



New Vendor Onboarding and Vendor File Changes

McHENRY COUNTY PURCHASING DEPARTMENT

EXECUTIVE SUMMARY - INTERNAL AUDIT REPORT

December 27, 2019

MCHENRY COUNTY AUDITOR'S OFFICE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

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EXECUTIVE SUMMARY

Finance and Audit Committee Members,

The County Auditor's has completed a review of the New Vendor Onboarding and Vendor File Changes (report 2 of 2; transaction testing). Report 1 of 2 has already been properly issued to management and the Finance & Audit Committee; this report discusses findings over User Access Rights within the D365 system related to the Accounts Payable platform.

Audit objectives consisted of:

- a. Reviewing the new vendor onboarding approval processes along with reviewing vendor Masterfile changes to ensure that related supporting documentation over validation of new vendors and vendor file changes have been obtained and included in file, and to ensure documented approvals are obtained and are kept on file.
- b. Ensuring the appropriate due diligence is performed over background checks to potential new vendors, required validation of new vendor documentation is obtained, and to ensure evidence of new vendor due diligence is maintained.
- c. Ensuring approvals have been given to employee "role" assignments by authorized personnel and that proper segregation of duties is in place over employee access rights to the Vendor Management system in Accounts Payable D365. **This objective was covered in the first of the two reports issued for this internal audit.**

The following procedures were performed by the County Auditor's Office:

To achieve the first two objectives above, the County Auditor's Office performed the following internal audit procedures:

- a. For **new vendor onboarding** ensure:
 1. Vendor data input is accurate.
 2. Required documentation and approval(s) for new vendor onboarding (*the only two pieces of documentation required are the new Vendor Request Form and the W-9 form*) is on hand and in file.
 3. Due diligence was performed and documented to ensure vendors boarded are reputable, perform quality work and services, provide quality products, they are not fictitious, or do not have less than favorable backgrounds (unethical, convictions of law violations, etc.).
- b. For **vendor file changes** ensure:
 1. Proper authorized approval of the vendor file change was obtained and documented.
 2. Proper supporting documentation (including the proper approval(s) and validation of the change) is kept on file to support vendor record changes.
- c. Performed a comparison of vendor phone numbers, taken from the D365 Accounts Payable system, with those on the County's Human Resources files for all active employee in order to investigate those that do match to ensure such matches are reasonable and not used for potential fraud (employee having a vendor record).

THE SCOPE OF THIS INTERNAL AUDIT CONSISTED OF:

Sample items for both new vendor onboarding and vendor file changes (Masterfile changes) were selected judgmentally from the period of April 1, 2019 through September 30, 2019. Twenty-five new vendor onboarding transactions were selected for review, but only 10 were tested as a pattern of findings were noted in these ten that warranted not testing further. For vendor file changes (Masterfile changes), 20 items were selected for testing, but only 7 items were tested as a pattern of findings halted further testing.

THE FINDINGS NOTED ARE SUMMARIZED BELOW:

- a. Robust vetting of new vendors before onboarding is not occurring.
- b. New vendor onboarding is an email or paper process instead of using the D365 system.
- c. No daily “back-end” report exists listing new vendors input into D365 system the day before.
- d. No policy exists over the new vendor onboarding process.
- e. Vendor file changes can be requested by any employee.
- f. Vendor record change requests are not processed and approved on the D365 system.
- g. Approvals over vendor file changes are not being documented.
- h. There are no formal requirements to validate vendor file changes.
- i. No daily report exists for listing all prior day’s vendor records changed.
- j. No policy exists over the vendor file change processes.
- k. A formal process is lacking for documenting approvals over “Role” assignments and changes to access rights within a “Role” within the D365 Accounts Payable system.

The County Auditor’s Office will follow up in 2020 on *(as being a member of the formal project team to address both internal audit reports 1 and 2)* findings and recommendations related to user access rights to D365 Accounts Payable system and the new vendor onboarding and vendor file change processes.

MANAGEMENT’S RESPONSE:

Management is planning on addressing these findings and related recommendations in a formal project that has already been approved by management; the formal project plan will be rolled out in January 2020. This project will address findings and recommendations of both internal audit reports over New Vendor Onboarding and Vendor File Changes. Project updates will be provided as part of formal deliverables. Various members from the County Auditor’s office will be members of the project team and will be included in on all meetings, other members will include representatives from Administration, Purchasing and IT.

Sincerely,

Shannon Teresi, MAS, CPA, CIA, CFE, CRMA – County Auditor
Don Anderson, CPA, CFE – Chief Deputy Internal Auditor