

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Risk Management: Master Vendor File Audit



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Auditor-Controller/Treasurer/Tax Collector

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This office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

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Risk Management Master Vendor File Audit

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October 29, 2019

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SUBJECT: MASTER VENDOR FILE AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Risk Management Department's (Department) Master Vendor File for the period of July 1, 2017 through November 19, 2018. The primary objectives of the audit were to determine if the policies and procedures over the master vendor file control and maintenance are adequate to protect the Department against the creation and/or activation of unauthorized vendors and to ensure that payments were made only to authorized and approved vendors. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on August 29, 2019 and discussed our observations with management on September 5, 2019. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Risk Management Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: _____
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Chief Deputy Auditor

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving the controls over the new vendor set-up, modifications and maintenance processes associated with the master vendor file.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	<p>Controls over the master vendor file could be improved.</p> <p>We recommend that a secondary employee review the input of new vendors into SIMS claims system to verify that the information is accurate and avoid unauthorized vendors, that management run SIMS reports on a monthly basis to review any additions, deletions or changes made in the system and that the Department establish a formal naming convention policy that provides guidance on how to properly enter vendor information in SIMS.</p>	8
2	<p>There were no written policies or procedures regarding the master vendor file.</p> <p>We recommend management immediately develop written policies and procedures that guide employees and provide direction on all major aspects of maintaining and protecting the master vendor file. The development of written policies and procedures will help establish an organizational structure and provide guidelines for employee responsibilities and duties. Furthermore, the policies and procedures should include the positions that are required to perform various functions, such as the accounting, monitoring and general oversight of the master vendor file operations.</p>	9
3	<p>The Department did not comply with the Internal Revenue Service (IRS) Form 1099 reporting requirements.</p> <p>We recommend that the Department follow the reporting requirements for the Form 1099 as outlined by the IRS in the "Instructions to Form 1099". We also recommend that the Department adhere to all relevant Internal Revenue Codes pertaining to the taxability of the settlement claims prior to processing the settlement payments.</p>	10



MASTER VENDOR FILE AUDIT

The Department

Risk Management (Department) administers the County's self-insured workers compensation, public liability, property conservation, safety and risk reduction programs and its insured programs. All programs are financed by charging general fund and non-general fund departments, as well as Board-Governed Special Districts and County Service Areas. Each is billed for its specific coverage for the cost to pay losses under the self-insured programs and the cost of insurance for the insured programs.

The Department is composed of five sections: workers' compensation, liability, insurance and finance, safety and loss control and Americans with Disabilities Act (ADA).

Workers' Compensation

Workers' Compensation is a self-insured, self-administered no fault benefit delivery system designed to compensate employees that are injured on the job. Fifteen workers' compensation adjusters process approximately 1,600 claims per year.

Liability

The Liability Claims Program provides self-insured, self-administered claims adjusting of all liability claims against the County, including property loss, property damage and personal injury. The Liability Claims Program is also responsible for litigation management and the recovery of money when the County has suffered a loss due to the actions of another. Six liability adjusters process approximately 1,400 liability claims per year.

Insurance and Finance

Risk Management administers the County's self-insured workers' compensation, public liability, property conservation, safety and risk reduction programs and its insured programs. All programs are paid from self-insurance funds and financed by charging general fund and non-general fund departments, as well as Board Governed Special Districts and County Service Areas.



Safety and Loss

The objective of Safety/Loss Prevention Division is to protect the assets of San Bernardino County (people, property, equipment, funds) from the chance of injury, damage or loss. This is achieved by providing management a source of consultation, guidance, training and technical support relative to occupational safety and health, loss prevention, regulatory compliance and risk/hazard analysis.

Americans with Disabilities (ADA)

The Department has oversight responsibility for the County of San Bernardino's compliance activities under Title II of the Americans with Disabilities Act (ADA).

The County's Public Access ADA Coordinator, who is located within the Department, coordinates training for department representatives on the public access requirements of ADA Title II, provides guidance to assist County departments in resolving physical and programmatic barriers to accessibility, and investigates ADA Title II accessibility complaints involving the County's facilities, services, activities and programs.

SIMS Claims

In July 2015, the Department contracted with Systema Software, LLC to obtain an integrated Automated Claims System for the processing and managing of workers compensation, liability and insurance claims and the reporting of statistical loss data. Through the contracted services, the Department converted to a new, online automated insurance claims management system known as SIMS. SIMS Claims is a browser-based Claims Management Information System designed to improve productivity and maximize claims-handling efficiencies. It supports multiple lines of insurance, and combines comprehensive out-of-the-box features with extensive flexibility and configurability to meet each client's unique needs.



The Master Vendor File

A master vendor file's data shows the most current, accurate, and authoritative permanent or semi-permanent record of information maintained over an extended period of time. A master vendor record is the central reference that an organization uses to determine how the accounts payable system manages a vendor's activity. The master vendor records are the source of the payee names and addresses that are printed onto vendor checks. Inaccurate, incomplete, or unauthorized master file records may greatly increase the chances for duplicate or erroneous payments or fraud.



Scope and Objectives

Our audit examined the Department's master vendor file for the period of July 2017 through November 19, 2018.

The objectives of our audit were to determine if the policies and procedures over the master vendor file and maintenance are adequate to:

- Protect the Department against the creation and/or activation of unauthorized vendors.
- Ensure that payments were made only to authorized and approved vendors.

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interview of Risk Management Department staff.
- Review of the Department's policies and procedures.
- Understanding of software applications as it relates to the maintaining of vendor records and the overall vendor payment process.
- Examination of original source documents and system-generated reports.



Finding 1: Controls over the master vendor file could be improved.

According to *Accounts Payable: A Guide to Running an Efficient Department* by Mary S. Schaeffer, proper maintenance and control over a company's master vendor file will greatly decrease the chances for duplicate and erroneous payments and fraud. In addition, the County's Internal Controls and Cash Manual (ICCM) Chapter 2-3 "Recording" states that all transactions and pertinent events should be accurately and properly recorded on documents and records.

The following conditions were identified:

- There were no supervisory review of changes made to existing vendor and claimant records or new vendors established in SIMS.
- The Department was not performing regular purging of inactive files.
- The ability to make changes to the vendor records was not limited to those employees that set-up new vendors in the system.
- There were 5,099 out of 19,581 multiple vendors that had the same Taxpayer Identification Number (TIN).
- There were at least 531 out of 19,581 instances in which an individual vendor had multiple TINs. For example, a vendor with the name John Smith would have 4 TINs associated with his name.

Neither the department staff nor management was reviewing the input of new vendors for valid or duplicate entries. Additionally, the Department had not reviewed and purged any inactive vendors that had been entered into the system. The Department also does not have system restrictions in place that would prevent employees from making changes to vendor records. Furthermore, the Department does not have a formal naming convention policy that would provide guidance on how to properly enter vendor information in the SIMS claims system so duplicate vendors or different vendors with the same TINs do not exist in the vendor file. When there is no verification of information that is inputted into the system, erroneous information and duplicate or unauthorized vendors would not be detected.

Recommendation:

We recommend that a supervisor review the input of new vendors into SIMS to verify the information is accurate and avoid unauthorized vendors. Additionally, we recommend Management run SIMS reports on a monthly basis to review any additions, deletions or changes made in the system. These reports can also identify vendors that have been inactive for a period of time, helping the Department identify which vendors to deactivate from the system. We also recommend that the Department establish a formal naming convention policy that provides guidance on how to properly enter vendor information in SIMS. This policy would serve to significantly reduce the likelihood of the system containing multiple vendors with the same TINs and vendors associated with multiple TINs.



Management's Response:

When there is a need to add new vendors to the SIMS claims system, Liability and Workers' Compensation adjusters will request their W-9 from each new vendor and complete a Department Vendor Registration Form. These forms are reviewed and approved by the respective section Supervisor and given to the Payroll Specialist who enters it into the system.

The department will develop a report in SIMS that will query updates to the vendor files for the prior month and distribute to supervisor to ensure all new vendors have been entered correctly.

The department has been, and will continue to, inactivate vendors that have not been used since the implementation of SAP, as well as any vendors who have not been paid for two years.

The department will also develop a formal naming convention policy and train the staff in the positions assigned to enter new vendors in SIMS.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Finding 2: There were no written policies or procedures regarding the master vendor file.

The Internal Control and Cash Manual Chapter 2-2, "Control Environment and Procedures", states that the control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices.

There were insufficient or no written policies and procedures for the master vendor file operations and the naming convention process.

Without written policies and procedures in place, existing employees do not have manuals to consult for questions and any new employees will not know what procedures to follow to effectively do their job. Also, without a formal naming convention policy, the Department will not have the necessary mitigating controls to reduce the risk of duplicate files.



Recommendation:

We recommend management immediately develop written policies and procedures that guide employees and provide direction on all major aspects of maintaining and protecting the master vendor file. The development of written policies and procedures will help establish an organizational structure and provide guidelines for employee responsibilities and duties. Furthermore, the policies and procedures should include the positions that are required to perform various functions, such as the accounting, monitoring and general oversight of the master vendor file operations.

Management's Response:

Risk Management has started gathering the necessary information to develop a written manual for the master vendor file. It will be based on vendor input practices that the staff currently uses to enter new vendors in SIMS. The policies and procedures will include the positions that participate in the performance of all functions related to the master vendor file.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Finding 3: The Department did not comply with the Internal Revenue Service (IRS) Form 1099 reporting requirements.

The Internal Revenue Service (IRS) states that a Form 1099-MISC (Miscellaneous Income) should be filed for each person that has been paid at least \$600 for services performed by someone who is not an employee, for medical and health care payments and for payments to an attorney during the year. Also, Section 104 of the Internal Revenue Code (IRC) states that settlement payment amounts of any damages received on account of personal physical injuries or physical sicknesses are excluded from gross income.

During our review of 25 settlement payment transactions, there was one payment related to an employment discrimination claim for which a Form 1099 was not issued to the claimant. The 1099 was issued to the attorney only. Since there was no physical injuries or physical sickness associated the employment discrimination claim, the settlement is considered taxable income.

The Department does not issue a Form 1099 for settlement payments associated



with employment discrimination claims. When payments are not properly reported to the IRS, the IRS can impose fines and penalties for the unreported amount.

Recommendation:

We recommend that the Department follow the reporting requirements for the Form 1099 as outlined by the IRS in the "Instructions to Form 1099". We also recommend that the Department adhere to all relevant Internal Revenue Codes pertaining to the taxability of the settlement claims prior to processing the settlement payments.

Management's Response:

With respect to Form 1099 and settlements, Risk Management and ATC (Chief Deputy, Disbursements) will follow the guidelines below and in accordance with the Interoffice Memo from County Counsel regarding the Risk Management Settlement Reporting dated August 15, 2019:

- Settlements that involve damage or loss to personal property are not taxable.
- Settlements that involve bodily injury or wrongful death allegations are not taxable.
- Settlements that involve civil rights/constitutional violations are not taxable.
- Any settlement where loss of income/salary/wages are a factor will be reviewed between RM and ATC to determine taxability.
- All settlements that involve employment litigation will be reviewed between RM and ATC will be reviewed for taxability.
- All settlements/judgements where the claimant/plaintiff is represented by an attorney, the entire amount paid to the attorney will be taxable.

Risk Management will contact ATC for any settlements where taxability is an issue. In the event taxability is questionable, the settlement will be reported as taxable, with the burden placed on the claimant/plaintiff (and their attorney) to work it out with the IRS.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.