



Performance Audit of Vendor Master File and
1099 Processes
Audit No. 23-06
August 23, 2023

Report Highlights

Page(s)

- Vendors' W-9's, Tax ID's and addresses are not complete in the Financial Management System in a few cases.

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The Council
City of Shreveport

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August 23, 2023

Councilman James Green
Chairman, Shreveport City Council

Dear Councilman James Green:

Subject: Audit No. 23-06 – Performance Audit of Vendor Master File and 1099 Processes

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

A handwritten signature in blue ink that reads "Leanis L. Steward".

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY

Performance Audit of Vendor Master File and 1099 Processes

Why We Did This Audit

We have completed an audit of the Vendor Master File and 1099 Processes. This audit was conducted as one of our regularly scheduled audits included in the Annual Audit Plan developed by the City Internal Auditor. Our objectives were to evaluate the effectiveness of internal controls in place over the vendor validation process, setup, modification, and maintenance processes to ensure the prevention of unauthorized, erroneous, or duplicate vendor/ payments.

What We Recommended:

- For the Vendor Master File, management should enter all vendor information in the Financial Management System (i.e., LOGOS) and keep it up to date.
- Review/oversight is needed in the 1099 process.

What We Found

The Vendor Master File is a foundational element of the Accounts Payable process and contains vital information about vendors the City does business with. This file generally includes the vendor's name, address, contact information, and tax identification number. It is essential to effectively maintain this file to avoid unauthorized or inappropriate activity, prevent duplicate vendor/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 or abuse.

The accounting division is responsible for issuing 1099 forms to certain vendors at year-end, summarizing the revenue received from the City.

In conducting this audit, we determined that the maintenance of the Vendor Master File and the processing and issuing of the 1099 forms is reasonable. However, some vendors information in the accounting system (LOGOS) is not current and not complete. We have identified the following areas that need improvement:

- Vendors' W-9s are missing from LOGOS
- Vendor's Tax ID in LOGOS is different from that of W-9s
- Vendors' addresses should match between W-9 forms, LOGOS and 1099 forms.

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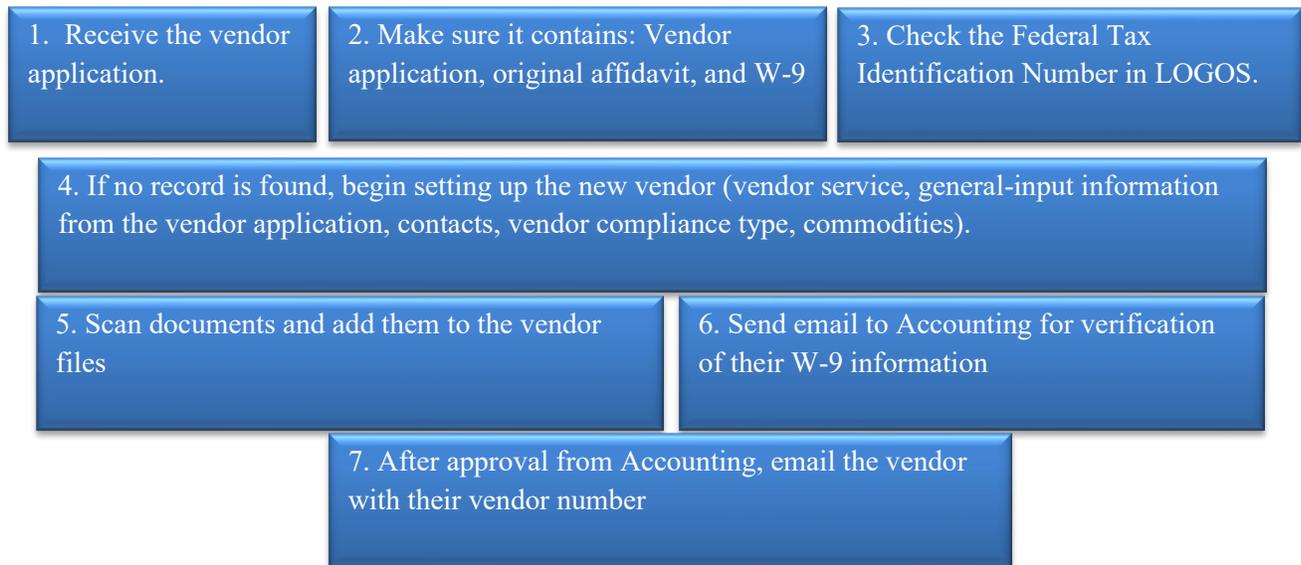
Introduction

The Vendor Master File is a foundational element of the Accounts Payable process and contains vital information about vendors the City does business with. This file generally includes the vendor’s name, address, contact information, and tax identification number. It is essential to effectively maintain this file to avoid 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 or abuse. The Vendor Master File also tracks vendors that are required to be provided with an Internal Revenue Service Form 1099 based on the specific payment type, amount, and business. This information is stored and maintained in LOGOS.

The City’s Purchasing and Accounts Payable processes depend on a properly managed and functioning Vendor Master File. Regular interaction and maintenance of the vendor data within the Vendor Master File is the primary responsibility of the Finance Department, Purchasing Division. The Purchasing Agent is responsible for monitoring and maintaining the Vendor Master File.

To set up a new vendor in the Vendor Master File, designated employees within each department collect the required information from the vendors and forward it to the Purchasing Division. Department staff are expected to conduct a search for the vendor in LOGOS, the City’s financial system software, to avoid adding a duplicate vendor. Figure 1 explains the steps for adding new vendors:

Figure 1: Purchasing Division’s Steps to Add a new Vendor to the Vendor Master File



Source: Purchasing Division



AUDIT NO. 23-06 March 31, 2023

For this audit, we focused on the Vendor Master File and 1099 process. This report contains one finding and two recommendations. Appendix A contains the risk descriptions for the recommendation risk levels throughout the report.

The objectives of this audit were to:

- To evaluate the effectiveness of internal controls in place over the vendor validation process, setup, modification, and maintenance processes to ensure the prevention of unauthorized, erroneous or duplicate vendor/payments.

Scope and Methodology

The scope of this audit was limited to the Vendor Master File and 1099 Process. The period reviewed was from January 2019 to December 2021. To answer our objectives, we reviewed relevant internal controls and developed audit procedures that included, but were not limited to, the following:

- Reviewed Vendor Master File information from January 2019 to December 2021.
- Interviewed Purchasing and Accounting Division Personnel responsible for maintaining and monitoring the Vendor Master File and 1099 Process.
- Reviewed a sample of the Vendors' addresses, Tax IDs, W-9s, and supporting documents to test the effectiveness of controls and determine compliance with policies and procedures.

Sample size was calculated using a sampling calculator and was selected based on the criteria of 95% of confidence level and 5% error rate. The results cannot be projected to the entire population. Random sampling selection was used to improve the overall efficiency of the audit.

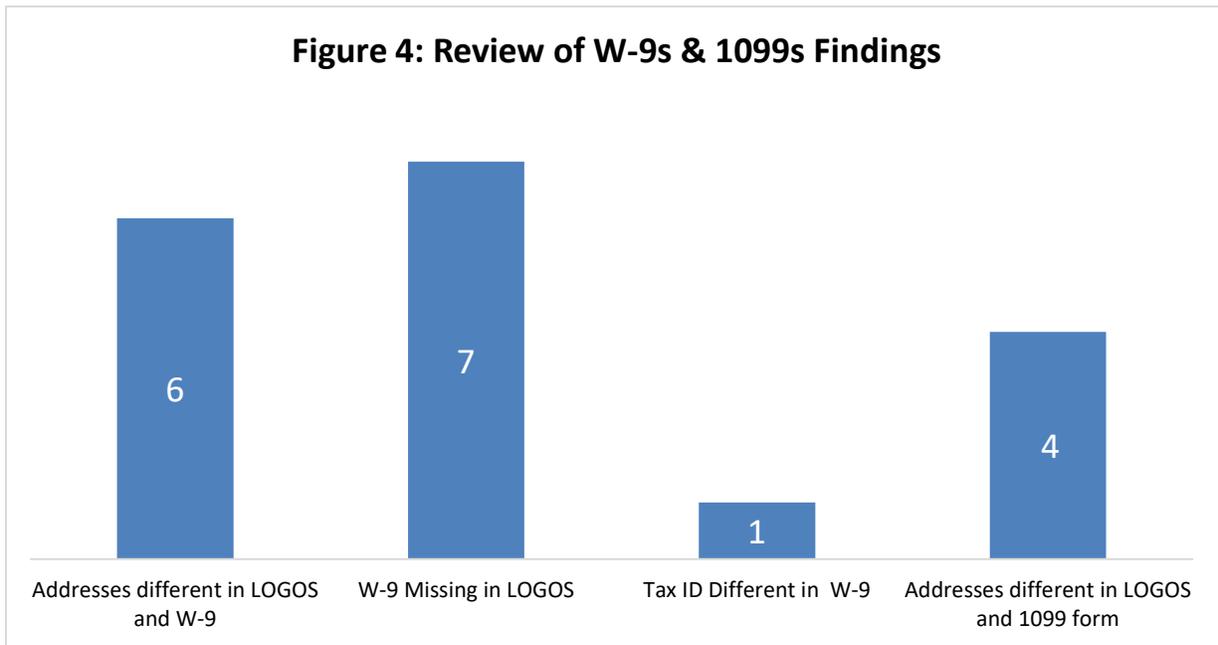
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Internal Audit Office expresses appreciation to the management and personnel of the Purchasing and Accounting Divisions for their cooperation and assistance provided during the audit.





Above findings are illustrated in Figure 4 below:



Recommendation 1:

Based on our audit, we recommend that management prioritize the entry of all vendor information in the LOGOS system and ensure it is continuously updated. This will ensure that the vendor master file is accurate, complete, and up to date, thereby mitigating the risk of any unauthorized payments. **Risk: Medium**

Recommendation 2:

The 1099 process should involve additional personnel to ensure that the process is appropriately streamlined and properly monitored. This will help to ensure that the 1099 process is effectively executed, and all necessary information is provided in a timely and accurate manner. **Risk: Low**

Overall, implementing these recommendations will improve the internal controls of the vendor validation, set up, modification, and maintenance processes, ensuring that they are more robust and effective in mitigating risks associated with unauthorized or erroneous payments.



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Management Response:

Recommendation 1:

Accounting Response: Accounting will inform purchasing of any changes to vendor information, so they can update the Vendor Master File.

Purchasing Response:

1. The Purchasing Department set up a new vendor according to information listed on the vendor application.
2. Once vendor has been entered into LOGOS, the staff uploads the vendor application and any documentation(s) attached to the document section of LOGOS.
3. Purchasing will have to depend on the departments and/or Account Payable to keep us in the loop of any changes.
4. Once updates have been provided, Purchasing staff will update the vendor and upload any supporting documentation.

Recommendation 2:

Accounting is in the process of reassigning the 1099 process to an Accounting Associate. The accounting associate will prepare the 1099s and the Finance Accounting Manager will review them.





AUDIT NO. 23-06
March 31, 2023

Prepared by:

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Associate Auditor

Approved by:

Leani L. Steward

Leanis L. Steward, CPA, CIA
City Internal Auditor

pj:ts

c: City Council
Clerk of Council
Mayor
Chief Administrative Officer
Carr Riggs and Ingram
City Attorney
Purchasing Agent
Controller



Appendix A: Findings Risk Ranking Criteria

The chart below summarizes our evaluation of risk for the recommendations outlined in the report. Each recommendation was assessed at a high, medium, or low risk level based on a qualitative assessment of exposure and/or corrective action priority.

Risk Levels	Risk Description
High Risk	Represents a significant level of risk exposure to city assets, public safety, or achievement of objectives or mission. Corrective action should have the highest priority.
Medium Risk	Represents a moderate level of risk exposure to the city from extensive operating inefficiencies or high-level non-compliance issues. Corrective action should occur expeditiously.
Low Risk	Represents a minimal level of risk exposure to the city from inefficiencies or low-level non-compliance issues. Corrective action should occur as appropriate.