



Unclassified

Internal Audit Services Branch

Audit of Vendor Management Phase I

March 2016

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Executive Summary

A Vendor Master File contains all the necessary information on individuals and organizations that is required to make a payment. This information includes names, addresses, and bank account information. The integrity and accuracy of the Vendor Master File information is the foundation for efficient and effective payment processing. Employment and Social Development Canada (ESDC) has two types of Vendor (payee) Master Files.

The first type is for external goods and services providers. This file is managed by the business centre within the Chief Financial Officer Branch (CFOB). This Vendor Master File also encompasses ESDC employee's information for reimbursement of non-salary expenditures such as travel expenses, membership fees, training, etc. Employee's information is captured initially in PeopleSoft under the responsibility of the Human Resources Services Branch (HRSB), and then transferred automatically to SAP. HRSB is responsible for the completeness and accuracy of employee's information.

The second type of Vendor Master File is for Grants and Contributions (Gs & Cs) beneficiaries. Gs & Cs beneficiaries are initially established in the Common System for Grants and Contributions (CSGC). This Vendor Master File is managed by the Program Operations Branch (POB), with some aspects being managed by individual programs. SAP only serves as the payment system.

Given the fact that these two types of vendors are managed by different branches and governed by different processes and controls, this report covers only Vendor Master File pertaining to external goods and services providers as well as ESDC employees managed by CFOB. The Vendor Master File for Gs & Cs beneficiaries will be covered by an upcoming audit which will start in January 2016.

Audit Objective

The objective of this audit was to assess whether key controls over the Vendor Master File for external goods and services providers as well as ESDC employees are adequately designed and operating as intended to ensure that payments are made only to appropriate vendors.

Summary of Key Findings

- Roles and responsibilities are embedded in process documentation as well as flowcharts and in general, employees clearly understand their tasks and job duties.
- Segregation of duties is appropriate and there is no Section 34 or Section 33 authorities assigned to the business centre employees.
- A vendor validation process is not in place.
- Audit trails are maintained following modifications to the Vendor Master File.
- At the time of audit, there were no monitoring or reporting mechanisms.

Audit Conclusion

The audit concluded that key controls over the Vendor Master File for external goods and services providers as well as ESDC employees are in place; however enhancements are needed to improve their design and operating effectiveness.

Recommendations

1. CFOB should enhance controls over vendor set-up to include, but not limited to:
 - establishing a validation process and naming convention,
 - disallowing the same person from being both the enhancer and approver of the vendor creation/update request,
 - eliminating the use of generic business numbers as well as Post-Office (PO)Boxes as primary address without a physical address.
2. CFOB should implement formal monitoring and reporting activities to ensure the accuracy and validity of the Vendor Master File.

I.0 Background

I.1 Context

A Vendor Master File contains all the necessary information on individuals and organizations that is required to make a payment. This information includes names, addresses, and bank account information. The integrity and accuracy of the Vendor Master File information is the foundation for efficient and effective payment processing. ESDC has two types of Vendor (payee) Master Files.

The first type is for external goods and services providers (29,026 as of September 30, 2015). This file is managed by the business centre within the CFOB. This Vendor Master File also encompasses ESDC employee's information for reimbursement of non-salary expenditures such as travel expenses, membership fees, training, etc. Employee's information is captured initially in PeopleSoft under the responsibility of the HRSB, and then transferred automatically to SAP. HRSB is responsible for the completeness and accuracy of employee's information.

The second type of Vendor Master File is for Gs & Cs beneficiaries. Gs & Cs beneficiaries are initially established in the CSGC. This Vendor Master File is managed by the POB, with some aspects being managed by individual programs. SAP only serves as the payment system.

Given the fact that these two types of vendors are managed by different branches and governed by different processes and controls, this report covers only Vendor Master File pertaining to external goods and services providers as well as ESDC employees managed by CFOB. The Vendor Master File for Gs & Cs beneficiaries will be covered by an upcoming audit which will start in January 2016.

I.2 Audit Objective

The objective of this engagement was to assess whether key controls over the Vendor Master File for external goods and services providers as well as ESDC employees are adequately designed and operating as intended to ensure that payments are made only to appropriate vendors.

I.3 Scope

The scope of this audit included key controls pertaining to the management of the Vendor Master File for external vendors and ESDC employees. All audit work was conducted in the National Capital Region.

We specifically looked at external vendors created and/or modified during the period from April 1, 2014 to September 30, 2015. For ESDC employees, we compared the employees list in PeopleSoft to SAP as of September 30, 2015.

I.4 Methodology

This audit used a number of methodologies including:

- Process observation and analysis;

- Documentation review and analysis;
- Interviews with management and staff within CFOB;
- Data analysis to identify duplication, erroneous information and other irregularities such as identical banking information, addresses and use of a postal box address;
- File review results by examining a statistically valid sample to test the operating effectiveness of key controls of vendors created or updated during the fiscal year 2015–2016: 73 external vendors and 73 employee vendors.

2.0 Audit Findings

2.1 Opportunities exist to improve the design and operating effectiveness of key controls over the Vendor Master File

Control environment to set up and update vendors

To set up a new vendor the requester accesses the Master Data Maintenance portal via myEMS (SAP) and performs an initial search to ensure the vendor does not already exist in the database. Once confirmed, inputs data such as name, address, telephone number and business or social insurance number (SIN). Then the request is routed automatically to the business centre. The business centre employees receive all requests via email that contains an embedded link to all pending requests.

An officer in the business centre opens the request and reviews the input made by the requester. The first step is to perform a search by business number, company name and postal code to ensure the vendor does not already exist in the system. If no existing vendor is found, the officer proceeds to create the vendor by inputting enrichment data such as the company code, purchasing organization, account group, tax number, payment terms etc. Once all information is entered, the system automatically checks if any required information is missing. The officer then saves the changes and the request is ready for approval by a second officer. The approver subsequently opens the completed request and performs a spot check for potential errors and then approves the request. Finally, the system sends an automatic notification to the requester indicating the approval was granted.

Roles and responsibilities when properly defined, communicated, and well understood help prevent confusion and misunderstanding. During our interviews and walkthroughs, we noted that roles and responsibilities are embedded in the process documentation and flowcharts. Business centre employees have a clear understanding of their roles and responsibilities with regard to the vendor creation and modification. However these roles and responsibilities are not documented.

The Department has centralized the vendor creation and updates within the business centre under CFOB. We noted that appropriate segregation of duties is in place for proper Vendor Master File management. No employee at the business centre has Section 34 certification authority, contracting authority, or Section 33 payment authorization.

Vendor validation is a key control to reduce the risk of the Department making payments to inappropriate or fraudulent organisations and to increase the integrity of the Vendor Master File. However, currently the process relies on the requester to validate vendor authenticity and does not include a formal validation process within CFOB to ensure that the vendor is a genuine individual or entity. The current process only ensures the existence and completeness of the required information for a new vendor creation. We believe a validation process that leverages the available tools such as the Corporation Canada database provided by Industry Canada and other similar databases for those corporations created under provincial/territorial legislation as well as other tools would help mitigate vendor authenticity risks.

For vendor creation, modification or deactivation, the current process requires an approver that reviews the enrichment step and provides the final approval. The system however has no rules or logic preventing the same user from completing both the enrichment and approval. We carried out statistically valid sample tests which indicated that changes to the vendor records were logged by the system to keep track

of the date, change request, enhancer and approver. In the 73 vendor files reviewed by the audit team, 3 were approved by the same enhancer and reviewer. The audit team encourages CFOB to enhance system controls by preventing the same person from being both the enhancer and approver of the vendor creation/update request.

Through data analysis the audit team identified 1,254 businesses that contained a PO Box as the primary address in their vendor file without a physical address. While PO Box addresses may be justified for valid business reasons, the validity of these addresses could be further investigated to mitigate the risk of ESDC making payments to spurious vendors.

The business centre uses the business number for corporate vendors and SIN for individual vendors as the unique identifier. During the audit we noted that 2,676 corporate vendors were associated with generic business numbers, which indicates a system design weakness as the system accepts vendors with generic business numbers. We suggest that the CFOB enhance SAP system design to disallow the use of generic business numbers.

In addition, the audit team identified 74 duplicate vendor records created during the period from April 1 to September 30, 2015. Although the number of duplicates has decreased noticeably when comparing with 642 duplicates created during the period from April 1, 2014 to September 30, 2015 (out of 29,026 external vendors and service providers), eliminating all duplicate vendor entries is a critical step in ensuring the integrity of the Vendor Master File.

The audit team was informed that the vendor addresses are reviewed annually for compliance with Canada Post standards. Having a vendor naming convention provides for consistency in vendor data, however interviews and walkthroughs completed with the business centre staff noted that no naming convention is established for vendor creation.

The audit team also performed statistically valid sample testing of employee vendor files and no issues were found. As part of the testing, data analysis was performed on employee data in both PeopleSoft and SAP as of September 30, 2015, all differences were properly explained. The audit team concluded that employee data transfer from PeopleSoft to SAP was adequate.

Recommendation

CFOB should enhance controls over vendor set-up to include, but not limited to:

- establishing a validation process and naming convention,
- disallowing the same person from being both the enhancer and approver of the vendor creation/update request,
- eliminating the use of generic business numbers as well as PO Boxes as primary address without a physical address.

Management Response

CFOB agrees with the recommendation and will work with the Internal Services Support Organization in enhancing controls related to the vendor management process (including internal audit recommendations). Actions are expected to be completed by December 2016.

2.2 Monitoring and reporting is not in place

Archiving of inactive or duplicate vendors and monitoring of what to report to appropriate levels of management are not carried out. The walkthroughs showed that vendors are only deactivated when a request is received; there is no process in place to identify inactive or duplicate vendors. Based on the data analysis performed by the audit team, 1,775 out of 6,319 business vendors had no activity since December 2011. We also noted 1,293 out of 20,462 medical practitioners had no activity since March 2014. Regular review of the Vendor Master File reduces the risk of duplicate payments and makes it easier to retrieve vendor information in the system. In addition, a vetted Vendor Master File improves the quality of information available for analysis and reduces processing time to query information in the system.

Proper user access management is critical to ensure information obtained from the vendor is protected and only appropriate individuals are granted access to set up and modify Vendor Master File. The audit noted that the user access list is reviewed annually. We only noted one instance where an employee was still on the user list (total of eight business centre employees) after leaving ESDC.

Recommendation

CFOB should implement formal monitoring and reporting activities to ensure the accuracy and validity of the Vendor Master File.

Management Response

CFOB agrees with the recommendation and will elaborate and document a monitoring and reporting framework. Actions are expected to be completed by June 2016.

3.0 Conclusion

The audit concluded that key controls over the Vendor Master File for external goods and services providers as well as ESDC employees are in place; however enhancements are needed to improve their design and operating effectiveness.

4.0 Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the Vendor Master File for external goods and services providers as well as ESDC employees. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

Audit Criteria	Rating
It was expected that the Department has:	
Developed roles and responsibilities related to Vendor Master File management that are well defined, communicated and understood	●
Designed and implemented controls to ensure that only authorized persons can set up, update or delete vendors	●
Designed and implemented controls to ensure that audit trails are retained following modifications to the Vendor Master File	●
Designed and implemented controls to ensure that the Vendor Master File does not contain duplicate vendor records	●
Designed and implemented appropriate segregation of duties in relation to the Vendor Master File	●
Designed and implemented controls to detect inappropriate changes to the Vendor Master File	●
Established a formal mechanism to maintain and update the Vendor Master File	●
Established a mechanism to ensure monitoring results are reported to appropriate levels of management and corrective actions are undertaken in a timely manner	○

- ★ = Best practice
- = Sufficiently controlled, low risk exposure
- = Controlled, but should be strengthened, medium risk exposure
- = Missing key controls, high risk exposure

Appendix B: Glossary

CFOB	Chief Financial Officer Branch
CSGC	Common System for Grants and Contributions
ESDC	Employment and Social Development Canada
Gs &Cs	Grants and Contributions
HRSB	Human Resources Services Branch
PO	Post-Office
POB	Program Operations Branch
SIN	Social Insurance Number