Fairfax County Internal Audit Office

Department of Finance
FAMIS Vendor File Audit
Final Report

August 2006

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Executive Summary

Our audit of the FAMIS vendor file found that new resident vendors set up in the vendor file were properly supported by the required Form W-9, and a vendor's tax identification number was matched to the Internal Revenue Service (IRS) records by the Department of Finance (DOF) prior to keying the vendor record into the system. The table approval paths in FAMIS were correctly routing the agencies' vendor updates and changes to DOF for final authorization. There was also adequate separation of duties between the employees maintaining the vendor records and those responsible for processing financial documents. We did note opportunities for improvement in the following areas where controls were weak:

System-related Issues:

- The system access levels of the two vendor file clerks in Accounts Payable allowed them to both initiate and authorize a vendor record, contrary to the separation of duties principle..
- Management was unable to effectively review the work of the vendor file clerks for lack of a usable system activity report of updates to the vendor records.
- FAMIS does not have a purge routine for the vendor file. As of February 14, 2006, there were over 706,000 one-time vendors, representing 80% of the total vendor population. Although the county did business with them just once to meet ad-hoc needs, the one-time vendors were not deleted after the business transaction was over and none has ever been purged.

Operational Issues:

- We noted instances of duplicate vendors in the active vendor file, i.e., vendors with more than one vendor number. The vendor numbers either differed by only one digit or differed by several digits, but both numbers had exactly the same address.
- DOF's guidelines on vendor processing for use by the agencies were no longer current and needed to be updated.

Certain system and vendor related information has been omitted from general disclosure. This information would, if disclosed, subject the county to potential financial and system vulnerabilities.

Scope and Objectives

This audit was performed as part of our Fiscal Year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Our audit objectives were:

- To evaluate the adequacy of internal controls over the addition, change, and deletion of vendors in the vendor file;
- To ascertain the accuracy and reliability of the FAMIS vendor records;
- To determine compliance with Internal Revenue Service regulations and departmental policies and procedures;

- To determine appropriate vendor system maintenance and whether the Department of Finance (DOF) has up-to-date guidelines for vendor processing.

Our audit scope was limited to an examination of the controls currently in place over the FAMIS vendor records, review of the system access levels of individuals involved in the vendor process, testing of a sample of new vendors and vendor updates for accuracy and proper supporting documentation, and review of the 1099 reporting and backup withholding procedures for vendors.

Methodology

Our audit approach included interviewing appropriate staff, observing employees' work functions, detailed testing of various samples of vendors in the master file, and evaluating the processes for compliance with sound internal controls, government regulations, and departmental policies and procedures.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the county executive and the Board of Supervisors, and reports are available to the public.

Findings and Recommendations

1. System Access and Separation of Duties

The primary vendor file clerk and the backup vendor file clerk in DOF's Procedures and Control Division had the security access level to both initiate and approve a vendor header or vendor detail record. During our testing of a judgmentally selected sample of 20 new vendors set up between October 1, 2005, and February 16, 2006, we noted that three of the 20 vendors tested had been both initiated and authorized by the same individual. (**Note:** All 20 vendors sampled were determined to have been established correctly and for valid reasons.)

Established county policy on vendor processing requires new vendors and vendor updates to be initiated by the requesting agencies, then routed to the Department of Finance for authorization. For proper separation of duties, no single individual should be able to both initiate and authorize a vendor document. Furthermore, county Procedural Memorandum No. 12-14 on separation of duties requires that no one individual shall initiate and approve the same transaction/document in FAMIS.

If one person is allowed to both initiate and authorize a vendor record, that person could create or modify a vendor without the appropriate source document or business purpose. It could also result in erroneous vendor updates since the initiator's work was not being reviewed and authorized by a second person.

Recommendation: During the audit, DOF removed the primary vendor file clerk's access to approve, and gave the review and approval authority to the second vendor file clerk with the higher grade position. However, the second vendor file clerk still had access to both initiate and approve vendor documents. We recommend that this individual's security access be set up to only approve but not to initiate vendor documents.

Management Response: The Department of Finance (DOF) concurs with the finding and recommendation. It must be noted that the majority of vendor file additions are initiated at the department level. Based on DOF's internal review, all three instances were unusual situations to accommodate a "special request" in order to provide good customer service. Procedures have been implemented to ensure that there is adequate segregation of duties between "initiation" and "approval." In addition, a System Exception Report is being developed that will indicate whenever vendors are initiated and approved by the same person. The estimated completion date is July 1, 2006.

2. Duplicate Vendors

We tested a sample of 20 active (posted) vendors from the FAMIS vendor file, using our Easytrieve report of approximately 2,650 duplicate vendors, i.e., vendors with more than one vendor number. We noted nine cases (or 45 percent of the sample), that were evidently true duplicates. The majority of the nine cases were vendors whose vendor numbers either differed by only one digit or differed by several digits, but both numbers had exactly the same address. Furthermore, for three of the nine duplicate vendors, we noted financial activity in both of their vendor numbers.

Department of Finance policy requires that a vendor's tax identification number (TIN) be used as the vendor number, which is the primary identifier of the vendor's record in the county's vendor file. Therefore, a vendor should have only one base number, even though he may have various suffixes linked to his vendor number to indicate different street addresses.

DOF indicated that a vendor sometimes changes its TIN resulting in its having more than one vendor number in the master file.

The presence of more than one vendor number to identify a vendor's record in the county's vendor file poses a risk that one of the numbers is erroneous. This could render ineffective control procedures requiring checking the vendor file for proper authorization of a vendor before a purchase order is mailed or a payment remitted to the vendor.

Recommendation: We recommend that DOF research and resolve all the instances of true vendor duplicates identified in our Easytrieve report and in our additional analyses. DOF should also communicate to all agencies the need to use the vendor's TIN as the vendor number. If the vendor had changed its TIN and the agency keys in a new TIN based on the vendor's W-9 form, the agency should

inform DOF of the change so that the old number could be flagged for deletion from the vendor file.

Management Response: DOF concurs with the finding and recommendation. Accounts Payable (AP) will initiate a vendor file cleanup process to eliminate the duplication of vendors. We propose to review the identified exceptions and to work with departments to determine which of the duplicated vendors should remain and which should be inactivated. Online IRS TIN-matching has been implemented to validate vendor identification information and will aid in the vendor cleanup process. The estimated completion is July 1, 2007.

3. Vendor Activity Report

There was no activity report of updates to the vendor records that could be used by management to review the work of the vendor file clerks, or the volume and type of changes being applied to the vendor records. The FAMRS 5700 report which served as the audit log for the vendor file, was a voluminous report of raw data, was unusable for reviewing changes to the vendor tables, and existed mainly for research and investigative purposes.

Sound internal controls require that management have the means to review their employees' work to ensure accurate and proper performance of their tasks. This is especially important in the case of the primary and backup vendor file clerks because of the sensitive nature of their work and their capability to authorize new vendors, address changes, and other updates to vendor documents. Properly designed reports would enable DOF to monitor the volume of changes, types of changes, and exceptions for further review.

Without a usable report of activity to the vendor tables, management cannot effectively discharge their responsibility of reviewing the vendor file clerks' work for correctness and accuracy. This could result in erroneous or improper changes to the vendor file that could go undetected by management.

Recommendation: We recommend that DOF coordinate with the Department of Information Technology (DIT) in developing a vendor activity report (or reports) that is easy to use and contains all necessary information. It should separate the types of activity by category (e.g., new vendors set up vs. changes made to the vendor records). For each category, the report should show the following, as applicable:

- Date Processed
- Vendor ID
- Suffix
- Vendor Name
- Fields Updated
- Updated From (or "Was")
- Updated To (or "Is")
- Processed by
- Approved by
- Comments (such as the supporting documentation for the new vendor or vendor change)

A "was-is" report as described above would greatly assist management in selecting a sample of vendor activities for review on a daily basis.

Management Response: DOF concurs with the finding and recommendation. FAMIS does not have existing reporting capabilities to provide usable tracking reports. We are looking at other sources such as our data warehouse (DART) to develop interim reports for tracking vendor changes. The estimated completion is July 1, 2007.

4. Content of Vendor File

As of February 14, 2006, the vendor header table showed 1,258 status A (awaiting approval) vendors and 263 status H (held for verification) vendors. In addition, there were 747 status D (marked for deletion) vendors. Our sample testing of status A and status H vendors showed that these vendor statuses dated as far back as 1997.

The agencies are responsible for initiating and approving vendors and vendor updates. After the agencies' approval, the vendor header and detail tables are automatically routed to DOF for final authorization and posting. Status D vendor records have been marked for deletion and should be deleted by DOF when their last financial activity date is an archive or financial purge date.

The agencies had not completed verification for the status H vendors and approval for the status A vendors. DOF has not researched the last financial activity date on the Status D vendors to determine whether they should be taken off the vendor file.

The vendor records with status A and H are not used in production and have no useful purpose in the vendor file. Similarly, the status D vendors may have had no further financial activity since the last financial purge date and, therefore, have no reason to remain in the vendor file.

Recommendation: DOF has acknowledged that the FAMIS vendor file contains records that have no purpose. While such records do not present a control issue, we recommend that:

1. DOF analyze the content of the vendor file and establish a timeframe, e.g., six months, for keeping the uncompleted status A and status H vendor records. DOF should then perform an automatic delete of these records when that given timeframe is past.

2. DOF should determine if the last financial activity date for the status D vendors is an archive date or the date of the last financial purge, and if so, have such records manually deleted from the vendor file.

Management Response: DOF concurs with the finding and recommendation. We are planning to communicate with our agencies and manually remove outdated vendor update requests. Currently, there is no functionality within FAMIS to purge this data. The estimated completion is December 31, 2006.

5. Vendor Processing Guidelines

DOF's guidelines on vendor processing needed to be updated. Accounting Technical Bulletin (ATB) 033, titled, "Vendor File Update" was issued in January 1996 and was no longer current. The same was true with ATB 025 on 1099 Forms Processing, also issued in January 1996. Both ATBs, for example, did not mention the need to obtain a Form W-8 from a foreign vendor as required by the IRS. In addition, ATB 033 required the initiating agencies to complete and submit to DOF, a "Vendor File Update Request" form which was actually no longer used.

The ATBs are policy documents intended to provide guidance to county agencies. ATB 033 and ATB 026, in particular, provide the agencies and the Fairfax County Public Schools (FCPS) with guidelines for processing vendors, filing the appropriate IRS forms for resident and foreign vendors, as well as provide information on 1099 reporting. Such guidelines need to be periodically updated to stay current with IRS regulatory changes and provide accurate, up-to-date information to the agencies and FCPS.

According to DOF, they had started the process of updating the ATBs that apply to vendor processing, but put it on hold pending the recruitment of an accounts payable manager. Now that DOF has an accounts payable manager, the ATBs are in line to get updated.

If the guidelines on vendor processing are not updated on an ongoing basis, the agencies might not be able to fully comply with the latest changes to the vendor process and IRS requirements.

Recommendation: We recommend that DOF prioritize and update the documents (ATB 033 and ATB 026) that apply to vendor processing.

Management Response: DOF concurs with the finding and recommendation. DOF is actively updating its ATB-33 and other related policy documents. In conjunction with these updates, we have drafted a checklist of internal procedures and plan to communicate this to county and FCPS staff. Further, DOF has met with DPSM to discuss their needs in this ATB update process and have ongoing communication with the departments on any specific issues we encounter as we approve vendor updates. We addressed the recurring issues at our recent CASPS User Group and presented highlights at the Year-End Meeting. The estimated completion is July 1, 2007.

6. Vendor Purge Routine in FAMIS

There was no purge module available in FAMIS for the vendor file. Therefore, no purge criterion was developed by DOF to ensure appropriate selection of vendors to be purged. As of February 14, 2006, there were over 706,000 one-time vendors in the vendor file, representing approximately 80% of the total vendor population. One-time vendors are vendors with whom the County does business just once to meet ad-hoc needs. They are not deleted after the business transaction is over and no one-time vendor has ever been purged. At the rate the County's vendor

population is growing (it had grown 300% between February 2000 and February 2006), the number of one-time vendors can easily top a million in a couple of years.

To promote a more efficient processing of vendors in FAMIS, the system should have the capability to purge outdated one-time and inactive vendors which have no financial information, using pre-defined criteria.

Recommendation: We recommend that:

1. DOF work with DIT and the FAMIS vendor, Tier Corporation, to install a purge-processing module in FAMIS.

2. DOF work with FCPS to develop a long-term retention policy and appropriate purge criteria for the inactive and one-time vendors.

Management Response: DOF concurs with the finding; however, FAMIS does not have the capability to purge vendor records. This will have to be addressed as part of the county's consideration of possible upgrades to/replacement of its financial systems. The estimated completion is three years or greater dependant upon system upgrades or replacements.