



**Calgary**

City Auditor's Office

## **Vendor Master File Audit (Data Analytics)**

**October 4, 2016**

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## Executive Summary

The Vendor Master File (VMF) is a fundamental component of the Accounts Payable (AP) and Procurement processes. The VMF stores critical key information on City of Calgary (City) vendors such as vendor name, address, GST numbers and banking information for electronic fund transfers. The data stored in the VMF is used to process payments to City vendors, and in 2015 approximately \$2.8 Billion<sup>1</sup> in payments relied on VMF data for processing. An accurate and complete VMF, along with effective maintenance, is essential to prevent erroneous or duplicate payments and enhance the efficiency of processing vendor payments.

The objective of this audit was to assess the effectiveness of controls to manage the integrity of the VMF. The audit is part of the City Auditor's Office commitment to enhance the effectiveness and efficiencies of audits through utilization of data analytics. Data analytic tools were utilized to identify anomalies in the vendor data available from January 2015, through to June 2016. To determine the root cause of these anomalies, the scope of this audit focused on VMF data setup and vendor data monitoring and maintenance processes.

As of May 2016, the VMF contained more than 85,000 vendor files, a significant increase (32%) since 2010 (64,000 vendor files approximately)<sup>2</sup>. Data analysis identified approximately 5000 vendors as potential duplicate files and more than 32,000 inactive vendors (no activity for more than 3 years). If this trend continues unchecked, the City could exceed 100,000 vendor files by 2020, corresponding to an increased risk of erroneous payments occurring. Based on a Benford<sup>3</sup> analysis on the System Assigned vendors, we estimated the risk of erroneous payments could materialize to be as high as \$435,000 to \$690,000 per year.

The audit identified opportunities to significantly reduce the size of the vendor file as well as low cost controls that could mitigate the predicted future growth trends, and reduce the potential of erroneous payments. Specifically the audit provided quick wins estimated to reduce the size of the VMF by more than 37%, by running a script to inactivate unused and duplicate vendors. In addition, the governance and ownership of the VMF has not been fully established and communicated, which has resulted in the inconsistent application of controls due to a lack of understanding of roles and responsibilities by internal stakeholders.

In total, seven recommendations were identified to improve the integrity of the VMF and to support AP in their governance role as data steward:

- Define and implement roles and responsibilities for ownership and maintenance;
- Review, clarify and communicate vendor persistence;

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<sup>1</sup> This number does not include payments made by the Calgary Police Department, and represents the total value of payments only. This does not include adjustments and refunds or any other financial transaction other than payments.

<sup>2</sup> AC2010-41 – Procurement Audit – Phase II – Systems and Processes.

<sup>3</sup> Benford's Law is based on the fact that many numbers normally used in business are not random, but rather follow some ordered progression. This law can be used to identify risk in large data sets. The Benford Analysis provides a z-statistic measure which indicates how large deviations are between the expected and the actual values (the margin of error).

- Run the inactivation procedure on a regular basis for all vendor types;
- Implement name change functionality and monitor for duplicate vendors;
- Inactivate duplicate or unnecessary Employee Vendor IDs;
- Update documentation to improve the efficiency and effectiveness of VMF controls; and
- Reinforce existing standards and communicate changes.

AP have agreed to our recommendations, and have indicated in their responses a commitment to implement actions plans by March 31, 2018. AP plans to start the implementation of the recommendations in the fall of 2016, therefore, some of the recommendations may be implemented sooner than March 2018.

## 1.0 Background

The vendor master file (VMF) contains vital information about the City's vendors that support the purchasing and accounts payable functions (i.e. vendor name and address). Accounts Payable (AP) is responsible for the maintenance of the City's VMF. Only AP may edit the VMF and only authorized employees in Supply may request changes to the VMF. Although AP is the steward for the VMF, they are only responsible for the quality control of vendor files added to the VMF by AP. There are currently two methods in which vendor files are added to the VMF. The first is a manual data entry process initiated by completing a standardized form and submitting it via email to AP. AP then reviews the submission for quality and completeness and manually creates a vendor file in the VMF. The second method is an automated batch process. A batch process automatically generates vendor files in the VMF at predetermined intervals, by transferring data from a source system.

The method in which a vendor is added to the VMF is determined by the vendor type. As of May 20, 2015 there were 16 different vendor types in the VMF. Of these, four are manually added (as noted in shading below) to the VMF by AP, System Assigned, HITS, Accounts Receivable, and ERS Payments, which account for approximately 22.5% of the vendor files in the VMF. The remaining vendors are added by way of a batch process. A summary of the VMF by vendor type can be found in Table A below:

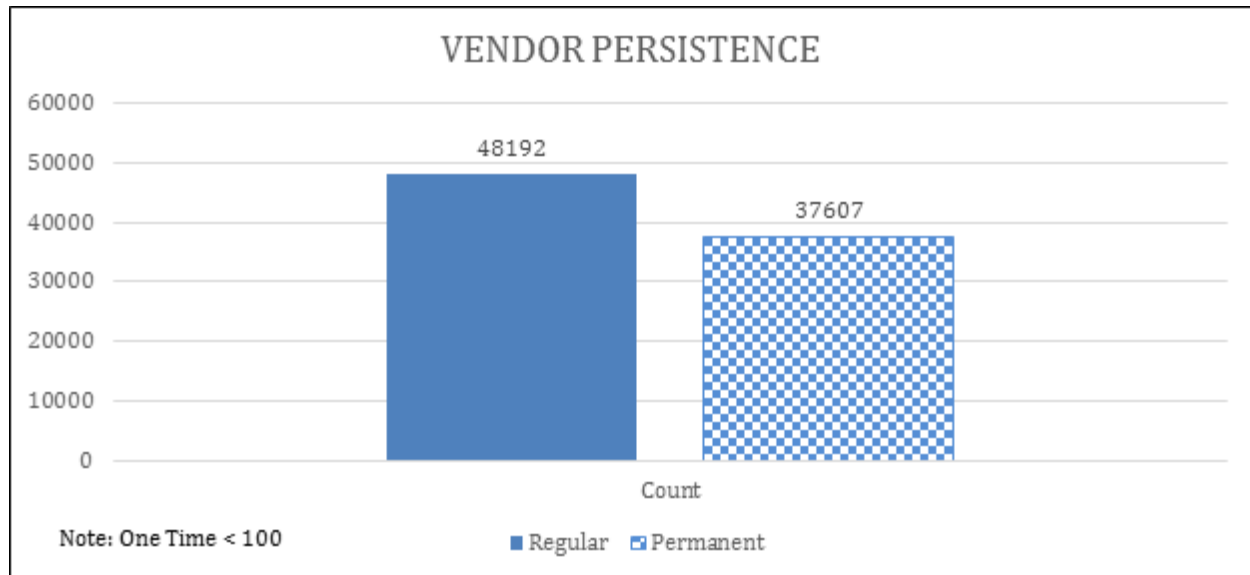
**Table A:**

| Vendor Classification | Type                 | Number | % of VMF |
|-----------------------|----------------------|--------|----------|
| T                     | Property Tax         | 19,765 | 23.02    |
| 1                     | System Assigned      | 18,715 | 21.79    |
| Employee#             | Employees            | 16,472 | 19.18    |
| BT                    | Business Tax         | 8,136  | 9.47     |
| L                     | Law                  | 7,794  | 9.08     |
| Z                     | Election             | 6,544  | 7.62     |
| C                     | Census               | 4,931  | 5.74     |
| R                     | Asmt Review Bd       | 1,857  | 2.16     |
| S                     | Social Services      | 937    | 1.09     |
| H                     | HITS (Hired Equip)   | 467    | 0.54     |
| AR                    | Accounts Receivable  | 125    | 0.15     |
| B                     | Bus. Asmt Review Bd  | 54     | 0.06     |
| E1                    | ERS Payments         | 43     | 0.05     |
| MC                    | Municipal Access Fee | 15     | 0.02     |
| K                     | APEX                 | 7      | 0.01     |
| U, 0,9                | Other                | 7      | 0.01     |

*Source: VMF data as of May 25, 2016 (excludes Police data)*

Vendors are also categorized as regular, permanent and one time vendors. The regular classification is the most commonly used and is applied to vendors that will receive multiple payments. Permanent vendors are never inactivated. One time vendors are inactivated after initial payment. The chart below shows the number of regular, permanent and one time vendors.

**Chart A:**



*Source: VMF data as of May 20, 2016 (excludes Police data)*

This audit was undertaken as part of the City Auditor's 2016 Annual Audit Plan and demonstrates the City Auditor's Office commitment to expand the utilization of data analytics to enhance the effectiveness and efficiencies of audits. This was achieved by classifying and analyzing data to provide insight into areas of potential risk exposure. The use of data analytics identified anomalies in the VMF which warranted further investigation and root cause analysis.

## 2.0 Audit Objectives, Scope and Approach

### 2.1 Audit Objective

The objective of this audit was to assess the effectiveness of controls to manage the integrity (quality, completeness) of the VMF.

### 2.2 Audit Scope

Data analytics was utilized to examine anomalies in the vendor data available from January 2015, through to June 2016. To determine the root cause of these anomalies, the scope of this audit focused on VMF data setup and vendor data monitoring processes.

Police data was excluded from this audit as Calgary Police Service follows different processes and Police vendors and transactions are separately classified in the general ledger.

### 2.3 Audit Approach

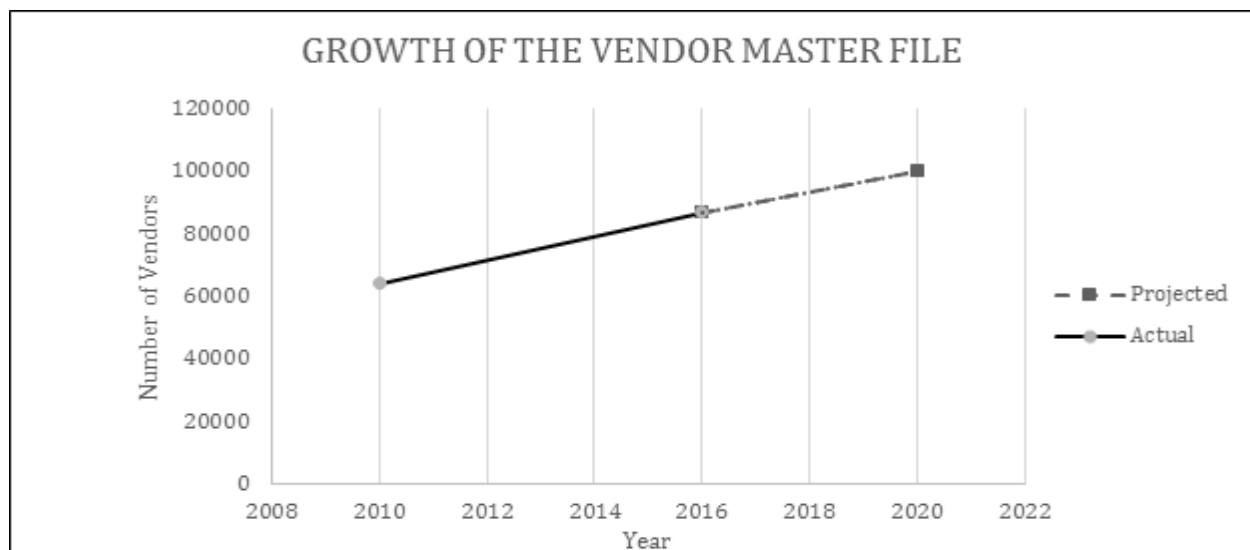
As the VMF continues to grow, the risk of duplicate or erroneous payments increases as the level of duplicate and inactive vendors increases. It may be difficult to get good spend data for contract negotiations as a clear understanding of total spend by vendor may not be available. A smaller vendor master file can dramatically reduce payables and procurement processing time as vendor selection is faster and more accurate. With the use of data analytics tools, we assessed the integrity of the VMF. These tools identified vendor files with no activity for specified time periods, and identified potential duplicate vendors and payments. The results of these analytics were shared with AP.

We conducted interviews with key stakeholders and reviewed relevant documentation to establish the current state of governance over the VMF and understand existing VMF processes and procedures. This included an assessment of whether access to the VMF was restricted, duties were adequately segregated, and changes to vendor information was being monitored and approved. Key stakeholders were identified as stakeholders who participated in the creation of vendor file types with populations that exceeded 5% of the VMF. The selected sample was representative of 95% of the data in the VMF.

## 3.0 Results

This audit successfully employed data analytics to analyze the entire VMF population. Data analytics identified a significant increase in the number of vendor files since 2010 as a result of vendors being added via batch processes and inactive vendors not being inactivated (except for the System Assigned Vendors). The risk of duplicate or erroneous payments escalates as the level of duplicate and inactive vendors is increasing.

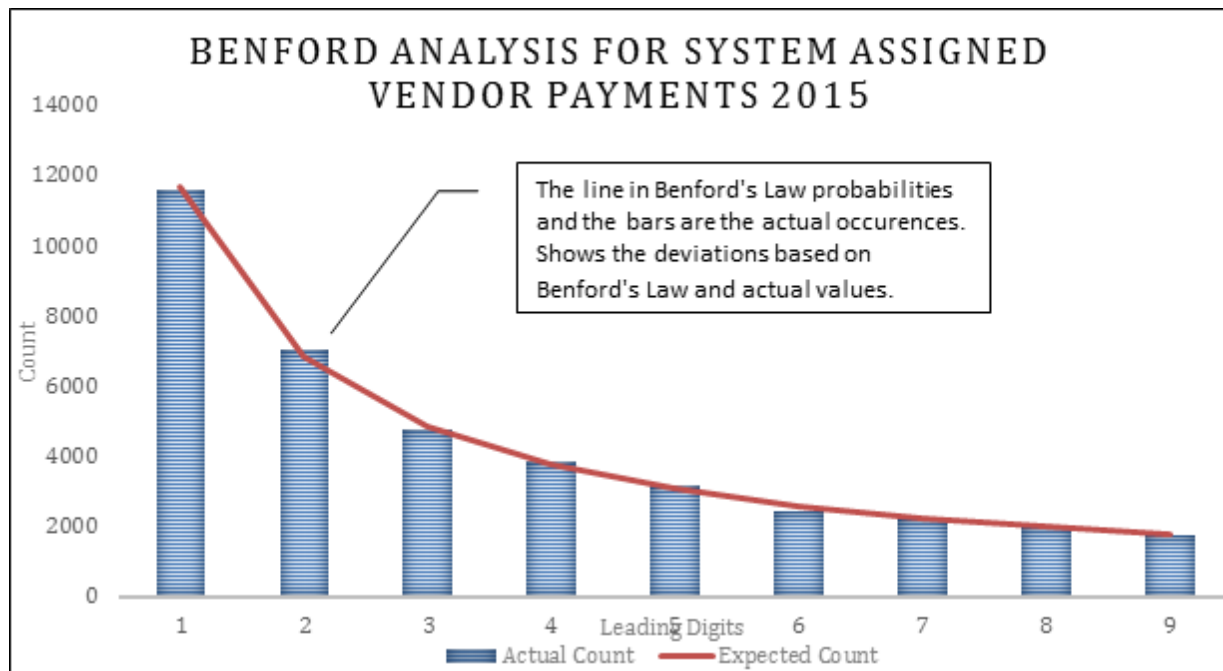
Chart B:



Source: VMF data as of July 19, 2016 (excludes Police data) and from AC2010-41

Benford's Analysis was utilized to test the payments made to System Assigned vendors for 2015 (see Chart C)<sup>4</sup>. Chart C shows that the payments made to System Assigned Vendors for 2015 generally are in line with the Benford's expectations, note deviations (risk of erroneous payments) still exist.

**Chart C:**



Significant analysis and testing was performed with regard to the 5000 potential duplicate vendors, and based on our sample of payments issued there were no resultant duplicate payments made.

We tested for segregation of duties to determine if staff had access to process and pay an invoice and also change the VMF. We noted two people had access to maintain the VMF and create and change an invoice. Access was maintained for training purposes as these two employees had recently obtained positions in another area of AP. We noted that the access was resolved during the course of the audit.

In the tests conducted on VMF data setup and vendor data monitoring processes, a number of good practices for VMF management have been implemented and were noted during the audit. AP holds responsibility for maintaining four vendor types, this primarily entails manually creating or updating vendor information such as vendor banking information or address. AP relies on completed request forms and supporting documentation when maintaining the VMF. Our testing confirmed that the changes AP makes to the VMF are adequately monitored and approved.

Further, employee vendors are created via an automated batch process from HCM (Human Capital Management) to FSCM (Financials and Supply Chain Management). Changes in HCM are automatically reflected in FSCM. Our testing of this process confirmed that terminated or retired

<sup>4</sup> Includes invoices that were paid in 2015 and does not include adjustments, refunds, etc.

employee vendors are inactivated in the VMF in a timely manner, however, other vendor types are not well monitored.

Notwithstanding these practices in place, the result of this audit concluded that additional controls over the VMF should be implemented to reduce risk. Controls for the overall governance of the VMF are not in place, along with definition and consistent use of vendor persistence, inactivating old vendors and actively monitoring for duplicates. The audit identified two quick wins which if implemented can significantly reduce risk for minimal costs: (i) implementing the name change functionality, and (ii) inactivating vendors with no activity (see Chart D).

#### Implementing Name Change Functionality

When a vendor name change occurs a new vendor is created and the old vendor is set to "Not Open for Order." A new purchase order is created for the new vendor and the old purchase order is cancelled. By implementing the name change functionality vendor history is maintained. This will save staff time and reduce errors as the process will be automated.

#### Inactivating Vendors with No Activity

As of July 19, 2016 the VMF grew to 86,987 vendors. Chart D shows a comparison of the current and future state of VMF size under four different scenarios:

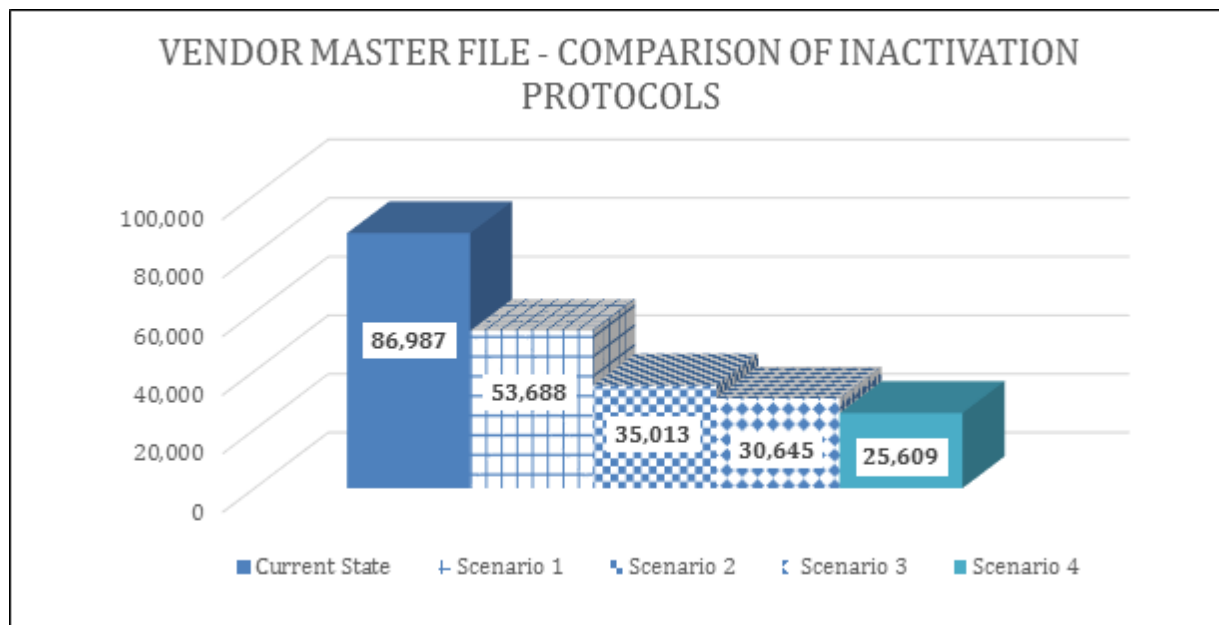
Scenario 1 - vendors with no activity for more than 36 months are inactivated.

Scenario 2 - vendors with no activity for more than 18 months are inactivated.

Scenario 3 - vendors with no activity for more than 36 months are inactivated and the vendor persistence for batch processes are set to one time.

Scenario 4 - vendors with no activity for more than 18 months are inactivated and the vendor persistence for batch processes are set to one time.

Chart D:



*VMF data from July and August 2016*

These four inactivation scenarios would facilitate a reduction in VMF size from approximately 87,000 vendors to approximately 26,000. The time threshold of 36 months represents the existing threshold established for inactive System Assigned vendors, while 18 months represents the most commonly recommended inactivation threshold<sup>5</sup>.

Our audit resulted in seven recommendations to improve the data integrity and the maintenance of the VMF. If implemented, these recommendations will increase the effectiveness of risk mitigation in the future.

We would like to thank Finance, Law, City Clerk's, and Information Technology for their assistance and support throughout this audit.

<sup>5</sup> Best practices Vendor Master Files in Accounts Payable, 2012 Technology Insight Corporation and Vendor Master Controls, 2014 Oracle Open World.

## 4.0 Observations and Recommendations

### 4.1 Governance of the Vendor Master File

Governance and ownership of the VMF has not been established and communicated to the relevant internal stakeholders. In addition, roles and responsibilities are not carried out consistently by all stakeholders in the VMF management process. A comprehensive governance structure establishes the framework for ownership and management of the VMF data. A governance structure ensures timely decision-making, high quality data, and appropriate execution of tasks across The City. When roles and responsibilities are not formally defined and understood there is a risk that critical activities are not performed as required. In this case, inactive vendors are not being removed from the VMF and duplicate vendor records are being created, which increases The City's exposure to financial loss resulting from incorrect or inappropriate payments.

Policy Number FA-010 "Accounts Payable – Transactions and Payments" section 7.2 states "AP is responsible for the maintenance of The City's vendor master file. Only AP may edit the vendor master file, and only authorized Supply employees may request changes to the vendor master file."

Vendors are established by each stakeholder according to their vendor type. System Assigned, Accounts Receivable, Hired Inventory Tracking System (HITS) and Evaluated Receipt Settlement (ERS) vendors are created manually and maintained by AP. Other vendor types such as Law, Tax and Census/Election vendors are added to the VMF by way of an automated batch process. AP does not maintain vendor files created via batch processes. The expectation for the BU to conduct maintenance of vendor files created via batch process is not defined and BUs are not aware that the responsibility has been delegated or the manner in which to coordinate maintenance with AP.

#### Recommendation 1

Accounts Payable, as the overall data steward of the VMF, to define, clarify, implement and communicate roles and responsibilities for the ownership and maintenance of the VMF for all vendor types.

Management Response

| Action Plan                                                                                                                                                                                                                                                                                                          | Responsibility                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Agreed.</p> <p>On behalf of all the key stakeholders Accounts Payable will formally define the governance and ownership of the VMF, as well as the roles and responsibilities of all key participants. The results will be implemented by Accounts Payable and formally communicated to all relevant parties.</p> | <p><u>Lead:</u> Manager, Tax, Receivables, Account Payables (TRaP)</p> <p><u>Support:</u> Supply, ESS, and Key Stakeholder Business Units</p> <p><u>Commitment Date:</u></p> <ul style="list-style-type: none"> <li>• <b>March 31, 2017:</b> Development of Communication Strategy</li> <li>• <b>June 30, 2017:</b> Key Business Unit Stakeholder Engagement and Process Changes</li> <li>• <b>December 31, 2017:</b> Finalizing the Governance Framework</li> </ul> |

#### 4.2 Vendor Persistence

Vendor persistence is inconsistently applied and is incorrect for a number of vendor types. If vendors are not set up correctly they may not be inactivated, increasing the risk of a duplicate vendor being created and possible duplicate payments.

The "Vendor Maintenance Document V.9.1" defines the vendor persistence when a new vendor is created. Table B compares the persistence in Vendor Maintenance Document V.9.1 to the persistence in the VMF.

**Table B:**

| Vendor Type     | Persistence in the Vendor Maintenance Document | Vendor Master File Persistence  |
|-----------------|------------------------------------------------|---------------------------------|
| System Assigned | Regular or Permanent                           | Regular or Permanent            |
| Employees       | Regular                                        | One Time, Regular and Permanent |
| Business Tax    | One Time                                       | Regular                         |
| Property Tax    | One Time                                       | Regular                         |
| Law             | Permanent                                      | Permanent and Regular           |
| Election        | Permanent                                      | Permanent and Regular           |
| Census          | Permanent                                      | Permanent                       |

Vendor persistence is not set up as per the "Vendor Maintenance Document V.9.1" for Employees, Business and Property Tax and Law and Election.

Current practice is to set up employee vendors as permanent. Employees who are set up as one time, and regular employees may have been setup in the old legacy system or may have been manually setup in error before implementing the PeopleSoft Human Capital Management (HCM) to PeopleSoft Financials and Supply Chain Management (FSCM) integration process.

The meaning of the various persistence types and their appropriate application is not universally understood by all stakeholders. As a result, persistence is not being consistently applied and is incorrect for a number of vendor types. For example, Business Tax, Property Tax, Census and Election type vendors are unlikely to receive multiple payments in any year, however, their current persistence is not set to one time. The efficiency and effectiveness of the VMF maintenance processes can be improved by ensuring vendor persistence is correctly classified.

#### Recommendation 2

Accounts Payable to review, clarify and communicate the vendor persistence to all stakeholders to ensure vendors are being correctly classified when created.

#### Management Response

| Action Plan                                                                                                                                                                                                          | Responsibility                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Agreed.</p> <p>Accounts Payable will review the vendor persistence criteria in relation to the key business unit stakeholders. Accounts Payable will implement and communicate changes based on the findings.</p> | <p><u>Lead:</u> Manager, TRaP</p> <p><u>Support:</u> Supply, ESS, and Key Stakeholder Business Units</p> <p><u>Commitment Date:</u> March 31, 2017 for Business Tax and Property Tax Vendors</p> <p><u>Commitment Date:</u> June 30, 2017 for all other Vendor Types</p> |

### **4.3 Inactivation Procedure**

Our review of the sample we selected (see Table C) revealed that more than 37% of vendors in the VMF had no activity in over 36 months,

**Table C:**

| Vendor Type       | # with No Activity* |
|-------------------|---------------------|
| Business Tax (BT) | 3,574               |
| Property Tax (T)  | 8,455               |
| Law (L)           | 5,739               |
| System Assigned   | 7,432               |
| Census (C)        | 3,404               |
| Election (Z)      | 3,715               |

*\*Data from May 2016*

A process is in place to inactivate System Assigned vendors with regular persistence that have had no activity for over three years. The inactivation procedure last ran in October 2015 and is planned to be completed on a yearly basis with the IT Enterprise Support Systems (ESS) group. Vendor types with no activity for more than three years are still active in the VMF, including System Assigned vendor types, despite having run the inactivation process in October 2015. These System Assigned vendors include 3,713 vendors with blank dates. Vendors with blank dates were loaded into FSCM from the old legacy system.

The most common practice is to inactivate vendors not used within 18 months, however, this time threshold may vary as needed to suit the unique needs of a business<sup>6</sup>.

Vendors with one time persistence are automatically inactivated after the voucher has been created. However, our review of active one time vendors on May 25, 2016 found there were 24 one time (out of a total of 84) who have had no activity for over three years.

### Recommendation 3

Accounts Payable to include all vendor types (i.e. Business Tax, Property Tax, Law, Census, etc.) in the inactivation procedure and to run the inactivation procedure on a regular basis.

### Management Response

| Action Plan                                                                                                                                                                                                                                                                                      | Responsibility                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Agreed.<br><br>Accounts Payable agrees that the best practice to inactivate vendors should be 18 months. Accounts Payable will implement the change from the current process, which is 36 months, to 18 months. Inactivation procedures will include approval by key stakeholder business units. | <u>Lead:</u> Manager, TRaP<br><br><u>Support:</u> Supply, ESS, and Key Stakeholder Business Units<br><br><u>Commitment Date:</u> June 30, 2017 |

<sup>6</sup> Best practices Vendor Master Files in Accounts Payable, 2012 Technology Insight Corporation and Vendor Master Controls, 2014 Oracle Open World.

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                     | Responsibility |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <p>Accounts Payable will be working with ESS to increase the scope of the current inactivation process to include all vendor types. The system-assigned vendors with blank dates will be analyzed and inactivated as required by Accounts Payable.</p> <p>Accounts Payable will define the frequency of running the inactivation procedures once requirements of the key stakeholders have been identified.</p> |                |

#### 4.4 Duplicate Vendors

The VMF is not monitored for duplicate vendors for all vendor types. Our data analysis identified approximately 5,000 possible duplicate vendors for all vendor types when comparing vendor name and addresses.

Failing to resolve the duplicate vendors in the VMF can result in possible duplicate payments and the potential for fraudulent activity. When a duplicate vendor file exists for a single vendor, it may be difficult to determine how much money was paid to that vendor, thereby, resulting in inaccurate spend analysis and reduced negotiating power. In addition, Enterprise Resource Planning (ERP) systems are designed with the assumption that only one vendor record exists within the system. When duplicates exist, many of the controls built into the ERP system are ineffective. For example, an ERP system will not stop the duplicate invoice entry if the same invoice is entered for two different vendor IDs with the same or similar vendor name.

Interviews with key stakeholders identified a number of potential causes for duplicate vendors. Companies may have different locations with different GST numbers, batch processes only check for duplicates against the vendor ID and not the name or address of a vendor, and current practice is not to inactivate duplicate System Assigned vendors, but rather to set their status to "Not open for order." Regardless, there is currently no periodic review of potential duplicate samples to ensure the legitimacy of potential duplicates.

When a vendor has a name change, a new vendor is created and the old vendor is manually set to "Not open for order" and comments are made "No Ordering because of vendor name change" in the VMF. The vendor name change functionality within PeopleSoft is not utilized. A query to extract vendors with the "No Ordering" in the comments field identified 450 vendors with 23 of these vendors not set to "Not open for order".

Our data analysis identified one employee with two employee Vendor IDs. One of these employee vendor IDs did not exist in HCM, and it is possible that this was a legacy vendor that was carried over into PeopleSoft.

Recommendation 4

Accounts Payable to:

- a) Implement the name change functionality within PeopleSoft.
- b) Co-ordinate with all relevant participants to monitor duplicate vendors via reports on a regular basis.

Management Response

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Responsibility                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Agreed</p> <p>a) Accounts Payable will explore the name change functionality in conjunction with planned upgrade of FSCM, and if feasible, will implement.</p> <p><b>Commitment Date:</b> March 31, 2018</p> <p>b) Accounts Payable will co-ordinate with all key stakeholder business units to monitor duplicate vendors via a reporting functionality. Accounts Payable will define and test the reporting functionality with key stakeholder business units.</p> <p><b>Commitment Date:</b> June 30, 2017</p> | <p><u>Lead:</u> Manager, TRaP</p> <p><u>Support:</u> Supply, ESS, and Key Stakeholder Business Units</p> <p><u>Commitment Date:</u> Please refer to Action Plan items</p> |

**4.5 Employee Vendors**

A comparison of the names in the employee file to the names in the VMF showed that approximately 170 employees had a System Assigned vendor type ID and also an Employee vendor type ID. Employees should be uniquely identified in the VMF. Multiple vendor files for the same employee increases the risk of duplicate payments and opportunity for fraudulent activities.

The employee vendor files are created/updated in FSCM though the HCM integration process via a batch process. Employees are set up in the VMF with their employee ID as their vendor ID.

Employee vendor IDs are set up to pay City of Calgary (City) expenses using their business location as identified by Human Resources. Historically, employee expense reimbursements (i.e. car allowance) were sent to the home address which resulted in the creation of another vendor ID for the employee.

Payments for expense reimbursements now go through the Employee vendor type ID and are paid via the employee's pay cheque. This change was implemented approximately one year ago, and all payments are now paid to the employee ID. Employees no longer require multiple vendor IDs.

#### Recommendation 5

Accounts Payable to review list of employees with multiple vendor IDs and inactivate duplicate or unnecessary System Assigned employee vendor IDs.

#### Management Response

| Action Plan                                                                                                            | Responsibility                                                  |
|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Agreed.                                                                                                                | <u>Lead:</u> Manager, TRaP                                      |
| Accounts Payable will review all identified employees with multiple vendor IDs and inactivate duplicates as necessary. | <u>Support:</u> Supply, ESS, and Key Stakeholder Business Units |
|                                                                                                                        | <u>Commitment Date:</u> March 31, 2017                          |

#### **4.6 Vendor Master File Documentation**

Procedures for creating and maintaining vendors are incomplete and insufficient.

Incomplete and inaccurate procedures pose a risk to the corporation that processes are not applied consistently. This risk is amplified in the event of employee turnover as knowledge is lost and new or remaining staff look to documented processes and procedures for direction.

Four procedural documents exist (as listed below) to provide guidance for the creation and maintenance of four of sixteen vendor types - System Assigned, Accounts Receivable, HITS, and ERS. These four vendor types represent approximately 22.5% of the vendor files in the VMF.

- Vendor Maintenance Document V.9.1 (October 3, 2012)
- Vendor Inactivation Procedure V2.0 (February 26, 2015)
- Supply Guide to Vendor Set-up and Maintenance (June 27, 2012)
- Goods & Services Vendor Form Guide (August 24, 2012)

The following documents relate to processes for interface/batch jobs:

- Verification of vendor / Invoice Batch Submission to PeopleSoft A/P V8.8
- AP Interface file layout 2012

Vendors created by automated interface/batch jobs account for about 77.5% of the files in the VMF.

Our review noted that these documents are incomplete and/or not reflective of current processes. For example the "Vendor Maintenance Document V.9.1" & "Verification of Vendor/Invoice batch Submission to PeopleSoft A/P V8.8" referenced contact names who are no longer employed with the City. In addition, key processes are not documented, such as changing vendor persistence from one time to regular to process more than one payment. This process is important since the user needs to take the additional step to ensure the vendor persistence is changed back to one time once the additional payment has been made.

#### Recommendation 6

Accounts Payable to update the documentation on a regular basis and include:

- Informal processes;
- Position titles instead of employee names;
- Amend processes that have changed; and
- Procedures to support creation and maintenance of all vendor types.

#### Management Response

| Action Plan                                                                                                                                                                       | Responsibility                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Agreed.<br><br>See the action plan in Recommendation #1, per defining roles and responsibilities. Documentation will be updated accordingly for all Vendor Master File processes. | <u>Lead</u> : Manager, TRaP<br><br><u>Support</u> : Supply, ESS, and Key Stakeholder Business Units<br><br><u>Commitment Date</u> : December 31, 2017 |

#### **4.7 User Communication Processes**

There is no formal communication channel provided for VMF management processes, procedures, and standards for active stakeholders in the VMF management process.

Formal communication channels enhance the efficiency and effectiveness of existing processes by ensuring that key information is reinforced with active stakeholders. The channels could also create a forum for communicating lessons learned and emerging issues to foster continual improvement. Periodic communication reduces the risk that policies and procedures will be applied inconsistently which will in turn help reduce the number of duplicate and inactive vendors in the VMF.

Stakeholders have expressed an interest in additional communication on how to properly complete vendor forms and associated requirements when setting up a vendor. Stakeholders

have also expressed uncertainty as to, the purpose and meaning of vendor persistence, the process for initiating vendor maintenance activities and the appropriate contact for VMF inquiries.

Recommendation 7

Accounts Payable to establish ongoing communication channel to communicate current processes, procedures and standards on a regular basis to all relevant stakeholders, and support continuous improvement.

Management Response

| Action Plan                                                                                                                                                                                                                                                         | Responsibility                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Agreed.<br><br>Accounts Payable will work with the Finance Communications Team to identify the appropriate target audience and establish the appropriate means of communication of the processes, procedures and standards and ongoing implementation/improvements. | <u>Lead</u> : Manager, TRaP<br><br><u>Support</u> : Supply, ESS, and Key Stakeholder Business Units<br><br><u>Commitment Date</u> : March 31, 2017 |