

**SAN BERNARDINO COUNTY
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
INTERNAL AUDITS SECTION**



**RISK MANAGEMENT:
MASTER VENDOR FILE FOLLOW-UP AUDIT**

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AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
268 WEST HOSPITALITY LANE
SAN BERNARDINO, CA 92415-0018
(909) 382-3183

WEBSITE: WWW.SBCOUNTY.GOV/ATC
FRAUD, WASTE, & ABUSE HOTLINE: (800) 547-9540



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Denise Mejico, CFE
Chief Deputy Auditor

Menaka Burkitt, CFE
Internal Audits Manager

Rachel Ayala
Supervising Internal Auditor III

Phaedra Green
Internal Auditor III



Risk Management: Master Vendor File Follow-up Audit

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Auditor–Controller/Treasurer/Tax Collector

August 19, 2021

Victor Tordesillas, Interim Director
Risk Management
222 W. Hospitality Lane, 3rd Floor
San Bernardino, CA 92415

RE: Master Vendor File Follow-Up Audit

We have completed a follow-up audit of the Risk Management Department Master Vendor File for the period of January 1, 2020, through October 31, 2020. The objective of the audit was to determine if the recommendations for the findings in the Risk Management Department Master Vendor File Audit, dated October 29, 2019, have been implemented. 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 have provided a status of the audit findings identified in the original audit report issued on October 29, 2019. Of the three recommendations from the original audit report, one has been partially implemented and two have been implemented.

We sent a draft report to the Department on June 7, 2021. The Department’s response to the current status of our recommendations is 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.

Ensen Mason CPA, CFA

Auditor–Controller/Treasurer/Tax Collector

Douglas R. Boyd Sr., ESQ.

Assistant Auditor–Controller/Treasurer/Tax Collector

Tori Roberts CPA

Assistant Auditor–Controller/Treasurer/Tax Collector

Respectfully submitted,

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

By:

Denise Mejico, CFE
Chief Deputy Auditor

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Date Report Distributed: August 19, 2021

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Scope and Objective

Our audit examined the Risk Management Department's (Department) master vendor file procedures for the period of January 2020, through October 2020.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Risk Management Master Vendor File Audit*, issued on October 29, 2019.

Methodology

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

- Interviews of Department staff
- Review of the Department's master vendor file procedures
- Test a sample of master vendor file transactions
- Examination of source documents



Prior 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 was 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 guide 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 every month to review any additions, deletions, or changes made in the system. These reports can also identify vendors that have been inactive for some 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 guides 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.

Current Status: Partially Implemented

The Department implemented procedures that include a supervisory review of new vendor entries to ensure that information is accurate and that there are no unauthorized vendors entered into SIMS. However, at the start of fieldwork, the Department was not running SIMS reports every month to review additions, deletions, or changes made in the system. Procedures for this review have since been implemented. Additionally, the Department established a formal naming convention policy to guide how to properly enter vendor information into SIMS.

Management's Response:

A report has been created in Risk Management's SIMS system titled "110-VendorsActionReport". The report lists vendors that have been added or updated during the previous month and contains the following fields: Vendor Name, Tax ID, Address, Action Active/Approved, Entry Date/Entered By, Updated Date/Updated By.

This report will be distributed to a Staff Analyst in the Fiscal section who will audit to ensure the "New Vendor Registration/Existing Vendor Change of Information" and the "Naming Convention for New Vendor Entry into SIMS" standard practices have been followed. This includes, but is not limited to, ensuring the applicable Risk Management "SIMS Vendor Registration" form or "Request for New Vendor Code or Change of Information" form has been filled out correctly and properly approved, that the W-9 has been submitted and the entry of the vendor name, address, and TIN has been done correctly. The standard practices also provide guidance that will reduce/eliminate the likelihood of the system containing multiple vendors with the same TINs and vendors associated with multiple TINs. Once the report is reviewed, it will be scanned into the shared drive and retained.

Auditor's Response:

The Department's actions will correct the deficiency identified in the finding.



Prior 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.

Current Status: Implemented

Management developed written policies and procedures to provide guidance and direction to employees on maintaining and protecting the master vendor file.

Prior 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 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. 1099 was issued to the attorney only. Since there were no physical injuries or physical sickness associated with 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 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 about the taxability of the settlement claims before processing the settlement payments.

Current Status: Implemented

We tested a sample of 10 settlement claims and noted that the Department followed the reporting requirements for Form 1099 as outlined by the IRS in the "Instructions to Form 1099". We further noted that for all claims tested, the Department adhered to all relevant Internal Revenue Codes about the taxability of the settlement claims before processing the settlement payments.