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Duplicate Vendor Internal Audit

Background

The Auditor's Office performed an internal audit of vendor records searching for duplications and anomalies (e.g., odd spaces, inconsistent formatting, etc.). This audit was conducted to improve internal control, to reduce the possibility for unintentional errors, to reduce/minimize fines imposed by the IRS, to detect/correct existing anomalies, and to provide a clean master vendor file. At the time the audit was performed Kane County had approximately 10,589 vendors and 212 unassigned vendors in the New World Systems. This audit was conducted with the cooperation of the Finance Department and the Information Technologies Department.

Summary of Procedures Performed

A list of current vendors was obtained from New World Systems (NWS) and provided to the Auditor's Office by the Information Technologies Department.

The following procedures were performed:

- Sorted by Taxpayer Identification Number (TIN) to detect duplications.

- Sorted by Vendor Name to detect duplications.

- Sorted by Address to detect duplications.

- Searched vendor files for spelling errors and other formatting anomalies.

- Sorted data by vendor number.

- Identified any unused vendor numbers within the range of assigned numbers.

- Reviewed for other anomalies.

- Conducted online searches in an attempt to confirm/resolve duplications.

- Provided the Finance Department with detailed documentation of our findings.

- Provided the Finance Department with recommendations based upon those findings.

Findings

Findings: At the time of the internal audit, noted the following:

- **Duplicate TIN's** The audit revealed 13 duplicate TIN's. The "same TIN" group represents all vendors who, according to county records, share a TIN. Additionally it was determined that not all vendors have a TIN on file. As a result, those vendors fell outside the scope or this process.

- **Duplicate Vendor Names** The audit revealed 29 potential duplicate vendor name groups. The "same name" group represents all identical and similar names, including both individual and business names. For example, "Davis, Cheryl" is a name group of two vendors with the same name but two separate vendor numbers. "Same name" duplication was unable to be confirmed when TIN information was missing.

- **Duplicate Address Groups** The audit revealed 141 duplicate address groups. The "same address" group represents all identical and similar addresses which require corrective action. Vendors with multiple addresses under the same vendor number are excluded when only one vendor number exists.

- **Miscellaneous Formatting Errors** The audit discovered 117 formatting errors/inconsistencies such as blank spaces, first name first, spelling errors, etc. which have been listed and categorized.

- **Improper use of Address Field** The audit discovered 772 vendors where non-address data is in the address field. Non-address data appearing before the street number and name, etc., causes irregularities in the sort order.

- **Unused Vendor Numbers** The audit discovered 212 unused vendor numbers within existing number ranges. These numbers may represent vendors that were merged. When conducting a vendor search in NWS these vendors come up as "No record". When entering new vendors in NWS, vendor number is automatically assigned in numeric sequence. There is no opportunity to change the vendor number.

Recommendations and Management Response
(*Responses, in italics, directly follow each recommendation*)

Recommendation 1: Review and address the identified results, which can be performed in conjunction with a cleansing of vendor records, to include:

- Obtain missing information from vendors (e.g., TIN, contact information, etc.).

  Finance has been working on collecting missing vendor information as time allows, especially focusing on vendors to which payments have been processed during the year to ensure accurate 1099 reporting.

- Correct existing information for known errors and anomalies (e.g., spelling errors, blank spaces, etc.)

  Finance will review the findings and will make any necessary corrections as time permits after the FY16 audit deliverables are completed.

- Inactivate or merge vendors.

  Finance will merge or inactivate vendors when deemed appropriate to do so.

- Confirm information and the necessity of vendor duplication under certain circumstances.

  Unfortunately, Finance does not have the capacity to confirm the vendor information for every vendor. However, each vendor form is reviewed for completeness and reasonableness prior to entry of a new vendor. Vendor searches are done by name in order to avoid vendor duplications, but there are situations in which a "duplicate" vendor is warranted.

- Consider other best practices recommendations as follow.

Recommendation 2: In general, best practices for maintaining the master vendor file are as follow:

- Require complete vendor forms, including the W9, to be submitted before creating a new vendor record. Ideally this would occur prior to the issuance of a purchase order, but certainly prior to any payment to the vendor.

  This process has been in place since 2010 when the Finance Department began requiring W-9 forms for all new vendors.

- Perform a thorough search of the current vendor file before setting up a new vendor in order to avoid unnecessary duplication.

  This process is already being done by vendor name – we will begin adding a FEIN/SS# search as well.

- Periodically – at least annually - run W9 data through the IRS TIN matching program to identify potential illegitimate vendors and reduce the number of B-notices.

The Finance Department has/is attempting to join the TIN Matching program, so annual 1099's can be run through the IRS system for matching. Once we are authorized users, we are also considering checking the program for each new vendor prior to addition to our system, if we can reasonably complete with available staff.

- Cleanse master vendor file annually. Once initial cleanup is performed, subsequent years will be less time intensive.

  Due to limited staff time available, an annual cleanse may not be possible. Finance will attempt to process as often as time allows.

- Change vendors to inactive if no activity for a set amount of time (e.g., two years).

  Finance will take this recommendation under advisement.

- Limit vendor master file edit access and segregate from invoice entry. As an example, access to vendor creation/edit could be limited to the Finance Department, and furthermore, anyone entering invoices would not have access to also add/change/delete vendors.

  Finance is the only Department with access to add vendor files to the system. Due to staff size, we would not be able to limit invoice entry within our department.

- Establish and document a standard vendor naming convention. The convention should include standards to consistently enter punctuation, spaces, abbreviations, leading articles, order of individual names, titles, middle initials, etc. for vendors. Specific to NWS, this would also include not using commas when inputting data into address fields. Vendor address has multiple lines which NWS separates by commas. Using commas elsewhere limits electronic usage of the data.

  Finance will take this recommendation under advisement. It is our current practice to enter vendor names as specified on the W-9 and this has proven effective in reducing the number of B-Notices from the IRS. Departments occasionally request additional items added (Attn:, etc) that help payment processing. Each of the requests will continue to be reviewed and implemented if reasonable.

- Complete financial system data fields (the "category" field in NWS) to consistently identify whether the vendor is a 1099 vendor or an employee.

  The Finance Department has already implemented this suggestion for new vendors and has been updating current vendors as review has been done.

- Create a notification system between HRM and Finance in the event of employee separation in order that any existing vendor record for the employee can be inactivated after a specific waiting period.

  Finance will discuss this recommendation with HR to determine how the information can best be provided and utilized.

The Auditor's Office would like to thank the Information Technologies department for the assistance in providing the reports required to conduct this inquiry. In addition, we would like to thank the Finance Department for their assistance both during the inquiry and in the future as findings and recommendations are reviewed and/or implemented.

Sincerely,

OFFICE OF THE KANE COUNTY AUDITOR

Terry Hunt – Kane County Auditor   Christina Abbate – Administrative Assistant