CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

March 4, 2020

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SUBJECT: Audit Report of Finance Vendor Master File

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Finance Vendor Master File. This audit began in January 2019 and concluded with an exit meeting with department management in October 2019. Management's verbatim response is included in Appendix B of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance

Vendor Master File

Project No. AU19-013

March 4, 2020

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically the Vendor Master File. The audit objectives, conclusions, and recommendations follow:

Determine if proper internal controls are in place to ensure the City's Vendor Master File is reliable and disbursements are accurate.

The Financial Operations Division currently has adequate internal controls to ensure new vendor records are supported with proper documentation. Additionally, there is an adequate process in place to identify and block inactive vendors on an annual basis.

However, there are opportunities to improve the change management process. Currently, adequate documentation to support vendor record changes is not maintained. In addition, potential issues with vendor records such as blank required fields and duplicate vendor records were identified.

Lastly, user access is not appropriate for users with access to vendor maintenance roles.

We made recommendations to address internal control processes. Finance Management's verbatim response is in Appendix B on page 8.

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Background

The Vendor Master File (VMF) is a foundational element of the accounts payable and procurement processes. It is a listing maintained in the SAP financial management system of all approved vendors from whom the City purchases goods and services.

According to best practices, access to the VMF should be limited as a vendor's existence within the listing allows payments to be processed. As such, it is essential to effectively maintain the VMF in order to minimize the risk of inappropriate or duplicated payments and overall system inefficiencies.

Employees within the Financial Operations Division (Division) are tasked with maintaining the listing by overseeing the following processes:

- **Vendor Creation** –The Division is responsible for reviewing and validating vendor furnished source documents prior to record creation.
- **Change Management** – Occasionally, changes are requested to be made to an existing vendor. Examples of changes include updating vendor information and blocking inactive vendors. In order for changes to be successfully processed, adequate supporting documents must be obtained and validated by the Division.
- **File Maintenance** – On an annual basis, the Division reviews the VMF to identify and block inactive vendors. This process consists of blocking vendors that have not conducted business with the City in two or more years.

Once vendors are incorporated into the VMF, they are categorized into one of the following categories:

- **Trade** – Procurement vendors with whom the City conducts business. These may be vendors who have been awarded a contract. Additionally, they can be for one-time payments or non-purchase order payments for which there is no contract.
- **Remit** – Permitted payee vendors are linked to a trade vendor to include additional payment information.
- **Employee** – City employees who receive reimbursement for travel or other out of pocket expenses.
- **Payroll** – Payroll vendors are primarily third party vendors utilized for payroll deductions. Examples include child support payments and student loan wage garnishments. These records should be associated with an existing City employee.

The table below illustrates the number of vendors in the VMF by type as of July 1, 2019.

Number of Vendors as of July 1, 2019			
Vendor Type	**Active Vendors**	**Blocked Vendors**	**Total Vendors**
Trade	10,749	42,090	52,839
Remit	3,852	2,551	6,403
Employee	13,267	11,740	25,007
Payroll	145	404	549
Total	**28,013**	**56,785**	**84,798**

Audit Scope and Methodology

The audit scope included the Vendor Master File, vendor disbursements, and SAP users with access to vendor maintenance roles from October 2015 through July 2019.

To establish our testing criteria we reviewed Administrative Directive 8.3 Accounts Payable, SAP User Guide for Vendor Master Maintenance, Departmental Flowcharts, and Accounts Payable Best Practices. Additionally, we interviewed Finance management and staff to review their processes and identify controls associated with vendor creation, change management, and file maintenance.

As part of our testing procedures, we reviewed samples of new vendors and vendor changes to confirm they were supported with adequate source documentation and were properly validated by the Division.

Additionally, we reviewed the Division's annual file maintenance process to determine whether inactive vendor records were adequately blocked. We also performed data analysis over the vendor master file and disbursements files to identify potential anomalies such as missing required fields, duplicate vendor records, one-time payment vendors that remained active, and duplicate vendor payments.

Furthermore, we reviewed SAP application controls specific to the VMF to confirm they were operating as intended to prevent blank required fields and duplicate vendor records based on tax identification numbers. Lastly, we reviewed SAP user access listings for vendor maintenance roles to confirm access was appropriate and users did not have access to conflicting roles.

We relied on computer-processed data in the SAP to validate the accuracy of vendor records. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing vendor records to supporting vendor documents. We do not believe that the absence of testing beyond that mentioned above had an effect on the results of our audit.

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.

Audit Results and Recommendations

A. Vendor Creation

The Financial Operations Division has adequate controls in place to ensure new vendor records are appropriately supported with proper documentation. Examples of required documents include a W9, Vendor Information Form, and Vendor Master Maintenance Request Form.

We reviewed a sample of 72 vendor records created between January 2018 and March 2019 to determine if proper documentation was maintained on file and agreed to the vendor record. We determined all required documents were maintained on file and agreed to the vendor record.

Recommendations

None

B. Change Management

The Financial Operations Division does not maintain adequate documentation to support vendor record changes.

We reviewed supporting documentation for 248 vendor record changes to determine whether they were supported with adequate documentation. We determined 78 (31%) sampled items had missing or inadequate support, inadequate levels of approval, and/or were not validated adequately by the Financial Operations Division.

Administrative Directive 8.3 Accounts Payable and *SAP User Guide for Vendor Master Maintenance* identify required documentation for vendor record changes. Presently, changes are not processed in accordance with currently accepted practices. Additionally, currently accepted practices do not take into consideration all possible change types and required supporting documents such as the Data Validation Form and Vendor Master Maintenance Request Form. Without adequate documentation, there is a potential for inappropriate changes.

Recommendations

The Deputy Chief Financial Officer should develop comprehensive policies and procedures to reflect currently accepted practices for vendor master maintenance. Additionally, implement risk-based procedures for documentation requirements for the different types of changes.

C. File Maintenance

The Financial Operations Division has an adequate process in place to identify and block inactive vendors on an annual basis. However, improvements can be made to ensure the Vendor Master File is maintained adequately for other potential issues such as blank required fields and duplicate vendor records.

C. 1 File Analysis

We performed data analysis over the vendor master file as of July 2019 to identify potential issues and we identified the following:

- 138 vendor records with missing required fields,
- 62 duplicate vendor records,
- 319 active remit vendors not linked to an active trade vendor,
- 353 one-time payment vendors that remain active, and
- 118 employees with fields matching a vendor record which require further research

Administrative Directive 8.3 Accounts Payable states Finance shall proactively search and provide reports for review of vendor data and initiate corrective actions as needed to standardize data entry. Currently, data analysis is not performed to identify potential issues with vendor records to ensure proper file maintenance. If the vendor master file is not properly maintained, there is an increased risk for incomplete vendor records and inappropriate disbursements.

As of August 2019, the Financial Operations Division has begun reviewing the vendor records identified above and is taking corrective action.

C. 2 Application Controls

The audit team confirmed application controls such as required fields and rejection of record creation for vendors with duplicated Tax Information Number were operating as intended. However, during this review, the audit team determined the Tax Information Number is not a required field for trade vendors.

Additionally, there is currently no process in place to allow employees to query payroll vendors prior to creation to avoid record duplication. Without these controls, there is an increased potential for duplicate vendor records.

Recommendations

The Deputy Chief Financial Officer should perform data analysis procedures to detect and investigate potential issues with vendor records. Additionally, evaluate required vendor fields. Finally, establish a process that enables employees to query payroll vendors prior to creation to avoid record duplication.

D. SAP User Access

User access is not appropriate for users with access to vendor maintenance roles. We reviewed user access listings and determined five individuals outside of the Financial Operations Division currently have access to vendor maintenance transactions. Additionally, three of the five individuals have access to conflicting accounts payable roles that allow them to potentially create vendors and process payments.

Administrative 7.8d Access Control states access controls should be periodically reviewed and access should be limited based on the principle of least privilege. The Financial Operations Division does not have an adequate process in place to perform user access reviews and modify SAP roles accordingly.

Removing unnecessary access within the SAP system ensures only authorized individuals have the ability to make additions, deletions, or changes to the Vendor Master File. Additionally, proper segregations of duties must be in place to prevent inappropriate transactions from being processed.

As of September 2019, the Financial Operations Division has removed inappropriate access from the five individuals identified.

Recommendations

The Deputy Chief Financial Officer should perform periodic user access reviews and modify SAP roles accordingly to comply with the least privilege principle.

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Abigail Medina, CPA, CIA, Auditor in Charge
Hedei Arias, CFE, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

February 21, 2020

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Finance Vendor Master File

Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept/ Decline	Responsible Person's Name/Title	Completion Date
B	**Change Management:** The Deputy Chief Financial Officer should develop comprehensive policies and procedures to reflect currently accepted practices for vendor master maintenance. Additionally, implement risk-based procedures for documentation requirements for the different types of changes.	4	Accept	Suzanne Guerra, Financial Operations Administrator	9/30/2020
	Action plan: Finance, in cooperation with the Information and Technology Services Department, has begun exploring solutions to improve and strengthen the vendor master data process to include the addition of new vendors, changes to vendor information, and the ongoing maintenance of master data. The team will begin by reviewing existing processes and systems, developing requirements, and leveraging existing technology in order to implement the improvements by September 30, 2020. In the interim, Financial Operations will begin centrally validating all vendor master data changes to ensure supporting documentation is adequate and complete. Additionally, Financial Operations will develop policy and procedures related to Vendor Master File actions that will address division and departmental responsibilities. Documentation will encompass processes related to the various vendor types (i.e. trade, payroll, remit and employee) as well as address requirements of individual departments. Documentation will include procedural and workflow diagrams. Training on policies and procedures will be conducted for department stakeholders. Policies will be enforced and communicated consistently through the development of a City Administrative Directive.				

Recommendation					
#	Description	Audit Report Page	Accept/ Decline	Responsible Person's Name/Title	Completion Date
C	**File Maintenance:** The Deputy Chief Financial Officer should perform data analysis procedures to detect and investigate potential issues with vendor records. Additionally, evaluate required vendor fields. Finally, establish a process that enables employees to query payroll vendors prior to creation to avoid record duplication.	5	Accept	Suzanne Guerra, Financial Operations Administrator	Completed
	Action plan: Financial Operations has reviewed the results of the data analysis performed by the Office of the City Auditor to identify potential issues related to vendor records with missing required fields, duplicate vendor records, active remit vendors not linked to an active trade vendor, one-time payment vendors that remained active, and employees with fields matching a vendor record. Upon further research and analysis, all potential issues that were identified were corrected. In order to strengthen the ongoing review and maintenance of vendor master data, Financial Operations in coordination with ITSD will explore the Power of Business Intelligence (BI) within Office 365 to develop interim reporting solutions to manage the quality and accuracy of the City's vendor master data. This is anticipated to be available by September 30, 2020.				
D	**SAP User Access:** The Deputy Chief Financial Officer should perform periodic user access reviews and modify SAP roles accordingly to comply with the least privilege principle.	6	Accept	Suzanne Guerra, Financial Operations Administrator	Completed
	Action plan: The City Auditor found that certain vendor master data functions were part of the composite roles related to TRIP (SAP Travel Management Module). The Division worked with ITSD to remove this access from TRIP roles on September 17, 2019. Financial Operations will review access to master data roles semi-annually.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott, CPA
Deputy Chief Financial Officer
Finance Department

2/21/2020
Date

Ben Gorzell, Jr., CPA
City Financial Officer
City Manager's Office

2/21/2020
Date

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