PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

DEPARTMENTAL PURCHASE ORDERS

CLERK OF THE CIRCUIT COURT ADDENDUM

REPORT # 225A

FEBRUARY 2, 2012

MEMORANDUM

DATE: February 2, 2012

TO: Pat Frank, Clerk of the Circuit Court

FROM: Daniel A. Pohto, CPA, CIA
            Director, County Audit

SUBJECT: Departmental Purchase Orders Audit Report

Enclosed is the report of the Departmental Purchase Orders as it relates to the Clerk's System Support Department. Responses to our recommendations were received from management and are included in the report after each finding and recommendation.

We appreciate the cooperation and professional courtesies extended to our internal auditors by management and employees of the Clerk's System Support Department.

c: Dan Klein, Chief Deputy Clerk
        Tim Simon, Director, County Finance
        Mary Strommer, Director, System Support

FINDING & RECOMMENDATION

Control Activities: Listed below is a finding that represents opportunities for System Support to strengthen the internal controls surrounding the vendor master file. For the finding, recommendations have been included.

FINDING 1

The Clerk generated FAMIS Vendor Request form (SS042) does not include an authorization signature from the requesting department's management.

The Vendor Request form (see Appendix 1) is a form created and used by the Clerk's System Support Department. From the requesting department, the only name and contact information appearing on this form is that of the person initiating the requested modification (add/change/delete) to the FAMIS Vendor Master File. There is no evidence of any management authorization at the requesting department's level to make changes to the Vendor Master File. Form SS042 is available to all employees on COIN at http://coin/forms/clerk/ss042.pdf.

CRITERIA

An internal control best practice is to include operational management's approval of all change requests to the vendor master file to:
1. Ensure adequate separation of duties (employees who create purchase orders are not also requesting changes to the vendor master file),
2. Reduce the risk of adding unauthorized vendors, or making unauthorized changes to existing vendors, and
3. Reduce the risk of adding vendors with a conflict of interest (related party transactions) as information on such relationships is more likely to be known at the requesting department's level.

The following are excerpts from Chapter 4 Evaluating and Testing Business Process Application Controls, Section 4.2 Business Process Controls (Establishing master data maintenance procedures, including approval, review, and adequate support for changes to master data) of the *Federal Information System Controls Audit Manual* (FISCAM), General Accountability Office (GAO), February, 2009. FISCAM in its entirety can be seen at http://www.gao.gov/new.items/d09232g.pdf.

"Because Master Data serves as the basis for transaction processing, it is critical that controls exist over the integrity and quality of the data."

"Because it is foundational in nature and may have a broad impact on transactional data, master data should be carefully controlled through reviews and approval by designated data owners. To reasonably assure an appropriate level of control, a combination of automated, preventive controls and manual, detective controls is recommended."

"Controls over master data include controls related to:
• Approval of changes to master file data and
• Validity of all master file records."

Also, see Appendix 2, "Optimizing the Vendor Master File **-** Data Management: An Executive Briefing."

RECOMMENDATIONS:

1. The Clerk's System Support Department should update the FAMIS Vendor Request form (SS042) to include a request for the following information for any new vendor setup:

   a) The printed names and signatures of the requesting department's Manager and Director.

   b) The signature lines should include verbiage to indicate that by signing, the requesting department's management is stating that
      1) The employee making the request has been authorized to do so and
      2) The use of the vendor will serve a valid public purpose.

2. The Clerk's System Support Department should work with the County's Business & Support Services - Procurement Department to determine who is best positioned, while ensuring adequate separation of duties, to perform the various vendor authentication duties before adding new vendors to the vendor master file. Examples include, but are not limited to, obtaining and confirming vendor W-9s and researching items such as vendor conflicts of interest, vendor debarment, etc.

CLIENT RESPONSE:

1a. & b. Concur with finding, not recommendations

The System Support Department appreciates the County Audit Department's concern with improving controls over the County's vendor master file. However, there is a fundamental distinction between the responsibilities of BOCC Management versus the Clerk as Accountant for the BOCC and Clerk System Support.

BOCC Management determines the purchase requirements. The Business & Support Services Department/Procurement Services Division, as a representative of BOCC management, handles the procurement process which includes vendor selection for Formal and Informal Bids which ends with a purchase order or contract approved and executed by the Board of County Commissioners or BOCC Management. Small Purchases/Departmental Purchase Orders (DPO) were set up to provide an effective and efficient system for Departments to make small purchases (under $10,000). Per the Procurement Policies and Procedures Chapter 3.4.1 (b) II (iii), "the departments are responsible for following established procedures and guidelines including bidder selection."

Prior to the delegation of these duties to the departments in FY2001, either a manual Field Purchase Order was created and the vendor set up at the time of the payment by Systems Support or a Purchase order was created by Procurement and if a new vendor was needed, Procurement would set up the basic information needed to create a PO (PO address, TIN or SSN, Name/dba). Once the PO information was entered the W-9 and a request from Procurement would come to Systems Support and they would enter the remit address. PO vendor information can be entered by Procurement or by Systems Support but only Systems Support can enter the remit information. And finally County Finance handles payment processing in accordance with the executed purchase order or contract.

2. Concur with finding, not recommendations

Separation of Duties is already in place for establishing new vendors in the FAMIS System.

As a result of these separate duties, Procurement Services is responsible for ensuring that potential vendors for Formal and Informal Bids over $10,000 are authorized by the procurement process. This would include preventing the use of vendors who are suspended or not eligible for County contracts, debarred by the federal government, or who have conflicts of interest. Procurement Services is also responsible for ensuring that the vendor will serve a public purpose and for requesting vendor W-9s. Procurement Services currently uses Demand Star for its vendor registration and sends a request to Systems Support to set up the vendor along with the W-9. Systems Support is responsible for vendor input for remit purposes since we are also responsible to make sure the information is correct in order to avoid IRS Penalties.

Since automating the Manual Field Purchase order in the BOCC Departments, System Support has been responsible for entering requests for vendor setups for Departmental Purchase Orders in the Financial System. Systems Support has procedures which require the Procurement Department to approve any vendor name changes when a purchase order or blanket purchase order is in place. Procedures also prohibit Systems Support from changing the vendor remit address unless the request comes from Payment Processing. The Procurement Department is responsible for determining Conflict of Interest and when a vendor should be debarred. Obtaining W-9's is the responsibility of the Department or Agency requesting a purchase or payment for Direct Purchase Orders along with new direct pay vendors. Vendors are not set up for use on a Departmental Purchase Order until a W-9 is received and reviewed by Systems Support.

CORRECTIVE ACTION PLAN:

1a. & b. Changes will be made as to how vendor master data is managed during the implementation of the Oracle E Business Suite.

2. The Clerk's System Support Department, County Finance, and Business & Support Services Procurement Department, will determine how we can be best positioned, while ensuring adequate separation of duties, to perform the various vendor authentication duties before adding new vendors to the vendor master file when we implement the Oracle E-Business Suite (ERP) Financial System or when County departments are set up with the OnBase Vendor Workflow.

TARGET COMPLETION DATE:

1a.& b. 04/30/13

2. 04/30/13

HILLSBOROUGH COUNTY FAMIS VENDOR REQUEST
FAX NUMBER: 813-272-5544

Please note that all fields must be legibly filled in and complete in order to be processed.

ACTION REQUESTED: ADD: ☐   **(Please Attach W9)**   CHANGE: ☐   DELETE: ☐

In order to comply with federal tax reporting requirements, each vendor must file a Form W-9 to avoid backup withholding deduction from their payment(s).

VENDOR NAME (Corresponding to the Federal EIN/SSN#): _____

ALTERNATE NAME (If applicable/DBA): _____

FEDERAL EIN or SSN#: ___ ___ ___ ___ ___ ___ ___ ___ ___   VENDOR SUFFIX: ____ ____
                        (Attached W9 - Required)

PURCHASE ORDER **(PO)** ADDRESS:
        ATTN: _____

          STREET: _____

          CITY/STATE/ZIP: _____

TYPE OF ORGANIZATION: ____INDIVIDUAL ____TRUST ____PARTNERSHIP ____NONPROFIT ____CORPORATION

REMIT **(RM)** ADDRESS (IF DIFFERENT):

          ATTN: _____

          STREET: _____

          CITY/STATE/ZIP: _____

VENDOR CONTACT: _____

PHONE: _____ TOLL FREE: _____ E-MAIL: _____ FAX: _____

COMMODITY CODES: _____

MBE/SBE STATUS: _____Black _____Hispanic _____Women _____ Other (Asian American, Native American) _____Non-MBE

REQUESTED BY:

      INITIATOR: _____

      DEPARTMENT: _____

      PHONE: _____ DATE: _____

REASON FOR CHANGE: This must be completed in order to be processed.

_____

_____

_____

PURCHASING and/or SYSTEMS SUPPORT ENTERED: _____ DATE: _____
FORM#: SS042

Source:
http://www.information-management.com/issues/20050301/1021517-1.html

Optimizing the Vendor Master File

Data Management: An Executive Briefing

Information Management Magazine, March 2005

<u>George Marinos</u>

George Marinos wishes to thank Michael Kody for his contributions to this month's column. Kody is a director in PricewaterhouseCoopers' Technology and Data Services Practice, focusing primarily on developing data optimization solutions for private and public sector clients.

The vendor master file? Without question, it is an integral part of the procurement and accounts payable control environments. A well maintained vendor master file helps prevent failure of system controls, process inefficiencies and inaccurate management reporting. Failure of system controls can result in duplicate and erroneous payments, missed earned discounts, uncashed checks, unapplied credits, tax reporting errors and fraud.

How do you avoid these consequences? Here are eleven critical practices you can't afford to overlook.

1. **Define Ownership**: Make sure the data owner for the vendor master file is clearly identified. This should be someone with the procurement and payables business process knowledge necessary to assume responsibility for a) determining vendor master data requirements and standards; b) coordinating data quality activities for those that use, enter, update or maintain the file; and c) implementing and monitoring vendor master file optimization procedures.

2. **Engage Access Controls**: Engage access controls, such as user IDs and passwords, to ensure that only authorized individuals have the ability to make changes, deletions or additions to the vendor master file. Multiple failures to log on should invalidate the user ID and be logged on an exception report. Management should investigate all unauthorized attempts to access the vendor master file.

3. **Establish Clear Vendor Setup Procedures**: These should include formal procedures for prequalifying vendors (i.e., documenting and retaining research in accordance with corporate policies); for the requestor's completion of a standard Vendor Master Record Change Request Form; for operational management's approval of all change requests; and for standard procedures ensuring that vendor master file changes comply with data quality standards and naming conventions.

4. **Enforce New Vendor Approval Practices**: Policies should be established to review quality control procedures, delivery history, distribution requirements, terms of trade, conflict of interest, discounts, promotional support, transactional accuracy, use of technology, and production scheduling flexibility prior to approving new vendors. Additionally, finance should make a determination (i.e., using Z-Scores) on whether the vendor's financial strength warrants a relationship.

5. **Determine When Multiple Vendor Records Will Be Allowed**: Ideally, each vendor would appear in the vendor master file only once. However, in practice, multiple records for the same vendor may be required. Separate records for the same vendor should be used when there are differences in remit-to addresses, discount terms or transactional tax treatments. When negotiating vendor agreements, purchasing should take into consideration the impact on accounts payable processing and request consistent terms and remit-to addresses.

6. **Manage One-Time Vendor Accounts Separately**: Policies should be established to ensure that vendor master records are not created for limited-use vendors. Establish minimum transaction counts (i.e., five annual transactions) and spend thresholds (i.e., $5,000 annually). Vendors not meeting these thresholds should be processed as one-time vendors. Consider maintaining a miscellaneous vendor activity file to facilitate 1099 reporting. Look to strategic sourcing and the use of p-cards to reduce the need for one-time vendors. To lower the risk of duplicate payments, consider not allowing manual or electronic data interchange transactions with vendors on p-card programs.

7. **Apply Consistent Naming Conventions**: The basics? Start by excluding abbreviations or punctuation, eliminating honorifics (i.e., "Mr", Mrs", "Dr", etc.), storing information in all upper case and using ISO standards for country codes. For more ideas, see the sidebar.

8. **Enforce Data Validation**: Vendor records should not be created without complete population of critical data elements, such as Federal Identification Numbers. Consider 1) sending Vendor Master Record Request Forms to the vendor for confirmation prior to establishing new records, or 2) obtaining confirmation of vendor data via a telephone request. Reconfirm this data on a periodic basis. One more thing: be sure to record the vendor's fax number used to return confirmation documents.

9. **Maintain Your Systems and Policies on a Regular Basis**: Due to changes resulting from mergers, acquisitions, name changes, etc., vendor master records should be evaluated regularly. On an annual basis, review for inactive accounts, duplicate and incomplete records, file format errors and accuracy issues. Accuracy can be confirmed via a vendor confirmation process and is best conducted with the support of procurement. Information from D&B or marketing data service providers can be used to validate vendor name and address data. Postal code information can be used to ensure consistency with city/state and ZIP codes. Additionally, comparing vendor master data to employee files may help you detect fraudulent activity.

10. **Remove Old/Unused Vendors from the System**: You may have to work harder at this than you think. Why? Many systems only allow users to "end-date" master data to disable a particular record - even though this process does not delete the record itself. And the purge feature? Most of the time, it targets only transactional data - not master data. So maybe you're thinking, "Fine, we'll remove vendors through table-level maintenance...", right? Good idea. But read the next paragraph first.

11. **Make Sure You're Retaining the Right Records**: There's a good chance that your business and industry is subject to legal, tax or regulatory requirements that may require you to retain transactional records for seven years or longer. Still interested in doing table-level maintenance on the vendor master to remove old/unused vendors? Consider archiving transactional history.

Remember: your vendor master file isn't just a key source of corporate information. It's also a core business asset that directly impacts the effectiveness of your transactional controls. At the very least, make sure you're engaging the eleven practices outlined here.

George Marinos is PricewaterhouseCoopers' National Data Quality Partner. With more than nineteen years of experience in the information systems industry, he has spent the past six years helping client organizations implement risk management solutions and data management programs that balance the need for a disciplined approach to people, process and technology challenges with appropriate action along a full spectrum of risks. Marinos can be reached at george.marinos@us.pwc.com *or through* http://www.pwc.com/dataquality/.

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