

## FINAL AUDIT REPORT



### **A Report to the City Commission**

#### **Mayor**

Lauren Poe

#### **Mayor Pro-Tem**

Adrian Hayes-Santos

### **Commission Members**

David Arreola

Gail Johnson

Gigi Simmons

Harvey Ward

Helen K. Warren

City of  
Gainesville Office  
of the City  
Auditor

Carlos L. Holt – City Auditor

# General Government and Gainesville Regional Utilities Vendor Master File Audit

August 2, 2018

## EXECUTIVE SUMMARY

August 2, 2018



### Why We Did This Audit

The audit was included in the City Auditor's 2018 Fiscal Year Audit Plan due to the inherent risk of duplicate or fraudulent payments from the Vendor Master File since it holds vital information needed in the Procurement and Accounts Payable processes.

### What We Recommend

Key actions General Government and Gainesville Regional Utilities Management should take:

- Establish Vendor Master File policies and procedures that require an annual risk assessment and establish key processing controls, including proper segregation of duties that can mitigate the inherent risk of potential fraudulent activity to an acceptable level.
- Assign or obtain the personnel necessary to ensure control objectives are achieved.
- Periodically review the Vendor Master File for completeness, accuracy, existence of vendors, and any conflicts of interest.
- Provide accountability to employees who violate the City's conflict of interest Ordinance.

# General Government and Gainesville Regional Utilities Vendor Master File

## BACKGROUND

The Vendor Master File is an essential element of the Procurement and Accounts Payable processes. The Vendor Master File is a listing of all approved vendors from whom the City purchases good and services and contains vital information used to facilitate transactions and related payments to vendors.

Limited staff access and segregation of duties around the Vendor Master File is essential to minimize the risk of unauthorized or inappropriate activity, duplicate payments, and processing inefficiencies. Inaccurate, incomplete, or unauthorized vendor records will negatively impact the processing of vendor payments and may increase the risk of fraud or abuse.

It is imperative for the City to have effective internal controls in place to address not only the completeness, existence, and accuracy of the vendor information, but to also identify potential instances of fraud, abuse, or conflicts of interest.

## OBJECTIVES

The objectives of the audit were to determine the following:

- Were there adequate controls operating effectively over the enrollment and maintenance of the General Government's and Gainesville Regional Utilities' Vendor Master Files?
- Were there duplicate, unverifiable, or spurious vendors within the current General Government and Gainesville Regional Utilities Vendor Master Files?

## WHAT WE FOUND

- Policies, procedures, and oversight related to General Government's and Gainesville Regional Utilities' Vendor Master Files are not adequately designed or implemented. Duplicate active vendors with the same name, bank account and/or Tax ID existed within the Vendor Master File. There were, inadequate segregation of duties.
- Vendor Master File system controls cannot be relied upon as implemented.
- Conflict of Interest controls and monitoring are not working as intended. Several instances of employees providing compensated services to the City while employed were found but did not violate additional Human Resources policies. One employee that was compensated via payables also received their regular full time employment salary for the same day.

## GOVERNANCE

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Ownership of the Vendor Master File differs between General Government and Gainesville Regional Utilities as follows:

- General Government's Vendor Master File is maintained by Accounts Payable under the direct supervision of the Finance Director, a direct report to the City Manager (see *Observation A* related to policies, procedures and oversight).
- Gainesville Regional Utilities' Vendor Master File is maintained by Purchasing under the direct supervision of the Utilities Administrative Services Director in the General Manager's office (see *Observation A* related to policies, procedures and oversight).

## SCOPE AND METHODOLOGY

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The audit scope covered all active vendors included in the Vendor Master File during FY2018 and any vendor the City did business with in FY2017.

During the engagement, we interviewed management and key personnel, attended meetings, performed data analysis of vendor data, observed and mapped processes, examined payment and invoice documents, reviewed vendor files, and performed conflict of interest research.

## OBJECTIVES AND CONCLUSIONS

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1. Were there adequate controls operating effectively over the enrollment and maintenance of the General Government's and Gainesville Regional Utilities' Vendor Master Files?

**No.**

We determined that inadequate controls were in place at both General Government and Gainesville Regional Utilities over the enrollment, maintenance, and conflict of interest for vendors in the Vendor Master File.

2. Were there duplicate, unverifiable, or spurious vendors within the current General Government and Gainesville Regional Utilities Vendor Master Files?

**Undeterminable.**

We identified duplicate, unverifiable, and possible spurious vendors existing within the current Vendor Master File. Based on the inherent risk, we provided management a listing of potential duplicate payments to research and determine the validity of the payments.

## AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 Framework)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to help management fulfill their internal control responsibilities.

### **Condition: (describes what we found)**

**Observation A:** Policies, procedures, and oversight related to General Government and Gainesville Regional Utilities’ Vendor Master File are not adequately designed or implemented.

General Government	Gainesville Regional Utilities
<p>During tests of processes used to maintain the Vendor Master File, we found that the General Government Finance Department:</p> <ul style="list-style-type: none"> <li>• Has no formal policy or procedure related to vendor enrollment and maintenance of the Vendor Master File</li> <li>• Lacks proper segregation of duties; City employees had incompatible duties such as, approving a vendor and paying the payables, and had access to modify the Vendor Master File</li> <li>• Does not regularly verify vendors before being added to the Vendor Master File</li> <li>• Lacks consistency in obtaining and retaining adequate documentation during enrollment (vendor setup) and changes</li> <li>• Has limited controls over the establishment of new vendors and lacks protection against the risk of an employee creating a fictitious vendor and then making a payment to that vendor</li> <li>• Does not regularly review and validate the legitimacy, necessity, completeness and accuracy of vendor information on the list</li> </ul>	<p>During tests of processes used to maintain the Vendor Master File, we found that the Gainesville Regional Utilities Purchasing Department:</p> <ul style="list-style-type: none"> <li>• Lacks a robust formal policy and corresponding procedures related to vendor enrollment and maintenance of the Vendor Master File</li> <li>• Lacks consistency in obtaining and retaining adequate documentation during enrollment (vendor setup) and changes</li> <li>• Have insufficient controls over the establishment of new vendors. Controls are limited with no secondary review and also do not protect against the risk of an employee creating a fictitious vendor</li> <li>• Does not regularly review and validate the legitimacy, necessity, completeness, and accuracy of vendor information on the list</li> </ul>

Based on analytics performed and samples tested, the following findings increase the risk of duplicate, inappropriate, or erroneous payments:

- Duplicate “active” vendors with the same name, bank account and/or TIN information
- Vendors marked as “active” when they should have been marked “inactive”/ “marked for deletion”
- Vendors with incomplete and/or unsupported attributes (i.e., incomplete vendor application)

**Observation B:** Vendor Master File system controls cannot be relied upon as implemented.

General Government	Gainesville Regional Utilities
<p>During tests of processes used to maintain the Vendor Master File, we found the following related to system controls:</p> <ul style="list-style-type: none"> <li>• General Controls:               <ul style="list-style-type: none"> <li>○ CGI Advantage does not protect against the creation of duplicate vendor files</li> <li>○ There is no review of the change management report between vendor setup, modification and invoices approved by the individuals with incompatible duties to mitigate the risk of unsegregated duties and detect possible fraudulent activity</li> </ul> </li> <li>• Access Controls:               <ul style="list-style-type: none"> <li>○ User accounts privileges (conflicting roles) are not subject to independent review</li> <li>○ Certain employees are allocated specific access rights to perform incompatible functions within CGI Advantage. We found that one employee had access to VCM function (vendor setup), VCC function (vendor approval), as well as, payment of invoices in the system</li> </ul> </li> <li>• Additionally, during completeness testing (identifying vendors from the vendor bank account listing and transactions from the general ledger and tracing them into the Vendor Master File), we determined the Vendor Master File provided was incomplete. We conducted a few iterations to obtain a complete version of the Vendor Master File that contained 7,944 more vendors than originally included.</li> </ul>	<p>During tests of processes used to maintain the Vendor Master File, we found the following related to system controls:</p> <ul style="list-style-type: none"> <li>• General Controls:               <ul style="list-style-type: none"> <li>○ SAP does not protect against the creation of duplicate vendor files</li> <li>○ There is no review of the change management report for vendor setup and modification, even though there is no approver role in the process, to mitigate the risk of unsegregated duties and detect possible fraudulent activity</li> </ul> </li> </ul>

**Observation C:** Conflict of Interest controls and monitoring are not working as intended.

General Government	Gainesville Regional Utilities
<p>During tests of processes used to maintain the Vendor Master File against employee records, we identified:</p> <ul style="list-style-type: none"> <li>• Twelve employees that were compensated (via accounts payable) for services outside the scope of their City job description; checks were issued while employed but on their own personal time</li> <li>• Three employees were compensated for services (via accounts payable) within the scope of their City job description. Of those three employees:               <ul style="list-style-type: none"> <li>○ One employee took paid time off to provide the services</li> <li>○ One employee was compensated, but we were unable to determine if they violated any additional employment rules</li> <li>○ One employee received their regular employment salaried pay for overlapping hours. Upon further review, we determined this employee had not signed the Annual Reminder Acknowledgement for the past 3 years. The annual reminder is sent to every employee and includes the ethics policy and outside employment form (where applicable) required to be complete each year</li> </ul> </li> </ul>	<p>During tests of processes used to maintain the Vendor Master File against employee records, we identified:</p> <ul style="list-style-type: none"> <li>• One employee was compensated for services outside the purview of their City job description, but on their own personal time</li> <li>• Four current employees have a vendor account group code other than correct code (ZEMP), which is the designation for employee vendors. This caused a reimbursable expense for an employee to be classified as a vendor payment.</li> <li>• Twenty-six current employees designated as vendors should no longer be active in SAP due to inactivity and four current Gainesville Regional Utilities’ employees should no longer be active because the vendor account group code is not designated appropriately</li> </ul>

**Cause: (explains why the condition occurred)**

The underlying cause for each issue noted above can be attributed to the lack of management oversight in the Vendor Master File, IT controls, and conflict of interest processes. Based on interviews and subsequent testing, we noted the process lacks an overall risk assessment, accountability, and formal policies and procedures. As such, the key controls over the Vendor Master File were either poorly designed, missing or did not mitigate the inherent risk and/or potential for fraudulent activity to acceptable level.

Additionally, the effects of long term understaffing has hindered both General Government and Gainesville Regional Utilities management’s ability to be attentive in improving the overall process, properly segregate responsibilities, and take the actions necessary to mitigate the inherent risk and/or potential for fraudulent activity to acceptable level.

***Criteria: (describes what “should be” based on principles, policies, procedures, etc.)***

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*

The City’s Code of Ethical Standard and Section 2-146 of the City of Gainesville Code of Ordinances, Personal Interest Prohibited, and employees should not provide services outside the scope of their employment with the City

Florida Statue Number 112.313, subsection (7) (a), Conflicting Employment or Contractual Relationship

***Effect: (describes the potential impact and any adverse results)***

The potential effect of not having the needed management oversight or sufficient staff to segregate duties in the process:

- Processing of fraudulent or fictitious vendor set ups or changes to existing vendors
- Duplicate payments, erroneous or fraudulent activity may go undetected
- Unreliable data, non-compliance with regulations, and inefficiencies in accounts payable or procurement processes
- Not restricting City employees from acting as vendors could provide opportunities for fraud, waste, and abuse

***Risks: (describes the major risks or exposure to the City)***

- Incomplete and unreliable Vendor Master File and related payment disbursements, operating expenses and accounts/vouchers payable
- Potential noncompliance with regulations
- Inaccurate accounts/voucher payable, expense and payment disbursements
- Opportunity for fraudulent activity
- Potential conflict of interest

**Recommendations for Management:**

The following recommendations are the suggested corrective actions needed to mitigate the risk of the identified condition, cause, and potential effects noted in each of the following Observations:

**Observation A:** Policies, procedures, and oversight related to General Government’s and Gainesville Regional Utilities’ Vendor Master File are not adequately designed nor implemented.

General Government	Gainesville Regional Utilities
<p>Management should address the lack of oversight in the Vendor Master File process by:</p> <ol style="list-style-type: none"> <li>1) Establishing Policies and Procedures that address:               <ol style="list-style-type: none"> <li>a) an annual risk assessment, establishment of key controls and accountability necessary to implement the controls</li> <li>b) enrollment (request, verification, and approval) and maintenance of vendors</li> <li>c) standardizing vendor input information, supporting documentation needed, and retention of all supporting documentation (Vendor Application Form, W9, EFT form) 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</li> <li>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</li> <li>e) segregation of duties of City employees with incompatible duties (AP and Vendor setup and modification) that have access to modifying the Vendor Master File</li> </ol> </li> <li>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</li> <li>3) Additionally, in anticipation of the new ERP system, management should review and mark all vendors without activity or deemed not necessary as inactive, and consider not transferring the entire Vendor Master File at that time</li> </ol>	<p>Management should address the lack of oversight in the Vendor Master File process by:</p> <ol style="list-style-type: none"> <li>1) Establishing Policies and Procedures that address:               <ol style="list-style-type: none"> <li>a) an annual risk assessment, establishment of key controls and accountability necessary to implement the controls</li> <li>b) enrollment (request, verification and approval) and maintenance of vendors</li> <li>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</li> <li>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</li> <li>e) adding in the necessary approval role to enrollment and modifying the Vendor Master File</li> </ol> </li> <li>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</li> <li>3) Additionally, management should review and mark all vendors without activity or deemed not necessary as “marked for deletion”</li> </ol>



**Observation B:** Vendor Master File system controls cannot be relied upon as implemented.

General Government	Gainesville Regional Utilities
<p>Management should address the need for risk assessment, formal policies and procedures and personnel on staff in the Vendor Master File process by:</p> <ol style="list-style-type: none"> <li>4) Creating formal policies and procedures to review any 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.</li> <li>5) Obtaining the personnel necessary to conduct a proper risk assessment, establish formal policies and procedures, and perform controls needed for mitigating risk and potential for fraud</li> <li>6) Creating formal access rights policies and procedures to provide the needed checks and balances for strengthening the access rights and enforcing:               <ol style="list-style-type: none"> <li>a) segregation of duties by restricting user access to allow only the ability to either:                   <ul style="list-style-type: none"> <li>▪ enter or modify but not approve changes to the Vendor Master File</li> <li>▪ neither role above should be approving payment of invoices</li> </ul> </li> <li>b) a process to review user accounts on a regular basis to ensure users access and permission is commensurate with their responsibilities</li> </ol> </li> </ol>	<p>Management should address the need for risk assessment, formal policies and procedures and personnel on staff in the Vendor Master File process by:</p> <ol style="list-style-type: none"> <li>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</li> <li>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</li> </ol>

**Observation C:** Conflict of Interest controls and monitoring are not working as intended.

General Government	Gainesville Regional Utilities
<p>Management should address the need for management oversight in the Vendor Master File and Human Resources annual reminder processes by:</p> <ul style="list-style-type: none"> <li>7) Changing vendors that are in violation of Section 2-146 of the City of Gainesville Code of Ordinances to inactive</li> <li>8) Developing more robust methods of preventing and detecting conflicts of interest in both the vendor setup, vendor maintenance and procurement process</li> <li>9) Providing accountability to employees violating Section 2-146 of the City of Gainesville Code of Ordinances and those not completing the Annual Reminder Acknowledgement</li> </ul>	<p>Management should address the need for management oversight in the Vendor Master File process by:</p> <ul style="list-style-type: none"> <li>6) Changing vendors in violation of Section 2-146 of the City of Gainesville Code of Ordinances to “marked for deletion”</li> <li>7) Developing more robust methods of preventing and detecting conflicts of interest in the vendor setup, vendor maintenance, and procurement process</li> <li>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</li> <li>9) Reviewing the Vendor Master File to ensure all current employees on the listing are marked with the correct vendor account group code and update or “mark for deletion” based on review</li> </ul>

**GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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 observations and conclusions based on our audit objectives.

**AUDIT TEAM**

- Carlos L. Holt, CPA, CFF, CIA, CGAP, CFE, City Auditor
- Eileen M. Marzak, CPA, CFE, Assistant City Auditor
- Emily Bowie, CPA, Senior Auditor
- Ronald Ison, IT Staff Auditor

**Gainesville.**  
Citizen centered  
People empowered

**Budget & Finance**

## Memo

**To:** Carlos Holt, City Auditor  
**Via:** Anthony Lyons, City Manager   
**From:** Christopher Quinn, Finance Director   
**Date:** 6/27/2018  
**Re:** General Government Vendor Master File Audit Response

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Thank you for the opportunity to comment on the recently completed audit of the General Government and Gainesville Regional Utilities Vendor Master File. We appreciate the time and effort expended by the City Auditor's office in conducting the audit. We have reviewed the recommendations provided to General Government and offer the following response.

We are in full agreement with the necessity of implementing policies and procedures that comprehensively address the Vendor Master File process. The Procurement Division of the Budget & Finance Department has developed a new Vendor Master File Implementation Policy and Procedure that is scheduled to be rolled out to the City departments with an implementation date of August 1, 2018. Training on the new process is being developed by the Procurement Division and will be provided to the departments in July 2018.

We believe that we have fully addressed the concerns and recommendations presented in the audit report in the new Vendor Master File Policy and Procedure. The Procurement Manager is responsible for the implementation, maintenance, and update of the process.

**See complete response at Attachment A.**

## APPENDIX A – GENERAL GOVERNMENT RESPONSE AND CORRECTIVE ACTION PLAN

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
<p><b>Observation A:</b> Policies, procedures, and oversight related to General Government’s and Gainesville Regional Utilities’ Vendor Master File are not adequately designed nor implemented.</p> <p>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"> <li>a) an annual risk assessment, establishment of key controls and accountability necessary to implement the controls</li> <li>b) enrollment (request, verification, and approval) and maintenance of vendors</li> <li>c) standardizing vendor input information, supporting documentation needed, and retention of all supporting documentation (Vendor Application Form, W9, EFT form) 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</li> <li>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</li> <li>e) segregation of duties of City employees with incompatible duties (AP and Vendor setup and modification) that have access to modifying the Vendor Master File</li> </ul>	<ul style="list-style-type: none"> <li>a) Concur. The Vendor Master File Procedure provides for an annual review of the processes and controls for potential modification.</li> <li>b) Concur. The Vendor Master File Procedure requires User Departments to request new vendor setup and existing vendor modification, with verification by the Budget &amp; Finance Department Account Clerk, and approval by the assigned Procurement Division Buyer.</li> <li>c) Concur. The Vendor Master File Procedure directs the AP Data Entry Clerk to follow the adopted Vendor Naming Convention when inputting a new vendor. The Vendor Master File Procedure requires the departments to submit a Vendor Application Checklist with the Vendor Application Form. The Checklist requires supporting documentation for vendor modification approval, including a W9 and EFT Form. Verification procedures are performed by the Budget &amp; Finance Department Account Clerk and noted on the Checklist. The Checklist and supporting verification documentation is scanned and maintained in a specified secure folder on the shared Accounting drive for review by authorized personnel only. A naming and folder structure for maintaining those files has been created.</li> </ul>	<p>8/1/18</p> <p>8/1/18</p> <p>8/1/18</p>

**APPENDIX A – GENERAL GOVERNMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
	<p>d) Concur. The Vendor Master File Procedure provides for annual Vendor Master File maintenance. The annual review is conducted to identify potential conflicts of interest, duplication, and errors in vendor records. Vendors with no activity for the past 18 months are inactivated. Monthly review of modifications to the Master Vendor File by the Procurement Manager or designee is also provided.</p> <p>e) Concur. We recognize the importance of proper segregation of duties; therefore, with current system constraints that require data input to the Vendor Master File be performed by AP, we have built compensating controls into the Vendor Master File Procedure. A monthly review by the Procurement Manager to confirm that only modifications approved by the Procurement Division have been made to the Vendor Master File is required.</p>	<p>8/1/18</p> <p>8/1/18</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>Concur. Where feasible, incompatible duties have been segregated between the Procurement and Accounts Payable Divisions, with monitoring provided by the Procurement Manager and the Internal Control Manager.</p>	<p>8/1/18</p>
<p>3) Additionally, in anticipation of the new ERP system, management should review and mark all vendors without activity or deemed not necessary as inactive, and consider not transferring the entire Vendor Master File at that time</p>	<p>Concur. In anticipation of the implementation of the new Vendor Master File Policy and Procedure, Accounts Payable has identified vendors with activity, including new vendor applications, in the past 18 months. All other vendors will be marked inactive. Only active vendors' paper documentation will be scanned to the new secure electronic Vendor Master File location.</p>	<p>8/1/18</p>

**APPENDIX A – GENERAL GOVERNMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p><b>Observation B:</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>		
<p>4) Creating formal policies and procedures to review any 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.</p>	<p>Concur. The Vendor Master File Procedure provides for monthly review by the Procurement Manager or designee to compare the Vendor Application Forms approved by the Procurement Division Buyer to the report on modifications to vendors report from the Accounts Payable system.</p>	<p>8/1/18</p>
<p>5) Obtaining the personnel necessary to conduct a proper risk assessment, establish formal policies and procedures, and perform controls needed for mitigating risk and potential for fraud</p>	<p>Concur. The Vendor Master File Procedure directs the Procurement Manager to coordinate an annual review of the Vendor Master File Policy and Procedure to develop additional screening techniques to identify vendors for potential inactivation.</p>	<p>8/1/18</p>
<p>6) Creating formal access rights policies and procedures to provide the needed checks and balances for strengthening the access rights and enforcing:</p> <ul style="list-style-type: none"> <li>a) segregation of duties by restricting user access to allow only the ability to either: <ul style="list-style-type: none"> <li>▪ enter or modify but not approve changes to the Vendor Master File</li> <li>▪ neither role above should be approving payment of invoices</li> </ul> </li> <li>b) a process to review user accounts on a regular basis to ensure users access and permission is commensurate with their responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>a) Concur. We reviewed current Security Roles for individuals who can enter or modify changes to the Vendor Master File and find that none also have access to approve changes. Finance and Budget is looking at means to eliminate security role conflicts for invoice approvers who are also able to enter, modify, or approve changes to the Vendor Master File. In the meantime, the department has established detective controls to monitor the conflict. The conflicts can be resolved when the new ERP workflow system is implemented, and potentially prior to that time as the new procurement procedures are practiced.</li> <li>b) Concur. Internal Control is currently developing a manual for review tasks to be completed on a regular basis, and will include an annual comprehensive review of Security Roles for incompatible access.</li> </ul>	<p>Completed</p> <p>10/1/18</p>

**APPENDIX A – GENERAL GOVERNMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p><b>Observation C:</b> Conflict of Interest controls and monitoring are not working as intended. Management should address the need for management oversight in the Vendor Master File and Human Resources annual reminder process by:</p>		
<p>7) Changing vendors that are in violation of Section 2-146 of the City of Gainesville Code of Ordinances to inactive</p>	<p>Concur. These changes have been completed by the AP Supervisor.</p>	<p>Completed</p>
<p>8) Developing more robust methods of preventing and detecting conflicts of interest in both the vendor setup, vendor maintenance and procurement process</p>	<p>Concur. The Vendor Application Form includes a certification by the vendor that no conflicts exist. Departmental training will cover the issue of conflicts of interest. The Vendor Master File Implementation Procedure provides for an annual review that includes reviewing for conflicts of interest.</p>	<p>8/1/18</p>
<p>9) Providing accountability to employees violating Section 2-146 of the City of Gainesville Code of Ordinances and those not completing the Annual Reminder Acknowledgement</p>	<p>Concur. Human Resources will communicate to all employees that failure to timely alert management and request approval for outside employment may result in discipline. The Annual Reminder will be updated to include a reference to Section 2-146 of the Code of Ordinances. Completion of the Acknowledgement of Receipt of the Annual Reminder will be mandated by a specific date, and procedures for noncompliance will be established in an HR Practice.</p>	<p>8/15/18</p>



**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

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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.

**See complete response at Attachment B.**



## APPENDIX B—GAINESVILLE REGIONAL UTILITIES RESPONSE AND CORRECTIVE ACTION PLAN

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
<p><b>Observation A:</b> Policies, procedures, and oversight related to General Government’s and Gainesville Regional Utilities’ Vendor Master File are not adequately designed nor implemented.</p> <p>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"> <li>a) an annual risk assessment, establishment of key controls and accountability necessary to implement the controls</li> <li>b) enrollment (request, verification and approval) and maintenance of vendors</li> <li>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</li> <li>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.</li> <li>e) adding in the necessary approval role to enrollment and modifying the Vendor Master File</li> <li>f) modifying the Vendor Master File</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>b. Phase 1: (Control) Management or designee will manually review new vendor setups and changes along with the backup documentation and approve. Phase 2: Require new vendor setups and changes to be approved by management through SAP workflow.</li> <li>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.</li> <li>d. Biannually review Vendor master file to insure vendors with no activity for more than 24 months are marked inactive by management or designee.</li> <li>e. This is part of b. Phase 2. IT is currently looking to see if it can be done in SAP.</li> <li>f. Additional approval procedures will provide the internal controls to mitigate risk and potential fraud.</li> </ul>	<p>9/1/2018</p> <p>10/1/2018</p> <p>9/1/2018</p> <p>10/1/2018</p> <p>Based on IT schedule. Will have manual approval in place until then.</p> <p>9/1/2018</p>

**APPENDIX B—GAINESVILLE REGIONAL UTILITIES RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<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.</p> <p>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 section 1 b of Observation A.</p>	<p>10/1/2018</p>
<p>3) Additionally, management should review and mark all vendors without activity or deemed not necessary as “marked for deletion”</p>	<p>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 marked for deletion.</p>	<p>10/1/2018</p>

## APPENDIX B—GAINESVILLE REGIONAL UTILITIES RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p><b>Observation B:</b> Vendor Master File system controls cannot be relied upon as implemented.</p> <p>Management should address the need for risk assessment, formal policies and procedures and personnel on staff in the Vendor Master File process by:</p>		
<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.</p>	<p>Covered in Observation A 1 through 3.</p>	<p>10/1/2018</p>
<p>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.</p>	<p>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</p>	<p>10/1/2018</p>
<p><b>Observation C:</b> Conflict of Interest controls and monitoring are not working as intended.</p> <p>Management should address the need for management oversight in the Vendor Master File process by:</p>		
<p>6) Changing vendors in violation of Section 2-146 of the City of Gainesville Code of Ordinances to “marked for deletion”</p>	<p>Create form that will need to be filled out by the requester. Policy 2-146 will be referenced on the form Discipline will follow guidelines set by HR for violation of this policy. Will also be included in procedures</p>	<p>9/1/2018</p>
<p>7) Developing more robust methods of preventing and detecting conflicts of interest in the vendor setup, vendor maintenance, and procurement process</p>	<p>See 6</p>	
<p>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</p>	<p>See 6</p>	
<p>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</p>	<p>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.</p>	<p>Report requested. Completion date will depend on when the report is available.</p>