update the vendor file. Cathy Peets, Cerri Cupples, and Paul Laboski have security to approve only vendors with a status of EMPL.

The implementation of a separate department to maintain the vendor file would support the limited access to vendor management screens and also allow for stronger internal controls of the area.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing

Due Date: Implemented

OBSERVATION #8

Change Management

It was noted during the audit that changes may be made within the system that could possibly go unnoticed by purchasing and or accounts payable. Also, individuals that have left employment of the District or have changed positions within the District have not had their system access changed. Access to systems should be updated immediately for personnel changes. When questioned as to how these changes and others are monitored in the system it became apparent that change management had not been a priority. There appears to be no written procedures concerning personnel changes or other changes necessary within the PeopleSoft system. Procedures should be clearly documented and communicated to all employees to reduce the potential risk of incorrect access and conflict with job responsibilities and system access.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop change management procedures for vendor management screens to include personnel changes, monitoring of changes, and approval.

Management Responses: When an employee is terminated, their user account is automatically locked upon termination. This does not terminate their vendor account, just access to computer systems. There is an automatic distribution list of terminated employees that may be used to update the vendor maintenance file. This distribution list is used by purchasing to deactivate P-cards. Ann Marie Lehner will review list to ensure that Accounting and Accounts Payable are placed on the distribution in order to inactivate vendor accounts of terminated employees.

IT has agreed to review the security of all employees on a semi-annual basis for transferred employees. To be proactive in this area, IT will review an existing form, used to activate employee status, to include request of access change due to transfers. The procedure will be developed to place responsibility on chiefs, department heads, and/or supervisors to inform IT of employee status changes. Forms and the procedure for transferred employees will be communicated to all District employees.

Responsibility: Vince Carfagna, Chief Financial Officer; Gary Smith, Director of Purchasing; Ford Greene, CIO

Due Date: July 1, 2008