

# Audit Committee Report

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**DATE:** Monday, June 13, 2022

**WARD(S):** ALL

**TITLE:** VENDOR MASTER FILE AUDIT

**FROM:**

Kevin Shapiro, Director of Internal Audit

**ACTION:** FOR INFORMATION

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**Purpose**

To communicate the findings from the Vendor Master File Audit.

**Report Highlights**

- The vendor master file is fundamental to the appropriate functioning of the City's procure to pay process.
- The effective maintenance of the vendor master file is critical to mitigating against unauthorized or inappropriate payments, prevention of duplicate transactions, and to reduce inefficiencies.
- This audit has raised significant concerns related to the administration and oversight of the vendor master file, which increases the risk of misappropriation and reputational damage to the City.
- While management has addressed some of the issues identified in the February 2013 Accounts Payable Audit, risks related to system access, incompatible duties and policies and procedures have not been appropriately mitigated.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.
- Internal Audit will follow up with management and report on the status of management action plans at a future committee meeting.
- This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## **Recommendations**

1. That the Internal Audit Report on the Vendor Master File be received.

## **Background**

The objective of this audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures related to the vendor master file, and that they are adequately designed, established and operating as intended to mitigate business risks associated with the City's procure to pay processes.

The audit scope included assessing that:

- Adequate policies, processes and procedures exist for new vendor validation, set up, modification and maintenance of vendors in the master file and are regularly reviewed, updated, and applied consistently.
- Access to the vendor master file is appropriately secured, safeguarded and restricted to authorized individuals, including adequate segregation of duties.
- Data entered into the vendor master file is complete, accurate and valid.
- There is adequate management oversight, ensuring appropriate administration and supervision of the vendor master file.
- Inactive and duplicate vendors are identified, assessed and deactivated on a regular and consistent basis.
- Information Technology systems are being effectively leveraged and used to their maximum capabilities.

The audit scope included vendor master file records and transactions in JDE between January 1, 2019 – December 31, 2020.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## **Previous Reports/Authority**

[Internal Audit Report – Accounts Payable Audit – February 11, 2013](#)

## **Analysis and Options**

The vendor master file is fundamental to the appropriate functioning of the City's procure to pay process. The vendor master file is a database which houses key business information about City vendors such as the vendor's name, mailing address, tax identification and vendor type. The information is maintained in the City's JD Edwards

(JDE) software, including scanned copies of vendor information provided by departments to Financial Services as part of vendor additions and information changes. The information is utilized to facilitate payments and transactions to vendors as part of the procurement of goods and services.

The vendor master file is also used to facilitate employee expense reimbursements, refunds to property tax owners who made tax overpayments, election rebates, recreation refunds, permit refunds, citation and bylaw refunds, Vaughan Business Enterprise Centre Starter Company Plus Program grants, and other one-time type payments.

As of December 31, 2020, the vendor master file contained 34,499 active records.

The effective maintenance of the vendor master file is critical to mitigating against unauthorized or inappropriate payments, prevention of duplicate transactions, and to reduce inefficiencies. Inaccurate, incomplete, unauthorized or duplicate vendor records could adversely impact the processing of vendor payments and/or may increase the risk and likelihood of vendor related fraud.

### **Financial Impact**

There are no direct economic impacts associated with this report.

### **Broader Regional Impacts/Considerations**

Not applicable.

### **Conclusion**

This audit has raised significant concerns related to the administration and oversight of the vendor master file, which increases the risk of misappropriation and reputational damage to the City. While management has addressed some of the issues identified in the February 2013 Accounts Payable Audit, risks related to system access, incompatible duties and policies and procedures remain.

This conclusion is based on several factors, including:

- Continued existence of employees with incompatible system access and duties.
- The absence of appropriate management oversight over the vendor master file.
- Procurement practices which has had an unfavorable impact on the quantity and quality of vendors in the vendor master file.
- A heavy reliance on manual processes.

- The absence of a complete set of policies and procedures outlining stakeholder roles, responsibilities and accountability over vendor master file related processes and activities.

The following improvements are required:

- Enhance controls over system access control and user access.
- Segregate incompatible duties.
- Ensure the Low Dollar Procurement Module (LDM) is only used if other procurement options are not operationally feasible.
- Deactivate dormant and duplicate vendors on a regular and consistent basis.
- Leverage advances in technology to improve business processes.
- Develop clear and sufficiently detailed policies, procedures and guidelines while providing clarity on roles, responsibilities and expectations of stakeholders as it relates to administration and oversight of the vendor master file.

**For more information**, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

### **Attachment**

1. Vendor Master File Audit
2. Presentation Materials

### **Prepared by**

Kevin Shapiro, Director of Internal Audit, ext. 8293

### **Approved by**

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit