



INTEROFFICE COMMUNICATION

General Manager

APPENDIX B – GAINESVILLE REGIONAL UTILITIES RESPONSE AND CORRECTIVE ACTION PLAN

DATE: June 5, 2018

TO: Carlos Holt, City Auditor

FROM: Edward J. Bielarski, Jr., General Manager for Utilities

A handwritten signature in blue ink, appearing to be 'EJB', is written over the name 'Edward J. Bielarski, Jr.' in the 'FROM' field.

SUBJECT: Management Response to Audit of the Vendor Master File

Utilities Purchasing staff has reviewed the recommendations of your office and find that they are reasonable and applicable for additional controls to be added to the vendor setup and maintenance of existing vendors. Current procedures have been reviewed to assure controls are in place where necessary. Staff's response includes a description of the controls that are to be added. A solution to Observation A, 1b, Phase 2 is currently being tested by the Enterprise Resource Planning (ERP) group.

The attached response was compiled by Utilities Purchasing staff and submitted to me by Utilities Purchasing Manager James Frampton. Mr. Frampton is available to answer questions or provide additional information as needed.

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We believe that management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing responses to our recommendations.

| Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
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| <p>Observation A: Policies, procedures, and oversight related to General Government’s and Gainesville Regional Utilities’ Vendor Master File are not adequately designed nor implemented. Management should address the lack of oversight in the Vendor Master File process by:</p> | | |
| <p>1) Establishing Policies and Procedures that address:</p> <ul style="list-style-type: none"> a) an annual risk assessment, establishment of key controls and accountability necessary to implement the controls b) enrollment (request, verification and approval) and maintenance of vendors c) standardizing vendor input information, supporting documentation needed, and retention of all supporting documentation (Vendor Application Form, W9) in a central location database or file share that includes the requestor and approver of the vendor and the means used to validate vendor’s existence and accuracy d) periodically reviewing the Vendor Master File regularly (biannually, quarterly, etc.) to ensure vendors with no activity are marked inactive, duplicate vendors are corrected, and the accuracy of the vendor information is adequate and authorized. This review should be performed by management or staff independent of those involved in vendor setup. e) adding in the necessary approval role to enrollment and modifying the Vendor Master File f) modifying the Vendor Master File | <ul style="list-style-type: none"> a. Reviewed detail procedures and controls for vendor setup currently in place and insert additional controls where potential fraud could occur. Will change from phase 1 to phase 2 based on changes to SAP to use workflow in section b. b. Phase 1: (Control) Management or designee will manually review new vendor setups and changes along with the back up documentation and approve. . Phase 2: Require new vendor setups and changes to be approved by management through SAP workflow. c. Created checklists for each type of vendor setup. Use checklist to insure consistent information is maintained. Checklist is to be filed with back up vendor documents. d. Biannually review Vendor master file to insure vendors with no activity for more than 24 months are marked inactive by management or designee. | <ul style="list-style-type: none"> a. 9/1/2018 b. 10/1/2018 c. 9/1/2018 d. Biannually beginning 10/1/2018 e. |

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| | <p>e. This is part of b. Phase 2. IT is currently looking to see if it can be done in SAP.</p> <p>f. Additional approval procedures will provide the internal controls to mitigate risk and potential fraud.</p> | <p>Based on IT schedule. Will have manual approval in place until then.</p> <p>f. 9/1/2018</p> |
| <p>2) Assigning personnel necessary to establish proper segregation of duties, perform the annual risk assessment, and for the process that mitigate risk and potential for fraud</p> | <p>Currently there is one person in procurement that can set up vendors and make changes to existing vendors that has proper segregation of duties. There is one person in treasury that can make changes to treasury vendors only. There is a compensating control currently in place so that person cannot make payments to a vendor. In addition to what is in place already, I have requested that an approval be required through SAP workflow for any new vendor setups or changes to existing vendors. This is currently being tested. I am also planning to recruit a person from another department to be a back up to Lisa when she is out in order to maintain segregation of duties while Lisa is out. Also reference</p> | <p>10/1/2018</p> |

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| | section 1 b of Observation A | |
| 3) Additionally, management should review and mark all vendors without activity or deemed not necessary as “marked for deletion” | Vendor database will be checked biannually to determine which vendors need to be “marked for deletion”. If no activity for two years, vendor will be mark for deletion. | 10/1/2018 |
| <p>Observation B: Vendor Master File system controls cannot be relied upon as implemented. Management should address the need for risk assessment, formal policies and procedures and personnel on staff in the Vendor Master File process by:</p> | | |
| 4) Creating formal policies and procedures for review of adds, changes or deletions made to the Vendor Master File to ensure completeness, accuracy and existence of changes. This review should be performed by management or staff independent of those involved in vendor setup. | Covered in Observation A 1 through 3. | 10/1/2018 |
| 5) Obtaining the personnel necessary to conduct the proper risk assessment, establish formal policies and procedures, and perform the controls necessary to mitigate risk and potential for fraud | Currently working with HR to fill vacant positions, but still should be able to add controls to mitigate risk and potential fraud as covered in Observation A 1 through 3 | 10/1/2018 |
| <p>Observation C: Conflict of Interest controls and monitoring are not working as intended. Management should address the need for management oversight in the Vendor Master File process by:</p> | | |
| 6) Changing vendors in violation of Section 2-146 of the City of Gainesville Code of Ordinances to “marked for deletion” | Create form that will need to be filled out by the requester. Policy 2-146 will be referenced on the form Dicipline will follow guidelines set by HR for violation of this policy. Will also be included in procedures | 9/1/2018 |

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| 7) Developing more robust methods of preventing and detecting conflicts of interest in the vendor setup, vendor maintenance, and procurement process | See 6 | |
| 8) Providing accountability to employees violating Section 2-146 of the City of Gainesville Code of Ordinances and those not completing the Annual Reminder Acknowledgement | See 6 | |
| 9) Reviewing the Vendor Master File and ensure all current employees on the listing is marked with the correct vendor account group code and update or “mark for deletion” based on review | Review has been completed Will request a report be created by IT from SAP showing vendors with duplicate banking information so that a biannual review can be made to catch vendors that have been subsequently hired as employees. | Report requested. Completion date will depend on when the report is available. |