



**SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
M E M O R A N D U M**

DATE: September 28, 2020
TO: SDCERS Audit Committee
FROM: Sarah Dickson, Chief Internal Auditor
SUBJECT: Vendor Master File Bank Account Numbers Audit

Enclosed is the Vendor Master File Bank Account Numbers Audit Report. I would like to thank SDCERS staff for all of the assistance and cooperation provided during this audit. Their patience, valuable time and efforts spent on this audit is greatly appreciated, especially during these pandemic times.

CC: Gregg Rademacher, Chief Executive Officer
Marcelle Voorhies Rossman, Deputy Chief Executive Officer
Johnny Tran, Chief Compliance Officer/General Counsel
Ted LaSalvia, Controller



Internal Audit Report

Vendor Master File Bank Account Numbers

for the Period July 1, 2019 through June 30, 2020

**Prepared by:
Sarah Dickson, Chief Internal Auditor**

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
AUDIT RESULTS	3
APPENDIX A – INHERENT LIMITATIONS, AUDIT OBJECTIVES, SCOPE & METHODOLOGY	5
Inherent Limitations.....	5
Audit Objective & Scope.....	5
Methodology.....	5

EXECUTIVE SUMMARY

SDCERS' accounts payable process is centralized within the Finance Division. The Accounts Payable (AP) staff are responsible for vendor master file (VMF) maintenance, the receipt and processing of invoices for payment, assisting in the resolution of vendor issues, and disbursements either via check or electronically. The Finance Division has about seven fulltime equivalents, five of which are tasked with certain steps in the AP process. The following table shows the activity carried out by the AP staff for FY2020:

# of Invoices Processed	Amount of Invoices Processed
930	\$14.3 million

An important aspect of AP is maintaining the VMF. The high-level VMF changes process is as follows:



The accounting system was set-up to flag VMF changes (including additions). From November 2014 through January 2020, the Internal Auditor reviewed these VMF changes to ensure they were supported and accurately input into the accounting system. This audit was added to the FY2021 Audit Plan as a result of monitoring cessation and since there was time for a quicker audit.

The audit objective was to perform data analytics on vendor bank accounts numbers to determine if bank account records are duplicative between active vendors who received payment from July 1, 2019 through June 30, 2020, including SDCERS employees.¹

I did not find any evidence of duplicative VMF bank accounts warranting reporting. However I did note a segregation of duties conflict that should be resolved.

Based on this audit, there were two recommendations which SDCERS management agrees with. Their responses, including anticipated completion dates, are included within the finding.

¹ We obtained bank account numbers for SDCERS employees who have been paid from SDCERS' accounting system and obtained direct deposit bank account numbers for SDCERS Finance employees from the payroll system.

Internal Audit would like to thank SDCERS staff for their assistance during this audit.

The information in this report is intended solely for the use of SDCERS' Audit Committee, Board of Administration, and management and is not intended to be, and should not be used by anyone other than these specified parties.

AUDIT RESULTS

Finding #1: VMF Segregation of Duties

The Internal Auditor had access to modify the VMF while also monitoring VMF changes.

Priority Rating: Low²

BACKGROUND

Tools were set-up in the accounting system to flag changes to the VMF. From November 2014 through January 2020, the Internal Auditor reviewed these VMF changes to ensure they were supported and accurately input into the accounting system. In order to validate changes were correctly input, the Internal Auditor was granted access to modify the VMF since this access was the only available that would show vendor bank account numbers and routing information, in addition to their address, phone number and more.

The IT Division leads an annual user access review and approval process, which was refined to include assessing segregation of duties appropriateness for all systems every five years. The annual process was completed by Management in July of 2020 and the segregation of duties analysis remains in process with estimated completion sometime during fiscal year 2021.

FINDING & RISK STATEMENT

Through conducting fieldwork for this audit, I noted the Internal Auditor had access to modify the VMF and was also monitoring VMF changes for appropriateness. This is a segregation of duties conflict and I wanted to bring this to management's attention immediately since their segregation of duties analysis is not yet completed. Inappropriate access increases the risk of fraud and error.

RECOMMENDATIONS

- A. Revoke the Internal Auditor's access to modify the VMF.
- B. Take over monitoring VMF modifications and ensure the new reviewer does not have access to modify the VMF.

Management Owner 1A: Finance

Management's Response 1A: Management agrees with this recommendation, access has been revoked.

Management's Estimated Completion Date 1A: September 24, 2020

Management Owner 1B: Finance

Management's Response 1B: Management agrees with the recommendation. Finance will develop an appropriate monitoring program for review of changes to the vendor master file. In the interim, there are compensating controls over the process. SDCERS has very robust invoice approval process that greatly limits the possibility an invalid invoice would be processed. Finally,

² Represents a finding requiring corrective action by management to mitigate risks with the process being audited.

if an unauthorized change is made to one of the vendor files, the vendor would notify SDCERS' they had not received payment.

Management's Estimated Completion Date 1B: December 31, 2020

APPENDIX A – INHERENT LIMITATIONS, AUDIT OBJECTIVES, SCOPE & METHODOLOGY

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls and because a sample was selected, errors or irregularities may occur and may not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

AUDIT OBJECTIVE & SCOPE

To perform data analytics on vendor bank accounts numbers to determine if bank account records are duplicative between active vendors who received payment from July 1, 2019 through June 30, 2020, including SDCERS employees.

METHODOLOGY

The following methods were used:

- Gather information and interview staff knowledgeable in the VMF changes process and the general AP process.
- Obtain a data dump from the accounting system as of June 30, 2020 showing all vendor payments for the period from July 1, 2019 through June 30, 2020 and then obtain the vendor's bank account numbers. Obtain bank account numbers for SDCERS employees who have been paid from SDCERS' accounting system and obtain direct deposit bank account numbers from the payroll system for SDCERS Finance employees. Test all vendor records to determine if duplicate bank accounts exist between vendors and between vendors and SDCERS employees.
- Obtain accounting system access report as of June 2020 indicating who has access to modify the VMF. Review the access report and ensure access is appropriately restricted.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes the evidence obtained provides a reasonable basis for the findings and recommendations.