



City of Clarksville
Internal Audit Report
Vendor Analysis and Duplicate Payment Audit
June 29, 2021

Background:

The vendor master file is an important component of the City's purchasing and accounts payable (AP) processes. It contains the vendor's name, address(es), tax identification number (TIN), and contact information. Information in the vendor master file is used to send payments to vendors and to process 1099s, as required by the IRS.

City departments complete and send a vendor number request form to AP staff in the Finance Department. AP staff, who are responsible for new vendor set up and maintenance, use the form to create the vendor record in the City's financial software (Munis).

The vendor master file contained 16,895 vendors, as of July 21, 2020. Each vendor is classified in one of four statuses listed in the table below. Of those vendors, 1,864 unique vendors were paid through the AP process during the audit period.

Vendor Status	Status Description	Total Vendors
Active	Current vendor	6,998
Inactive	Used when an error or duplicate is identified	21
Stop	Vendor can no longer be used	89
Temporary	Vendor used for a short period of time	9,787
	Total	16,895

The City processes payments to vendors either by purchasing card (pcard) or through the AP process. If the AP process is used, the department sends the invoice received from the vendor to AP with a purchase order (PO). During the audit period, AP processed 11,929 invoices for payment, totaling \$41,031,571.79. Additionally, there were 13,363 purchasing card transactions, totaling \$2,485,275.83.

Audit Objectives, Scope, and Methodology:

The objectives of this audit were to:

- Determine if proper policies, procedures, and controls are in place to ensure accuracy and reliability of vendor information.
- Determine if vendor files are appropriately created, managed, and maintained.
- Identify potential duplicate payments to vendors.

The audit includes a review of the vendor setup and maintenance processes for City General, as well as a review for potential duplicate payments made to vendors, from May 1, 2019 to April 30, 2020. As part of the review of vendor related processes, we analyzed the vendor master file as of July 21, 2020 to identify potential duplicate vendors. The scope excludes CDE Lightband, Clarksville Gas & Water, and Clarksville Transit System, as these enterprise funds have completely separate vendor and AP processes. Any process outside of those listed above, including the AP process itself, have been specifically excluded from this audit.

Judgmental sampling was considered the most appropriate and effective sampling method for concluding on the stated audit objectives. Non-statistical sampling provides sufficient, appropriate evidence to support the conclusions in the report. As audit samples were chosen judgmentally from subsets of data, the results should not be projected to the population.

Audit Results:

1. User permissions and segregation of duties

Observation:

User permissions should be aligned to the job duties of each employee, allowing the minimum necessary access to complete assigned tasks. A periodic review of user permissions is needed to ensure access reflects current employee roles. Due to the complex nature of user permissions and no formal policy to define employee roles in the vendor management process, employee access to vendor related functions is not properly aligned. As a result, unauthorized users may have access to view sensitive information or modify records. During the audit period, unauthorized users performed one of 31 sampled vendor additions and one of 42 sampled vendor changes. While neither of the changes made by unauthorized users were determined to be fraudulent, the users should not have had the capability to make any changes.

Tasks related to vendor creation and maintenance should be properly segregated to reduce the risk of AP fraud. However, AP staff are responsible for creating and modifying vendor files, as well as processing invoices for payment. These duties are not properly segregated. These functions are performed with no review or approval of vendor additions or changes and no periodic review of the vendor master file. In the past, responsibility for vendor additions and changes has been assigned to AP staff to ensure proper set up for 1099 processing; however, Munis workflow could be implemented to alleviate 1099 accuracy concerns.

Incompatible job duties and improper access to the vendor maintenance function increases the City's exposure to accounts payable errors and fraud.

Management Action Plan:

Finance will work with IT to set up a vendor workflow for any changes that are made to the vendor file. The change will be made by AP staff and approved by an Accountant or Accounting Manager.

Finance will investigate employee user permissions and determine if they need to be modified. The following access will be reviewed when verifying user permissions:

- vendor records modification
- vendor record attachments
- sensitive information

We plan to work on a project with IT to modify the permission structure, after which annual reviews of user permissions will become feasible.

A vendor management policy will be created to address each observation.

Managers Responsible: Regina Hampton, Accounting Manager

Estimated Completion Date: 12/31/2021

2. Vendor master file management process

Observation:

The vendor master file should be maintained to ensure accuracy, completeness, and reliability. Establishing and maintaining a clean vendor master file that includes only those vendors that are actively conducting business with the City are best practices.

Management Action Plan:

The Accounting Manager and AP staff will create a vendor policy. The policy will address data entry formatting standards, supporting documentation required, and the use of vendor types and statuses.

<p>Observation (continued):</p>	<p>Management Action Plan (continued):</p>
<p>During review of vendor records, we identified the following:</p> <ul style="list-style-type: none"> ● Potential duplicate vendors ● Inconsistencies with vendor types, formatting, data fields, and data entry ● Insufficient supporting documentation ● Inefficiencies in the vendor creation and management process <p>There is currently no routine maintenance process to identify or correct issues with vendor records or to inactivate vendors no longer in use. Further, there is no written policy to govern vendor additions or modifications, which leads to inconsistencies in data entry/formatting and supporting documentation issues. Vendor additions and modifications are not reviewed or approved before being posted to the vendor master file.</p> <p>Without a robust vendor maintenance process, the vendor master file may become large and unmanageable, which increases the risk of errors and fraud. A large vendor master file that contains vendors with no recent activity gives more opportunity for payments to be sent to the wrong vendor or address and increases the risk of potentially processing a payment to a fraudulent vendor. With a large vendor file, setup of vendors and processing of payments becomes inefficient as it is difficult to search for and choose the correct vendor when creating POs.</p> <p>There are also other opportunities for improvement by utilizing Munis features, such as one-time pay and workflow, as well as importing vendor supplied data needed during the vendor set up process. All of these tools will help reduce duplication of effort and manual tasks within the vendor set up process.</p>	<p>The Accounting Manager and AP staff will review and clean up the existing vendor master file.</p> <p>Finance will perform an annual review of vendor records, to include inactive or duplicate records.</p> <p>Finance will investigate a process to receive/import vendor information directly from vendors. Vendor Registry is currently being used by Purchasing for some vendors. Finance will consider using this as well.</p> <p>The one-time pay vendor feature in Munis has been implemented for property tax refunds. AP staff will look into extending this option for Parks & Recreation refunds also. Additionally, workflow has been established for the EFT process, but will also be added for vendor additions and maintenance.</p>
<p><u>Managers Responsible:</u> Regina Hampton</p> <p><u>Estimated Completion Date:</u> 12/31/2021</p>	
<p>3. Duplicate payments</p>	
<p>Observation:</p>	<p>Management Action Plan:</p>
<p>Payments should be issued to vendors both accurately and timely. Ten duplicate payments were identified and confirmed during the audit period, totaling \$1,211.69.</p>	<p>AP staff will work to create an invoice entry procedure using the Munis KnowledgeBase as a starting point. This procedure will address how to enter invoice numbers for invoices received that do not have an invoice</p>

Observation (continued):	Management Action Plan (continued):
<ul style="list-style-type: none"> ● Eight were due to invoice number modification issues ● One was due to an invoice number typo ● One was an invoice paid by both purchasing card and PO <p>Two of the ten were previously identified and corrected by the department. However, the errors were not communicated to Finance to be reflected correctly in the AP system and were not properly documented.</p> <p>While some invoices received from vendors are true duplicates, there are instances where invoices received do not have invoice numbers or a vendor may reuse the same invoice number over a period of time. In these situations, invoice numbers must be created or modified to comply with a Munis control that requires a unique invoice number for each vendor in order to process a payment. In seven of the eight exceptions noted above, it appears that any documentation reviewed was not sufficient to determine if the invoice was a duplicate prior to modifying the invoice number. Additionally, there is no documented policy detailing the convention for AP staff to create or modify invoice numbers in Munis. This increases the likelihood that AP staff will enter them inconsistently, leaving potential duplicate invoices undetected by the unique invoice number control within Munis.</p> <p>Both inconsistent use of invoice numbering conventions by AP and inconsistent payment methods for a particular vendor by departments increases the risk of duplicate payment. Duplicate payments increase expenditures unnecessarily.</p>	<p>number, and the process that occurs when a duplicate invoice number is identified.</p> <p>Finance will ensure Accountants are properly trained to thoroughly review AP batches prior to posting invoices.</p> <p>Finance will ensure departments are aware of the proper steps to take when a duplicate payment is identified.</p> <p>Finance will work with Purchasing to educate departments on using consistent payment methods for vendors.</p>
<p><u>Managers Responsible:</u> Regina Hampton</p> <p><u>Estimated Completion Date:</u> 12/31/2021</p>	