

DEPARTMENT OF FINANCE
BUREAU ACCOUNTING
BUREAU OF PURCHASING
MUNIS VENDOR MASTER FILE AUDIT

Distribution: Lovely Warren, Mayor
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Office of Public Integrity
Date: July 25, 2018

I. EXECUTIVE SUMMARY

In this review, the Office of Public Integrity (OPI) examined the vendor master files in the City's financial software, Tyler Technologies Munis Financial Management (Munis) to determine the effectiveness of internal controls and the propriety of employee and general vendor files. The results of the review indicate that, in general, internal controls over vendor file management are adequate and documentation exists to support expenses paid. However, we noted the following findings that require management attention to improve administrative and internal controls.

- ◆ OPI noted of the 31,255 total unique vendors in Munis, there were 1,812 active employee vendors in the City's financial management software, Munis. Of the 1,812 vendors, 393 or 22% are terminated employees.
- ◆ OPI found that 21,427 of the 31,255 vendors or 69% were not identified as either general or employee vendors. Of the 21,427 vendors, 17,129 or 80% are active. Two hundred and twelve of the 17,129 vendors are City employees.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

OPI routinely reviews City operations and internal controls. This review of the vendor master file is included in OPI's audit plan.

B. Background

The Purchasing Bureau obtains products and services required by City of Rochester departments and bureaus at the best price while ensuring adherence to New York State General Municipal Law and City Council Ordinances and regulations governing public purchasing. The Purchasing Bureau issues purchase orders and call numbers, trains departments and bureau purchasing liaisons in purchasing law and practices and gathers information from vendors.

In 2011, the City adopted Tyler Technologies Munis Financial Management software. Included in this software is the City's master vendor file. Purchasing is responsible for maintaining this file to mitigate risk of inappropriate or unauthorized activity, prevent duplicate payment and ensure that payments are made timely and efficiently.

The Purchasing Bureau processes all vendor add or change requests. However, Information Technology employees also have permissions to add modify or delete the vendor files. This is for the purpose of software

maintenance. Employees in the Accounting Bureau also have permissions in order to expedite payments during the City's year-end close period. IT is responsible for turning permissions in Munis on or off. The Munis software can identify the individual user of each vendor transaction.

The Munis Vendor Maintenance program includes required vendor information used to create a requisition, purchase order, contract, bid, or payment. The program tracks the payment history and 1099 amounts for individual vendors.

At the time of our review, the City vendor list contained 31,255 unique vendor numbers. Twenty five thousand eight hundred and sixty nine of the 31,255 are active vendors. The remaining 5,386 are inactive. These numbers fluctuate, as vendor records are added, deleted, and modified.

C. Objective and Scope

The objectives of the review were to assess the adequacy and effectiveness of internal controls within the Munis vendor files. The review included an examination of active employee vendors and general vendors. Additionally, OPI examined 183 of the 6,928 active general vendor files using statistical sampling methods.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for the Professional Practice of Internal Auditing. 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 recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of the review indicate that, in general, internal controls over vendor file management are adequate and expenses are valid. However, we noted the following findings that require management attention to improve administrative and internal controls and to ensure compliance with prescribed policy.

A. Terminated Employees Active in Munis

Munis assigns a vendor number to a City employee to issue payments related to employment, i.e. travel, petty cash, and mileage. Munis contained 1,812 active employee vendors. Three hundred ninety six or 22% of the 1,812 are terminated employees.

In order to maintain accurate files, procedures need to be in place to archive inactive vendors. There is potential for fraudulent or erroneous payments. City employee vendors should not remain active vendors in Munis upon separation from the City. The vendor type for these vendors should be inactive in Munis.

◆ Recommendation

A designated department should deactivate City employee vendors in Munis upon termination of employment. Vendor accounts should be periodically reviewed to ensure that upon separation from the City termed City employee vendor status is changed from active to inactive.

B. Incomplete Vendor Records

At the time of our review, there were 6,928 active general vendors in Munis. OPI selected a statistical sample of 183 vendor names from the population of 6,928 active general vendors. The sample selection assures proper representation throughout the entire population of general vendors and accurately projects the results against the entire population.

Of the sample selection of 183 general vendor accounts, we noted only one was a City employee. OPI compared all addresses to the list of City employee addresses. None of the remaining vendor addresses matched those of any current employees. This is a sample error rate of .01%.

We arbitrarily selected invoices for each of these vendors. All selected invoice payments were valid and supported with proper documentation.

During our review of vendor accounts, OPI found that Munis contained 21,427 vendors for which there was no designation of either a general vendor or an employee. This is 69% of the total vendors in the system.

Of the 21,427 vendors, 17,129 or 55% are active. Because of the high percentage of the total vendors noted, OPI expanded the review to compare this list of vendors to the list of current employees. We found an additional 212 vendors in Munis that are City employees but not coded as employee type vendors.

◆ Recommendation

When adding a new vendor record, Munis users should designate whether the vendor is a City employee or a general vendor. This may reduce the potential for duplicate vendors. Additionally, anyone who reviews the Munis records could clearly identify employees from general vendors.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Finance to this report begins on the next page.



City of Rochester

Inter-Departmental Correspondence



To: Timothy R. Weir, Director/OPI

From: Rosiland Brooks-Harris, Director of Finance *RBH*

Date: July 18, 2018

Subject: Munis Vendor Master File Audit

The Finance Department maintains and updates the vendor file in MUNIS. Purchasing has had primary responsibility for updating the vendor file since MUNIS was initiated as the City's financial information system on July 1, 2011. At the time that MUNIS was installed approximately 18,000 vendors were migrated from the previous financial information system into MUNIS. The high number of vendors classified as "blank", i.e. neither "General" or "Employee", is primarily a function of the carryover of that information from the old finance system that has not been updated.

Since the transition to MUNIS, MUNIS vendor file update permissions have been limited to Purchasing staff except during the federal income tax filing season, at which time certain Accounting staff are granted temporary vendor file access. Annually, approximately 10,000 updates, which include changes and/or additions, are made to the vendor file. In the year 6/1/17 to 6/1/18, Purchasing staff made 96.3% of the updates to the vendor file and Accounting staff made 3.7% of the updates to the vendor file.

Purchasing staff update the vendor file based upon requests and information provided by other departments on a standard vendor file maintenance request. The two recommendations made in this audit refer to employees or former employees. Purchasing does not have access to employee records. Therefore, in order for Purchasing to make any change to the vendor file with regards to employees or former employees, Purchasing needs to be provided with that information by either the Department of Human Resources Management (DHRM), or Payroll (a unit of the Bureau of Accounting).

Regarding Recommendation A, Payroll would need to notify Purchasing that an employee is no longer an active City employee. The correct employee number will need to be identified. Upon receipt of notification that an employee has been terminated, Purchasing can make that employee inactive in MUNIS, i.e. make that vendor number inactive. Making an ex-employee "inactive", does not, however, prevent any payments from being made to that ex-employee in the future. In fact, there are cases where it is appropriate to pay ex-employees using their employee vendor number. For example, a retired police officer may be called back for a court appearance months after the officer has retired. In that case, the retiree will be paid a specified amount per current City policy, and the check will be issued to the vendor number for that employee.

The only way to prevent any future payments to an ex-employee is to put a "stop" on the employee vendor number. This will prevent any payments from being made to that vendor number, unless the "stop" is removed manually. A "stop" is put on by the vendor maintenance process through Purchasing. A "stop" can be put on all ex-employees, but again, Purchasing would need to be notified what employee numbers need to have a "stop" put on them.

Proposed Action: Payroll will notify Purchasing when an employee has been removed from city employment. Purchasing will place a stop on future payments to that ex-employee's employee vendor number. If the ex-employee requires payment, for example in the situation identified above for the retired police officer, Purchasing will remove the stop until after that payment is made. Purchasing will also put a stop on any former employee if notified to do so by Payroll and/or DHRM.

Regarding Recommendation B, the 212 vendors in MUNIS who are City employees and who currently have a "blank" classification need to be audited to determine whether or not they are current or former employees. Former employees should have their records updated consistent with the discussion of Recommendation A.

Former employees can in fact have valid active MUNIS "General" vendor numbers. For example, a former employee who is a contractor to the City would have a new and separate vendor number. General vendors must submit W-9's to be added to the vendor file. Former employees who also have valid general vendor numbers will remain in the system with two numbers.

One enhancement going forward would be to request that an additional MUNIS classification be added – "Ex-employee" – in addition to the three existing vendor types: "General", "Employee" and "blank". Once the additional classification has been created in MUNIS, former employees who are currently classified as "blank" could be coded with that new "ex-employee" classification, provided that Purchasing is given the verification of ex-employee status by DHRM or Payroll.

Proposed Action. Upon receipt of the list of 212 vendors coded "blank" who are city employees, Payroll will notify Purchasing which vendors on that list are current employees and which are ex-employees. Purchasing will place a stop on payments to employee vendor numbers for ex-employees. Purchasing will classify the remaining employees as either "Employee", if they are an active employee, or "General", if they are an active contract vendor. In addition, if the MUNIS enhancement is made to add the "ex-employee" classification, then Purchasing will start using that classification once Purchasing is notified by Payroll that an employee has terminated employment from the City.