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Vendor Master File Audit

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The Office of the City Auditor conducted this
project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Vendor Master File Audit

Table of Contents

Executive Summary	i
1 Introduction	1
2 Background	1
3 Audit Objectives	3
4 Observations and Recommendations	3
4.1 Vendor Master File Administration	5
4.1.1 Vendor Master File policies and procedures	5
4.1.2 SAP access controls	6
4.2 Vendor Authorization and Validation	6
4.2.1 Vendor authorization	7
4.2.2 Vendor validation	8
4.3 Vendor Set Up and Change Management	10
4.4 Vendor Deactivation	13
5 Conclusions and Recommendations	14
Appendix: Scope and Methodology	21

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Executive Summary

The Vendor Master File is an essential element of the City's procurement and accounts payable processes. It contains all the necessary information on individuals and organizations that the City uses to pay for goods and services. The City needs to effectively maintain this file in order to mitigate the risk of unauthorized or inappropriate activity, prevent duplicate payments, and reduce inefficiencies. Inaccurate, incomplete, or unauthorized vendor records could have a negative effect on processing vendor payments and may increase the risk of fraud.

The objective of this audit was to determine whether key controls over the Vendor Master File are adequately designed, established, and operating as intended.

During the audit we found that certain key controls over the Vendor Master File were poorly designed or missing. As a result, we determined that opportunities exist to improve the design and operating effectiveness of these key controls to improve the completeness, accuracy and validity of the Vendor Master File data.

We did find that access controls over the Vendor Master File to ensure only authorized employees (with no purchasing authorities) are able to set up or make changes to vendor records, were adequately designed, established, and operating as intended.

We made four recommendations to address the issues and the opportunities for improvement. They include:

1. Documenting and implementing policies and procedures;
2. Confirming additions or changes to vendor data (specifically for banking information);
3. Cleaning up the Vendor Master File; and
4. Developing and implementing a Vendor Master File monitoring process.

On December 19, 2016, the responsibility for the Vendor Master File transitioned from the Corporate Procurement and Supply Services Branch to the Financial Services Branch, both within the Financial and Corporate Services Department. Financial Services Branch management and staff made significant efforts to address issues as they surfaced during the course of this audit. They either took immediate corrective action or initiated research into the issues to find appropriate solutions.

Our observations and recommendations will assist the Financial Services Branch in their continued effort to maintain and safeguard the Vendor Master File effectively going forward.

Vendor Master File Audit

1 Introduction

The Vendor Master File is a key element in the City’s procurement, accounts payable, and employee expense reimbursement processes. The Vendor Master File contains all the necessary information on individuals and organizations that the City uses to pay for goods and services. The integrity and accuracy of the Vendor Master File is the foundation for valid, efficient, and effective payment processing. The Office of the City Auditor included an audit of the City’s Vendor Master File in its *2017 Annual Work Plan*.

2 Background

The Vendor Master File stores important information about vendors such as name, address, contact information, and electronic payment information. Accounts Payable staff uses this information to facilitate payment transactions to vendors in the procurement of goods and services.

At the City of Edmonton, the Vendor Master File is also used to facilitate non-salary expense reimbursements to employees. Employees are set up in the Vendor Master File as a vendor for two purposes:

1. To facilitate employee expense reimbursements for travel expenses, membership fees to professional organizations, training costs, etc.
2. To facilitate the petty cash reimbursement process. Only employees responsible for managing a petty cash fund are set up as a vendor. Disbursements from and replenishments of the petty cash fund are recorded as payments in the City’s financial system and therefore require a vendor number for processing.

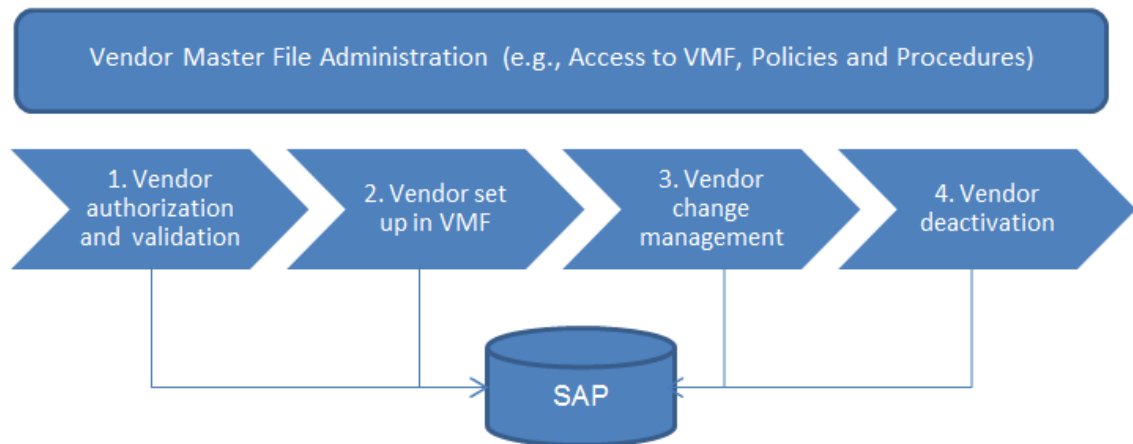
Table 1 (next page) shows the count of vendors by category as of February 14, 2017.

Table 1: Total Number of Vendors by Category

Vendor Type	Total
External vendors	48,629
City of Edmonton employees (non-salary expenditures)	17,890
City of Edmonton employees responsible for petty cash	412
City of Edmonton business areas ¹	41
Total vendor records	66,972

The City’s financial system (SAP) houses the Vendor Master File. The Vendor Master File process includes receiving, verifying, and entering vendor related information into the vendor database as well as changing, maintaining, and deactivating vendor data when required. Figure 1 shows the key processes for managing the Vendor Master File.

Figure 1: Vendor Master File (VMF) Process



Accounts Payable, a unit within the Financial Services Branch, currently manages the Vendor Master File. Prior to December 19, 2016, Corporate Procurement and Supply Services Branch managed the file. After the City-wide reorganization in February of

¹ Business Areas have a vendor record in the Vendor Master File, as they need a vendor number for processing payments to one-time vendors (i.e., customer refunds) and internal payment processes (i.e., interdepartmental transfers and assigning employees to the correct department).

2016, both the Financial Services Branch and the Corporate Procurement and Supply Service Branch are in the City’s Financial and Corporate Services Department.

3 Audit Objectives

The objective of this audit was to determine whether key controls over the Vendor Master File are adequately designed, established, and operating as intended. To do this we assessed the vendor data against the following criteria:

- **Properly authorized:** vendor setup is properly reviewed and approved by responsible personnel in accordance with specific or general authority.
- **Complete:** all required vendor data is recorded in the City’s financial system.
- **Accurate:** vendor data is correct in all details and that information is recorded in a timely manner.
- **Valid:** vendor data is justified and supported by appropriate documentation.
- **Safeguarded:** the use of the Vendor Master File is appropriately controlled and restricted to authorized personnel.

4 Observations and Recommendations

The Vendor Master File contains all the necessary information on individuals and organizations the City needs to process payment transactions. This information includes names, addresses, and bank account information. The integrity and accuracy of the Vendor Master File is the foundation for efficient and effective payment processing.

Overall, we determined that key controls over the Vendor Master File were poorly designed or missing. In addition, we identified opportunities to improve the design and operating effectiveness of key controls over the Vendor Master File. Table 2 provides a high-level overview of the key audit results by Vendor Master File sub-process and audit criteria. Each of the results is described in more detail in the remainder of the report.

Table 2: Key Controls Tested and Audit Results by Vendor Master File (VMF) Process

Legend:

- Sufficiently controlled
- ▣ Controlled, but should be strengthened
- Missing key controls or key controls are not working as designed

Control Tested	Audit Results	Criteria	Rating	Report Section
Process: VMF Administration				
VMF policies and procedures exist and are followed	VMF policies and procedures exist, but are incomplete, insufficient and inaccurate.	All criteria	▣	4.1.1
Access to the VMF is restricted to authorized employees.	Access to the VMF is restricted to authorized employees.	Safeguarded	■	4.1.2
Process: Vendor Authorization and Validation				
Vendor set up and change requests are submitted by responsible person (vendor authorization)	Authorized employees are not required to submit and sign vendor create/change request forms.	Properly authorized	□	4.2.1
Vendor information is validated for legitimacy (vendor validation)	New vendors or changes to existing vendors are not adequately validated prior to inclusion in the VMF.	Valid Accurate Complete	□	4.2.2
Process: Vendor Setup and Change Management				
Strict naming conventions are used for entering data.	Some naming conventions are documented but not consistently followed.	Complete Accurate	▣	4.3
Daily review of entries and changes by authorized employee.	No evidence of daily review of entries and changes by authorized employee.	Complete Accurate	□	4.3
Data in VMF is complete and accurate.	Data in VMF is incomplete and inaccurate.	Complete Accurate	□	4.3
Process: Vendor Deactivation				
Vendors with no activity for five years and terminated employees deactivated.	Vendors with no activity for five years and terminated employees are not deactivated.	Valid Accurate	□	4.4
Vendor blocking procedures are in place.	Vendor blocks do exist but there are no documented procedures and they are used inconsistently.	Valid Accurate	▣	4.4

4.1 Vendor Master File Administration

The key controls over Vendor Master File administration that we tested are:

- Documented policies and procedures exist and are followed ; and
- System access controls restrict access to the Vendor Master File to only authorized employees.

4.1.1 Vendor Master File policies and procedures

As the Vendor Master File is a critical component of the City's accounts payable processes, we expected to find policies and procedures in place that guide employees and provide direction on all aspects of maintaining and protecting the Vendor Master File.

Having documented policies and procedures in place is a key control because:

- They help ensure consistency and efficiency in an organization's day-to-day operational activities.
- They provide clarity to employees when dealing with accountability issues or activities that are of critical importance to an organization.
- They are used to ensure compliance, to address operational needs, for the segregation of duties, to manage risk, for continuous improvement, and as a training media for new and back-up staff.

We found that documentation existed for some aspects of maintaining the Vendor Master File, such as procedures for data entry formats (naming conventions, record structure) and a daily review of modification to the Vendor Master File. However, we observed the following issues with these documents:

- They had not been updated since 2009.
- They did not appropriately address the approval of new vendors, verification/validation of vendors, Vendor Master File clean up (including deactivation of dormant vendors), accountabilities, and segregation of duties.
- They did not define access controls to the Vendor Master File database in SAP.
- They did not align with the actions performed by staff. For example, data testing indicated that data entry format procedures were not consistently followed.

In addition, there was limited oversight of the Vendor Master File to ensure compliance with the procedures since a number of key staff left the organization in September 2016.

The effects of the inadequate policies and procedures were evident in our testing results and are discussed in more detail in the remainder of this report.

We are aware that since taking over responsibility for the Vendor Master File, Accounts Payable staff has reviewed the existing documents and practices. They have also drafted and started implementing new procedures. At the time of writing this report, these new procedures had not yet been fully implemented.

See Recommendation 1 – Document Policies, Procedures and Work Instructions

4.1.2 SAP access controls

Vendor Control Clerks are responsible for creating, updating, and deleting vendor records in the SAP System. They are Accounts Payable employees, which have been allocated specific access rights to perform different functions within the City's financial system.

Controlling access to the Vendor Master File is key to safeguarding the data because:

- Proper access rights reduce the risk of unauthorized employees adding vendors or changing data on existing vendors.
- Separating the ability to create vendors from purchasing and the actual payment of vendors in SAP mitigates the risk of fraudulent activity.

We confirmed that currently only Vendor Control Clerks are able to set up or make changes to vendor records in the City's financial system. We also confirmed that these employees have no ability to approve invoices or any type of payments.

4.2 Vendor Authorization and Validation

The key controls to ensure data entered into the Vendor Master File is legitimate and accurate that we tested are:

- Vendor set up and change requests are submitted by a responsible person prior to processing in the Vendor Master File (vendor authorization); and
- Vendor information is validated for legitimacy prior to inclusion in the Vendor Master file (vendor validation).

4.2.1 Vendor authorization

Vendor approval or authorization means that a request for vendor set up or changes to a vendor's information is reviewed and signed off by a responsible employee prior to being submitted to the Vendor Control Clerk for processing. Having proper authorization for changes to the Vendor Master File is a key control because:

- It helps deter the establishment of fraudulent vendors and disbursement schemes such as shell companies.
- It documents who requested the vendor set up or changes by creating an audit trail. This reduces the risk that requests coming from unauthorized sources are processed and helps to ensure the legitimacy of the request.

We found that according to the policies and procedures requests for vendor set up or changes to the Vendor Master File do not require any approval by an authorized person prior to processing by the Vendor Control Clerk. We also found that:

- Requests to create, update or delete a vendor could come from different sources (buying staff, Accounts Payable staff, Human Resources staff, client department, external vendor via direct e-mail to the Vendor Control Clerk, etc.).
- Requests could come in various formats, for example: e-mail request, copy of invoice, copy of moving card, etc.
- A vendor set up / change form exists, but was not consistently used. As well, this form does not contain any requirement for independent approval.

The effect of not following established procedures, such as the use of vendor set up / change request form or not having procedures in place for vendor approval or authorizations could include:

- Establishment of fraudulent or fictitious vendors;
- Processing of unauthorized vendor set ups or changes to existing vendors;
- Payment to wrong or fraudulent bank account; and
- Inefficiencies in accounts payable or procurement processes such as delay of payment or payments being returned for invalid or incorrect information.

See Recommendation 1 – Document policies, procedures, and work instructions

4.2.2 Vendor validation

Validating vendors is the action of confirming the legitimate existence of the business or person through an external source prior to adding them to or making changes to the Vendor Master File. A vendor validation process adds reasonable assurance to the legitimacy of new vendors or changes to existing vendors. This is fundamental to the integrity of the Vendor Master File. In addition, ensuring the legitimacy of vendors by the Vendor Control Clerk prior to including them in the Vendor Master File is a key control because:

- It confirms the existence of a valid vendor through various mechanisms.
- It ensures the accuracy and completeness of vendor or individual details.
- It helps to ensure data quality and consistency.
- It ensures an independent validation of the legitimacy of new vendors as well as changes to existing vendors by somebody that has no purchasing or payment authorities.

We observed that the Vendor Master File procedures for entering vendors in SAP did not include a process to verify the legitimacy of information, either for internal or external vendors. Vendor Control Clerks only followed up with vendors or requesters if information was incomplete or clearly inaccurate. They relied on the requester to ensure the legitimacy of a vendor prior to submitting a Vendor Master File setup or change request.

Without proper validation processes there is a risk of poor data quality, inconsistency, and errors, which can lead to inefficiencies and poor services to vendors. For example, not properly validating a company's legal name could lead to duplicate records for the same vendor under different names.

There is also a risk that by not properly validating vendor information, imaginary vendors can be set up or fraudulent changes may be made. This can then start an accounts payable fraud (see example below).

Recent attempted accounts payable fraud

During the course of this audit, in January 2017, an attempted accounts payable fraud took place. Based on a fraudulent request, changes were made to the banking information of a vendor in the Vendor Master File. Shortly after the changes were made, the payment of a series of valid invoices with an approximate value of \$400,000, triggered a payment inquire from a citizen in Ontario (not the Vendor). The citizen had received the funds in error. Having confirmed the legitimacy and accuracy of the payment, Accounts Payable staff confirmed the banking information directly with the vendor and discovered that changes were made to the Vendor Master File based on a fraudulent request.

Accounts Payable management notified Corporate Security, the Office of the City Auditor, and the Edmonton Police Services of the attempted fraud. Accounts Payable staff, the citizen in Ontario, and the banks involved worked together to ensure a swift return of the funds.

While there was no financial loss to the City, this instance highlights the importance of implementing appropriate vendor validation. Appropriate vendor authentication and validation procedures could have identified the attempted fraud prior to changes being made in the Vendor Master File. Management has confirmed that it has revised the process for changing sensitive information in the Vendor Master File to prevent a recurrence.

In the case of changes to a vendor's financial information (for example electronic banking information), there is no independent validation option available to the Vendor Control Clerk. An example of a compensating control, in these instances, would be the requirement to provide the vendor with a confirmation notice and/or contacting the vendor directly using the (validated) contact information on file. A procedure of this nature allows the vendor an opportunity to review the changes for accuracy and to question unauthorized actions that may lead to fraudulent or erroneous payments.

See Recommendation 1 – Document policies, procedures, and work instructions and Recommendation 2 - Confirmation of addition or change to vendor

4.3 Vendor Set Up and Change Management

The key controls over vendor set up and change management we tested are:

- Use of strict naming conventions for entering data. Naming conventions are a set of rules identifying what information needs to be entered and how it needs to be entered to ensure vendor data is accurate and complete. SAP tools can assist in enforcing naming conventions, such as mandatory fields, drop-down lists, etc.
- Daily review of entries and changes to the Vendor Master File by an authorized employee.

The Vendor Master File is the repository of a considerable amount of information about an organization's vendors. Information should be accurate and complete to facilitate efficient and effective accounts payable and procurement processes. Processes to ensure a clean and error free Vendor Master File are essential in managing risk as it has a direct correlation to the accuracy of payment transactions. In addition, these key controls are important because:

- Naming conventions help prevent duplicate vendors, which reduces opportunities for duplicate payments. While Administration may have procedures in place to detect duplicate payments (outside the scope of this audit), eliminating duplicate

vendors is an essential preventative step to mitigate the risk of duplicate payments in the first place.

- The daily review of modifications made to the Vendor Master File and the supporting documentation for those modifications by another person further ensures that entries are accurate and complete.

During our testing, we did not find evidence that an authorized employee consistently reviewed the modifications made to the Vendor Master File and the supporting documentation for those modifications.

We also conducted a number of tests to verify the completeness and accuracy of data maintained in the Vendor Master File. Table 3 provides a list of the testing categories and the results.

Table 3: Completeness and Accuracy Test Results

Tested Vendor Master File for:	Results
Duplicate vendors	Exceptions detected
Vendors with incomplete records (this includes desirable information*)	Exceptions detected
Vendors with inaccurate records (this includes desirable information*)	Exceptions detected
File structure errors	Exceptions detected
Inconsistent use naming conventions	Exceptions detected

* What information is required and nice to have for validation purposes is undefined in the City’s Vendor Master File Procedures.

We conducted a number of different tests in each of these categories. We shared the results with management for follow up. The combined test results indicated significant issues with the quality of the data.

Examples of data quality issues our testing identified are:

- No physical address for a vendor. While PO Box addresses may be justified for valid business reasons, a physical address should be obtained to mitigate the risk

of making payments to fictitious vendors. We found 210 external vendors with transactions in the last five years with no physical address on file.

- No direct contact information for a vendor (for example, phone number, fax number, e-mail address). A method of direct communication is required to verify any changes requested to the vendors information. We found 439 external vendors with transactions in the last five years that have no direct communication information on record.
- Inconsistent vendor information obtained. Procedures do not define mandatory vendor information (e.g., legal company name, physical address, etc.) and desirable information. Desirable information is not required to process payment but is helpful in verifying the legitimacy of a vendor (e.g., GST number, business license number, company website, e-mail address, etc.).
- Standard vendor set up and change forms are not consistently used.
- Some naming conventions are documented but not consistently followed. In addition, SAP tools that can assist in enforcing naming conventions, such as mandatory fields, drop-down lists, etc. are currently not utilized in the Vendor Master File.

The creation of Vendor Master File records requires manual entry of names and addresses; therefore, it is difficult to prevent the occasional error or duplicate vendor. The effect of not maintaining and ensuring a clean and error free Vendor Master File could result in a variety of different issues, including:

- Inefficiencies for users (e.g., additional paperwork to process or correct payments).
- Reduced service to vendors.
- Users perceiving data as unreliable and not user-friendly.
- False vendors.
- Erroneous (see fraud case) or duplicate payments.
- Delay of payments (possibly missing discount cut offs).
- Duplicate vendors.

The efficiency of payable and purchasing operations can be improved by reducing vendors with inaccurate and incomplete information in the Vendor Master File.

See Recommendation 1 – Document policies, procedures, and work instructions, Recommendation 3 – Vendor Master File clean up, and Recommendation 4 – Vendor Master File monitoring

4.4 Vendor Deactivation

To maintain an accurate Vendor Master File, procedures need to be in place to archive inactive vendors and properly maintain active vendors. Periodic deactivation of non-active vendors within the Vendor Master File is a common internal control used to prevent fraudulent or erroneous payments from being created. In addition, by archiving inactive vendors, the Vendor Master File becomes leaner and records are easier to access, increasing employee time efficiencies through a reduction of processing time.

We found that there are no cleaning or purging procedures in place. For example, vendors no longer used are not deactivated or archived from the Vendor Master File on a regular basis (i.e., after five years of no activity). We found:

- 41,964 (86%) of the 48,629 external vendor records had no activities recorded in the past 5 years.
- 10,670 (58%) of the 18,302 internal employee and petty cash vendor records are for employees that no longer work for the City of Edmonton.

By not performing an effective deactivation process unused vendors and terminated or retired employees remain in the Vendor Master File and available for processing of payments. This increases the risk of:

- Accounts payable fraud. (Administration has accounts payable controls in place to prevent and detect fraudulent payments. Assessment of these controls was outside scope of this audit.)

- Inefficient payable operations due to large Vendor Master File. For example, error due to similar names or time-consuming search for correct vendor.

We did observe that the City uses various blocks to manage individual vendor accounts.

We observed the following three types of blocks placed on various vendor records:

- Payment blocks - to prevent processing of an outstanding payment to a vendor;
- Purchasing blocks - to prevent the purchasing of any new items from an existing vendor; and
- Posting blocks - to prevent a posting of transactions to a vendor's record.

However, there are no documented procedures regarding which block is used when, who can place a block, what supporting documentation is required to place a block, and how a block can be lifted. This has resulted in an inconsistent use of the different kind of blocks.

See Recommendation 3 – Vendor Master File clean up and Recommendation 4 – Vendor Master File monitoring

5 Conclusions and Recommendations

The audit concluded that key controls over the Vendor Master File for external goods and services providers as well as City employees were poorly designed (Vendor Master File policies and procedures, vendor verification) or missing (vendor authorization and deactivation).

As a result, we determined that opportunities exist to improve the design and operating effectiveness of these key controls to improve the completeness, accuracy, and validity of the Vendor Master File data.

However, we did find that access controls over the Vendor Master File to ensure only authorized employees (with no purchasing authorities) are able to set up or make changes to vendor records, were adequately designed, established, and operating as intended.

We are making the following four recommendations to address the issues and opportunities for improvement we observed during this audit. City Administration has provided its responses to these recommendations.

Recommendation 1 – Revise policies, procedures, and work instructions

The OCA recommends that the Branch Manager Financial Services document and implement policies, procedures, and work instructions for the Vendor Master File that, at a minimum:

- Defines roles and responsibilities of Corporate Procurement and Supply Services, Financial Services, and business areas.
- Determine set up and change authorizations in the Vendor Master File database (SAP access control).
- Require requests for vendor set up or changes to be properly authorized (including use of forms).
- Require review of appropriate supporting documentation prior to setting up or changing Vendor Master File information.
- Require independent validation of the legitimacy of vendor or vendor changes prior to setting up or changing Vendor Master File information.
- Establish and enforce procedures for data entry formats (e.g., naming conventions, record structure, physical address required, direct communication information required).

A process should also be established to periodically review and update the procedures and work instructions to ensure they stay accurate and relevant with the current operating environment.

Management Comments and Proposed Action Plan:

Accepted

Comments/Planned Action:

The Branch Manager Financial Services and Director Treasury Management will

ensure that Vendor Master File procedures and work-instructions are appropriately designed, documented and implemented.

Accounts Payable Management has developed the Vendor Maintenance Operating Governance Guidelines. A payments webpage has been developed on the City's internal website where employees can locate these guidelines on the Vendor Master File. The development of these guidelines serves as a first step in addressing the control environment. The guidelines define the role of Treasury Management in governance of and maintenance of the Vendor Master File. The Director of Treasury Management and the Manager of Accounts Payable will continue to review and enhance the guidelines based on research and a review of best practices.

Key controls have been implemented related to additions/changes/deletions to the Vendor Master File. Procedures have now been developed to ensure that additions/changes/deletions are:

- a. supported by sufficient documentation.
- b. reviewed and authorized by an appropriate employee.
- c. validated for legitimacy prior to inclusion in Vendor Master File.

Management continues to research best practices surrounding maintenance of the Vendor Master File, including best practice validation approaches and will continue to enhance and finalize the current procedures.

Accounts Payable Management has put in place review procedures to ensure the accuracy of the Vendor Master File. The Director of Treasury Management continues to work with Accounts Payable Management to ensure review procedures and authorizations are supported and documented through the procedures and related checklists.

Data entry standards and formats including naming conventions and a defined record structure that will ensure the internal consistency of data will be established by the

Director of Treasury Management.	
The Branch Manager Financial Services and the Director Treasury Management will ensure that guidelines are reviewed on an annual basis and updated as required.	
Responsible party:	Director Treasury Management
Planned completion date:	Preliminary Vendor Master File governance was completed on March 9, 2017. Enhancements and revised documentation are expected to be completed by December 31, 2017.

Recommendation 2 – Confirmation of addition or change to vendor

The OCA recommends that Branch Manager Financial Services establish a process to send confirmation to vendors directly when changes to an existing vendor’s financial information are requested, prior to processing those changes in the Vendor Master File.

Management Comments and Proposed Action Plan:

Accepted	
Comments/Planned Action:	
The Branch Manager Financial Services and the Director Treasury Management have established vendor authentication procedures that will confirm changes to a Vendor’s financial information prior to changes being processed. The process has been implemented and continues to be reviewed and refined as management researches best practices. Management will ensure that vendor authentication procedures are appropriately documented within the policies, procedures and work instructions.	
Responsible party:	Director Treasury Management
Planned completion date:	In progress. Completion of fully documented policies procedures and work instructions expected by December 31, 2017.

Recommendation 3 – Vendor Master File clean up

The OCA recommends that the Branch Manager Financial Services initiate a project to clean up the current Vendor Master File. Clean up should include removing:

- Duplicate vendors;
- Incomplete and inaccurate fields;
- Incorrect file structures; and
- Inactive accounts (dormant or blocked vendors and former employees).

Management Comments and Proposed Action Plan:

Accepted

Comments/Planned Action:

An initial cleanup of the Vendor Master File was completed by March, 31 2017. This process included archiving duplicate vendors, addressing incomplete/inaccurate fields, modifying incorrect file structures, and archiving vendors inactive since January 1, 2014.

The initial cleanup and archiving of vendors in the file in the first quarter of 2017 reduced the file from 83,652 records for 48,629 vendors (including inactive) to 37,792 records for 8,006 active vendors.

Accounts Payable Management is continuing clean-up efforts to address incomplete and inaccurate fields and expects to continue this effort for the remainder of 2017. In addition, Accounts Payable Management will be in a position to implement ongoing monitoring and maintenance of the Vendor Master File at the end of 2017 (see recommendation 4).

The Director Treasury Management continues to monitor ongoing efforts to clean the Vendor Master File.

Responsible party: Director Treasury Management

Planned completion date: Initial clean up completed on March 31, 2017. Expected to be finalized by November 30, 2017.

Recommendation 4 – Vendor Master File monitoring

The OCA recommends that Branch Manager Financial Services develops and implements a management monitoring process to ensure the accuracy and validity of the Vendor Master File. This process should include, at a minimum:

- Periodic deactivation process for dormant vendors and former employees;
- Periodic testing of quality of data; and
- Daily control tests for vendor set up and changes.

Management Comments and Proposed Action Plan:

Accepted

Comments/Planned Action:

As noted for Recommendation 3, the initial cleaning and archiving has substantially reduced the file size. An ongoing cleaning archiving process will be developed based on a review of best practices.

These quality assurance requirements will be included with the procedures referenced for Recommendation 1.

Responsible party: Director Treasury Management

Planned completion date: December 31, 2017

The responsibility for the Vendor Master File transitioned from the Corporate Procurement and Supply Services Branch to the Financial Services Branch, both within the Financial and Corporate Services Department, at the end of 2016. Finance management and staff made significant efforts to address issues as they surfaced during the course of this audit. They either took immediate corrective action or initiated research into the issues to find solutions.

Our observations and recommendations will assist Financial Services in their continued effort to manage and maintain the Vendor Master File effectively and efficiently going forward.

The Office of the City Auditor would like to thank management and staff of the Corporate Procurement and Supply Services and Financial Services Branches for their cooperation and sharing of their knowledge and experiences throughout the audit process.

Appendix: Scope and Methodology

Scope

This project included all vendor types included in the SAP vendor database. The vendor database (also called the Vendor Master File) contains all the necessary information on organizations and individuals that is required to make a payment. This includes information on external vendors for the purchasing of goods and services, but also encompasses employee's information for reimbursement of non-salary expenditures such as travel expenses, membership fees, training, etc. During the planning phase, we observed that one-time vendors² are not included in this database. We therefore excluded one-time vendors from the scope of this audit.

We accessed the following systems during this project:

- SAP (vendor data and payment data)
- PeopleSoft (employee data)

Methodology

We assessed the state of the Vendor Master File using data analytics. We used data from January 2017 to conduct our preliminary planning and help design our tests. We used data from February 14, 2017 to run the actual tests. We tested one hundred percent of the records in the Vendor Master File database.

In addition, we used the following methods to gather further evidence:

- Reviewing documentation;
- Discussions with management and staff of Corporate Procurement and Supply Services and Financial Services Branches;
- Job shadowing of Vendor Control Clerk; and
- Random sample testing of daily control report and supporting documentation.

² One-time vendor is a vendor with which the City of Edmonton has a temporary relationship and are most often used for one or two transactions.