



## **Accounts Payable Vendor Review**

August 2024

# **ORANGE COUNTY SANITATION DISTRICT**

### **Submitted By:**

Eide Bailly LLP

[eidebailly.com](http://eidebailly.com)



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## Executive Summary

Eide Bailly LLP (referred to as "we," "our," or "us") was engaged by the Orange County Sanitation District ("OC San," "OCSD," or "District") to perform a comprehensive review of the Accounts Payable Vendor Review process. This engagement was identified in the initial risk assessment, highlighting the importance of this area in OC San's operations. Additionally, this engagement is to be conducted every three to five years to ensure continuous monitoring and ongoing improvement of OC San's vendor management processes. The risk assessment and multi-year audit plan helps mitigate risks, enhance internal controls, and maintain data integrity, ultimately contributing to the District's overall efficiency and reputation.

This engagement focused on evaluating the internal controls and processes over the Accounts Payable (AP) Vendor Review. The review involved gathering and evaluating documentation outlining the District's processes, procedures, and internal controls related to AP Vendor Review. This included analyzing policies, desktop procedures, guidelines, and relevant forms. We conducted interviews with individuals involved in the process to gain a better understanding of their roles and to identify relevant controls and monitoring activities.

Our review primarily concentrated on the vendor setup and maintenance processes, and we are pleased to report that the District maintains efficient internal controls and appropriate segregation of duties over these operations. This engagement identified five (5) findings that present opportunities for improving the existing AP Vendor Review process. Addressing these findings can further enhance operational efficiency and effectiveness.

We extend our sincere gratitude to the Contracts & Purchasing Manager, Principal Staff Analyst, Accounting Supervisor, and the Contracts & Purchasing Technicians for their valuable contributions. Their insights were instrumental in enhancing our understanding of the AP Vendor Review process, and they enabled us to provide meaningful recommendations for process improvements and control enhancements.

## Background Information

OC San's wastewater system is dedicated to safeguarding public health and the environment from the potential hazards of wastewater. To ensure the proper operation of its extensive water system, the District undertakes regular construction, reconstruction, repair, and rehabilitation of system facilities through capital improvement projects. This requires contracting with numerous outside vendors and local businesses. As of June 2024, the District had approximately 3,700 active vendors during the period of July 1, 2023, through June 3, 2024.

The vendor master file is an important component of the District's purchasing and accounts payable (AP) processes. It contains key information such as the vendor's name, address(es), tax identification number<sup>1</sup> (TIN), and contact information. This information is used to send payments to vendors and to process 1099s, as required by the Internal Revenue Service (IRS). Vendor management is essential for efficient, cost effective, and compliant procurement and financial operations.

OC San's vendor setup and maintenance processes are managed by the Contracts and Purchasing Division within the District's ERP system, JD Edwards or JDE. Requests to setup new vendors or update existing vendor information in the system can be submitted by Contract Administrators, Buyers, or AP personnel. However, only Purchasing Technicians within the Contracts and Purchasing Division have the authority and system access to create or update vendor information. The AP team, which manages vendor payments, does not have access to create or update vendor records in the system. See [Figure 1](#) for OC San's vendor creation process.

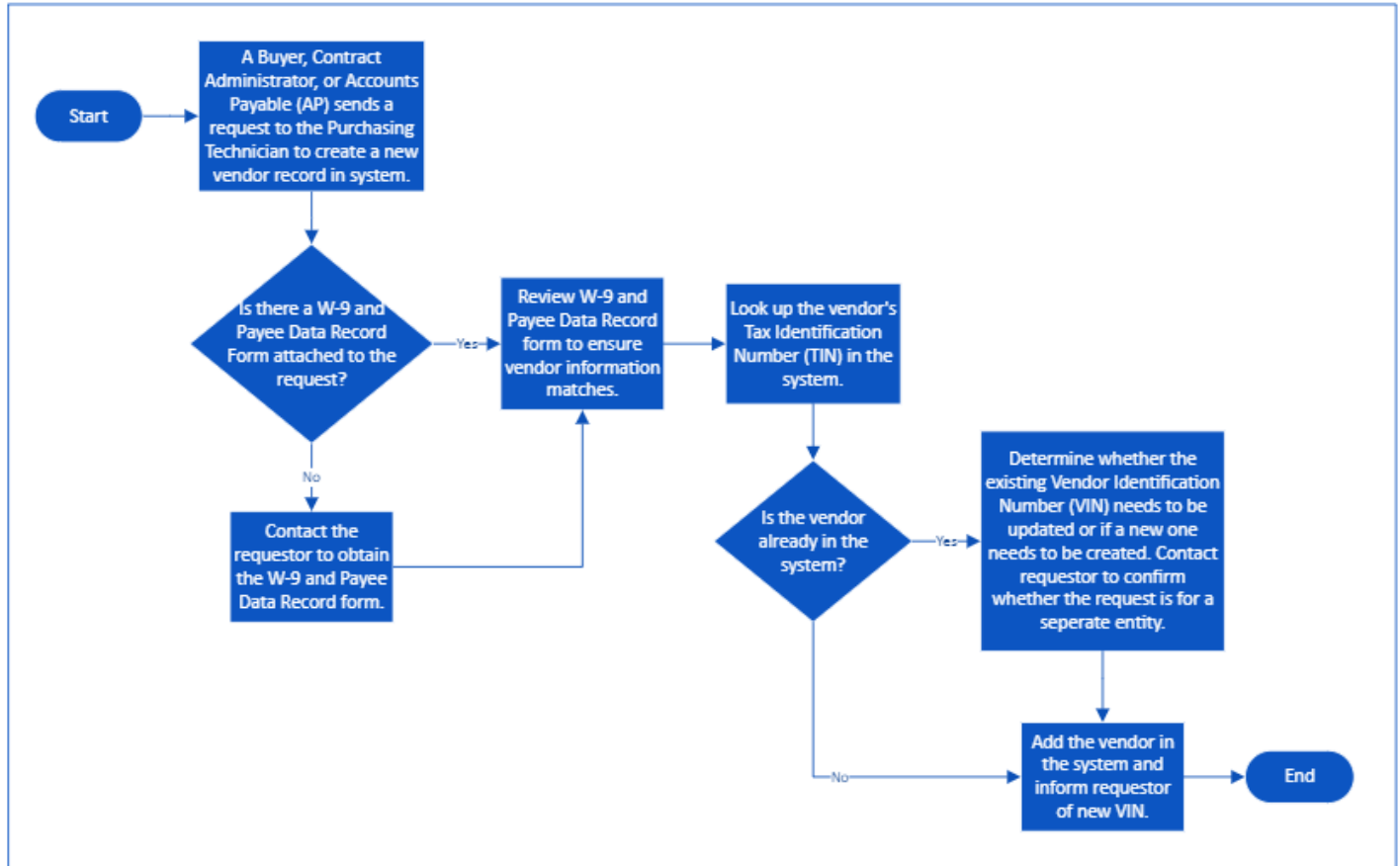
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<sup>1</sup> A TIN, or Tax Identification Number, is a unique identifier used by Internal Revenue Service (IRS) for tax purposes. A TIN is assigned either by the Social Security Administration (social security number) or by the Internal Revenue Service (Federal Employer Identification Number).

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This review evaluated the internal controls over the vendor management process, ensuring that vendors are legitimate, transactions are transparent, and conflicts of interest are avoided. During the scope of this review, Accounts Payable processed close to 18,000 invoices for payment, totaling approximately \$321,739,000.

**Figure 1**  
**Steps to Add a New Vendor to the Vendor Master File**



**Source:** EB created process flowchart of vendor creation process

## Objective & Scope

The **Objective** of this review was to evaluate the internal controls over the AP Vendor Review process to ensure that:

- Procedures and controls are adequately designed and implemented to identify, prevent, and detect the inclusion of fictitious vendors within the AP system;
- Controls are effective in verifying the authenticity and legitimacy of new and existing vendors, including ongoing monitoring mechanisms to detect unusual transactions or relationships;
- Appropriate measures are in place to prevent and detect conflicts of interest involving employees who may influence vendor selection and payment processes.

The **Scope** of this engagement covered all active vendors in the period from July 1, 2023, to June 30, 2024 (Fiscal Year 2024).

The engagement was performed under the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). We did not provide audit, review, compilation or financial statement preparation services to any historical or prospective financial information or provide attestation services under the AICPA Statements on Standards for Attestation Engagements and assume no responsibility for any such information.

## Methodology

In alignment with the stated objectives, our procedures included, but were not limited to, the following activities:

1. Obtained and reviewed relevant policies and procedures related to the AP Vendor Review Process.
2. Obtained and reviewed the organization chart and gained an understanding of the organization's structure along with roles and responsibilities of personnel involved in vendor selection and payment process.
3. Performed interviews and process walkthroughs of key personnel and gained an understanding of the AP Vendor Review process. Key Personnel Interviewed included:
  - Contracts and Purchasing Manager
  - Principal Staff Analyst
  - Accounting Supervisor
  - Contracts and Purchasing Technicians
4. Evaluated processes, procedures and internal controls designed to prevent and detect fictitious vendors within the AP system.
5. Obtained and reviewed the vendor master file to identify potential duplicate and/or fictitious vendors.
6. Tested a sample of vendors to verify controls in place are effective to maintain the completeness and accuracy of vendor information.
7. Evaluated controls in place to prevent and detect conflicts of interest.
8. Reviewed User Access Roles to verify proper segregation of duties.

## Results and Conclusion

Orange County Sanitation District established efficient processes, procedures, and internal controls over the AP Vendor Review process. Based on the procedures performed during this assessment, we identified areas of strength within the process including proper segregation of duties, effective oversight over vendor setup and maintenance, and robust controls over vendor payment processes. The District has well-defined purchasing thresholds and signing authority which provide clear guidelines to ensure all vendor transactions are subject to appropriate levels of review and approval.

While some key controls over the AP Vendor Review process are operating effectively, we identified certain areas where these controls are not functioning as intended. This assessment identified five (5) findings, for which we have provided recommendations to strengthen the overall control environment. By implementing these recommendations, OC San can improve the integrity of its vendor management process, reduce the risk of fraudulent activities, and enhance overall operational efficiency.

### FINDING #1 – Review of Vendor Master File

OC San currently has two issues related to the vendor master file review. First, there is no formally documented process for the periodic review and maintenance of the vendor master file. The AP team only sends the list of vendors recommended for deactivation to the Purchasing Technicians on an annual basis, which is not formally documented.

Second, while Information Technology (IT) generated a system report to assist in identifying potential duplicate vendors, this process is also not formally documented and is not performed on a routine basis.

The lack of a structured, regular review process increases the risk of having outdated, duplicate, or fictitious vendor records in the system.

#### Recommendation

To address the identified issues with the vendor master file review process, OC San should implement a formalized, documented, and comprehensive review process and conduct reviews of the vendor master file on an annual basis. This review should include a thorough evaluation of all vendor records and data entry practices, as well as an analysis of processes to ensure ongoing compliance with documentation standards. In addition to a formal periodic review process, OC San should also consider implementing ad hoc reviews whenever significant changes occur, such as significant increases in vendor activity or following any major incident involving vendor management.

By implementing these corrective actions, the District can significantly improve the integrity and accuracy of the vendor master file, reducing the risk of maintaining outdated, duplicate, or fictitious vendor records.

#### Management Response

*OC San's Purchasing and Contracts Manager will ensure all procedures are updated to incorporate periodic reviews of the vendor master file, as well as ad hoc reviews, as needed. The procedures will include review of duplicate vendors, vendor set up, and documentation. These procedures will be updated by December 31, 2024.*

### FINDING #2 – Duplicate Vendors

During our examination of the vendor master file, we identified several instances of potential duplicate records where vendors contained identical or similar information. Our analysis indicated that certain vendors appeared multiple times in the vendor master file, often with slight variations in their names or addresses. Inconsistent vendor naming conventions has contributed to these duplicate vendors.

### See Duplicate Vendor Examples below.

Additionally, we noted that some vendors were assigned multiple vendor numbers. Currently, OC San maintains a total of 3,778 active vendors, and our assessment identified that 69 of these entries are actual duplicate vendors based on matching criteria, including vendor name and vendor address.

#### Duplicate Vendor Example #1:

Vendor Name: System Integrators LLC  
Duplicate: Systems Integrators LLC (s at end of Systems)

#### Duplicate Vendor Example #2:

Vendor Name: Arcadis U.S. Inc.  
Duplicate: Arcadis U.S., Inc. (coma at end of U.S.)

#### Duplicate Vendor Example #3:

Vendor Name: City of Fullerton  
Duplicate: Fullerton City of

#### Duplicate Vendor Example #4:

Vendor Name: SCCWRP  
Duplicate: Southern California Coastal Water

#### Duplicate Vendor Example #5:

Vendor Address: 2055 E Centennial Cir  
Duplicate: 2055 East Centennial Circle

It is important to note that certain circumstances can lead to unavoidable duplicate vendors, such as vendors with different remittance addresses, shared office spaces, or vendors resulting from mergers with the same address.

The presence of duplicate vendors has several risks, including an increased likelihood of duplicate payments, inaccurate financial reporting, and operational inefficiencies. Addressing these issues through data cleanup, standardizing vendor naming conventions, and implementing stricter data entry protocols will help mitigate these issues, ensuring that each vendor is accurately represented in the master file.

### Recommendation

We recommend that OC San establish ongoing monitoring processes and conduct periodic reviews of the vendor master file, to identify and merge duplicate vendor records. This process should involve regular reviews, as detailed in [Finding #1](#), to ensure the integrity of the vendor data is maintained.

Additionally, we recommend the implementation of standardized naming conventions and data entry guidelines. By establishing clear protocols for how vendor names and other relevant information should be recorded, OC San can significantly reduce the likelihood of future duplicate entries. This could involve creating a reference guide for staff to ensure consistency in spelling, formatting, and abbreviations used when entering vendor information.

Lastly, we recommend strengthening the verification procedures for new vendor setups and updates. This includes implementing thorough checks against existing records before creating new entries, which will help prevent duplicates from being introduced into the vendor master file. Such checks could involve searching for potential matches based on multiple criteria—including name, address, and tax identification number—prior to approving new vendor registrations.

### Management Response

*OC San's Purchasing and Contracts Manager will ensure all procedures are updated to incorporate*

*periodic reviews of the vendor master file, as well as ad hoc reviews, as needed. The procedures will include review of duplicate vendors, vendor set up, and documentation. The procedure will also be updated to include verification of existing vendor information before adding a new vendor. These procedures will be updated by December 31, 2024.*

### **FINDING #3 – Policies and Procedures**

OC San does not have an established schedule or process for the periodic review of existing policies and procedures (P&P) related to the AP Vendor Review process, resulting in outdated documentation.

The document “JDE – Address Book Procedures” was last updated in March of 2022 and has not been revised to reflect the current process, specifically the requirement for vendors to submit a Payee Data Record Form along with the vendor’s W-9<sup>2</sup> form, attaching the VIN creation/update request email in JDE, and ensuring there is an audit trail for all changes made to vendor records. Additionally, the other two documents reviewed, “Activity Level Controls AP Purchases” and “Vendor ACH Payments” lack version control information, preventing us from determining the last time they were reviewed and updated.

Outdated and incomplete P&Ps can result in inconsistent application of processes, confusion among staff, and potential non-compliance with new procedures. This increases the risk of errors, inefficiencies, and potential legal or regulatory issues, ultimately compromising the integrity and effectiveness of the AP Vendor Review process.

### **Recommendation**

To address these issues, we recommend the following corrective actions:

- OC San should implement a formal process for the periodic review and update of all P&Ps, at least annually or on a rolling basis. This process should include a schedule for reviews, a designated responsible party, and documentation of the review and update process.
- OC San should update the existing P&Ps to include the current processes and procedures, including the steps mentioned in the finding, and incorporate best practices for vendor management to align with industry standards. Ensure that all relevant updates are clearly documented and communicated to the staff.
- Lastly, OC San should ensure that all P&Ps have proper version control information, including the date of the last review and approval. This will help maintain the relevance and accuracy of the documentation.

By implementing these corrective actions, the District can ensure that its vendor setup and management processes are governed by current, accurate, and comprehensive policies and procedures, thereby improving the consistency and reliability of the vendor setup and management processes.

### **Management Response**

*OC San’s Purchasing and Contracts Manager will ensure all procedures are updated to incorporate current practices, as well as a periodic review of all procedures. The format of the procedure will also be updated to reflect current OC San formatting for Policies and Procedures, including version control, and date of last review and approval. These procedures will be updated by December 31, 2024.*

### **FINDING #4 – Vendor Master File User Access**

During our review, we identified one individual, who transitioned to a different position within the organization and retained read and write permissions to the Vendor Master File. We acknowledge that

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<sup>2</sup> A W-9 Form is an IRS form that independent contractors and certain individuals fill out to provide their correct Tax Identification Number (TIN) to the person who is required to file an information return with the IRS to report.



Information Technology's upcoming annual review of individual user access roles would likely have identified this instance. However, unauthorized access to the Vendor Master file increases the risk of fraudulent activities, such as the creation of fictitious vendors, unauthorized changes to vendor information, and compromise of data integrity.

### Recommendation

We recommend that OC San implement a formalized process to promptly update user access rights when employees change roles. While this process is being formalized, AP should work with IT to increase the frequency of user access reviews to a more frequent basis to ensure only authorized personnel have access to the Vendor Master File.

These corrective actions will help ensure that access to the Vendor Master File is appropriately restricted, reducing the risk of unauthorized access and enhancing the overall integrity of the District's vendor management processes.

### Management Response

*OC San's IT Manager will ensure procedures are updated to incorporate the review of user access as employees change roles and responsibilities at OC San. These procedures will be updated by December 31, 2024.*

### FINDING #5 – Vendor Documentation

During our analysis, we identified 11 records out of a sample of 60 that were either missing required documentation or contact information or had discrepancies between the vendor information in the system and the details provided in the submitted documentation.

- Four (4) out of the 60 samples were missing a W-9 form in the system, which is a critical document for verifying vendor tax identification and classification.
- Four (4) out of the 60 samples lacked essential contact information, hindering effective communication and prompt resolution of any inquiries related to vendor accounts.
- Three (3) out of the 60 samples had vendor information that did not align with the details provided in the W-9 or the Payee Data Vendor Form, leading to concerns about the accuracy and validity of the available data.

Lack of proper documentation can lead to delays and inefficiencies in processing payments and reconciling vendor accounts. Additionally, the absence of or the inaccurate and incomplete vendor documentation increases the risk of fictitious vendors being added to the system, which compromises the integrity and reliability of the Vendor Master File.

### Recommendation

We recommend that OC San conduct a review of all vendor records to identify and correct any instances of missing, inaccurate or incomplete documentation. Additionally, as noted in **Finding #3**, we recommend updating the vendor management P&Ps, particularly the "JDE – Address Book Procedures", to ensure clear and detailed guidelines on the required documentation and the verification processes for vendor records. This should include specifications on essential forms, such as W-9s, contact information, and any other relevant documentation that should be retained to ensure compliance and proper vendor management.

Implementing these corrective actions will enable OC San to enhance the accuracy and completeness of its vendor records, resulting in strengthening of the Districts overall vendor management process and improve compliance and operational efficiency.

**Management Response**

*OC San's Purchasing and Contracts Manager will ensure procedures are updated to include review of vendor files for complete documentation. These procedures will be updated by December 31, 2024.*