CITY OF RICHMOND

Office of the City Auditor

DATE:	June 21, 2024
TO:	Lincoln Saunders Chief Administrative Officer
FROM:	Riad Ali City Auditor
SUBJECT:	2024-09 Follow-Up - Active Vendor Deactivation Process

<u>**Summary**</u>

The purpose of this memorandum is to summarize the results of the City's Auditor's Office follow-up review of Procurement Services' vendor deactivation process and to make some additional recommendations to improve the process. This review was conducted as a follow-up review to our 2024-08 Continuous Audit Report, as the deactivation process was still ongoing during audit fieldwork. The vendor deactivation process is important as it cleans up the city's vendor table and ensures vendors who no longer do business with the city are inactivated. Please be advised that this was not an audit conducted under Generally Accepted Government Auditing Standards. Had we conducted an audit, we may have identified additional findings and concerns.

The City Auditor's Office's review of Procurement Services' vendor deactivation process found vendors without activity for extended periods of time remained active, and vendors that departments may still be utilizing for services were deactivated. Specifically, we identified 2,183 vendors that remained active after Procurement Services' deactivation process even though they had no activity in over 18 months. At least 459 of them (21%) had no payment activity in over 7.5 years. We also found 64 vendors who may have been erroneously deactivated as they had payment activity within the prior 18-month period.

The root cause for the errors in the deactivation process appears to be that Procurement Services is performing the process with incomplete and/or incorrect reports. After reviewing our observations and analysis with Procurement Services staff, they immediately requested a listing of the 2,183 unique active vendors who had no activity over the prior 18-month period so that they could review and correct the file if necessary. They also committed to updating their process to include accurate reports for future vendor deactivation reviews. See **Appendix A** for management's response.

We thank Procurement Services for their assistance and cooperation in this follow-up review and their commitment to improving the process. Please contact us if you have any questions regarding this information.

cc: The Richmond Audit Committee
     The Richmond City Council
     Ms. Sabrina Joy-Hogg, DCAO Finance and Administration
     Mr. Rene Almaraz, Director of Procurement Services

Purpose

On April 4, 2024, the City Auditor's Office issued the *2024-08 Continuous Audit Report*. At that time, we noted that the vendor database had 4,188[1] active vendors without payment activity in the prior 18-month period. The report contained the following table that outlined the number of vendors without payment activity in the prior 18-month period as determined by our office from 2019 to 2023.

Date of Audit Test	Number of Active Vendors Without Payment/PO in the Prior 18 Month Period	Percent of Total Vendors
June 2019	6,593	35%
October 2020	1,570	8%
December 2021	4,438	22%
December 2023	4,188	19%

Source: The City Auditor's Office 2024 Continuous Audit Report.

The report noted that the Procurement Services' vendor deactivation process was still currently in process as the City Auditor's Office performed the analysis for December 2023. As such, we expected that there would be a significant decrease in active vendors at the conclusion of the department's deactivation process.

Background

The vendor master file contains vital information about the City of Richmond's vendors and is utilized to issue purchase orders to vendors and pay invoices. As vendors are added over time, the vendor master file can often grow in size. It is generally a best practice to periodically review the vendor master file for accuracy and inactivate vendors who are not currently doing business with the City.[2] Inactivating vendors who are not currently doing business with the city will reduce the risk of payments being issued to the wrong vendor or address and it reduces the risk of fraud.

The City has developed and issued Procurement Services Policy Number 49 to address this risk. Procurement Services Policy Number 49 indicates that "…an annual vendor clean-up process that includes, the inactivation of vendors that have had no payment, purchase order, requisition, or receiving activity for a period of 18 months…" should be completed.

Per Procurement Services, the vendor deactivation process is manual and time consuming. Per Procurement Services "Supplier Deactivation Instructions," to perform the deactivation process, the department runs two different reports from the RAPIDS system. The first report lists payments that were made within the prior 18-month period with a purchase order and the second report lists payments that were made without a purchase order for the same period. Both reports were customized for the Procurement Services for this process in the past.

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[1] This totaled 19% of the total number of active vendors.
[2] Per Principle 13.01 in GAO-14-704G, Standards For Internal Control in the Federal Government (Green Book), "Management should use quality information to achieve the entity's objectives."

Essentially, the department combines both reports into one and identifies vendors listed on the new report who have not received a payment in the last 18 months. Once identified, the vendors are deactivated in the system and cannot receive payments. Regardless of if they received a payment in the last 18 months, some vendors are never deactivated. These vendors include federal, state, and local government agencies.

Methodology and Results

Procurement Services' vendor database deactivation process concluded on May 31, 2024. During the period of January 1, 2024, to May 31, 2024, Procurement Services deactivated 2,057 vendors.

In order to determine if the Procurement Services' deactivation process successfully captured all vendors that should be deactivated because they appeared to no longer be doing business with the City, the City Auditor's Office did the following:

- Met with Procurement Services staff to discuss their process and the results,
- Reviewed reports listing all vendors in the vendor master file,
- Reviewed payment reports that outlined payments made to vendors over approximately the last 7.5 years,
- Reviewed purchase order reports, and
- Compared active vendors in the vendor master file against the payment and purchase order reports, as well as the vendor creation date.

We found that as of June 3, 2024, the vendor master file contained 7,465 unique active vendors. Out of those, 2,183 (29%) vendors were created prior to the 18-month period reviewed and did not have payment activity or an open or canceled purchase order in that period.[3]

To further review these results, the City Auditor's Office compiled and reviewed payment data over approximately the last 7.5 years. As shown in the table below, we found 1,277 active vendors without payment activity in the last 4.5 years, and they were created prior to that period.[4] Also, as shown in the table below, we found 459 active vendors without payment activity in the last 7.5 years, and they were created prior to that period.[5]

Payment Period	Number of Vendors[6]	Percent of Current Active Vendors
No Payment Activity Over the Last 18 Months	2,183	29%
No Payment Activity Over the Last 4.5 Years	1,277	17%
No Payment Activity Over the Last 7.5 Years	459	6%

Source: Prepared by the City Auditor's Office based on payment data and the vendor master file.

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[3] The period used for the auditor's testing was payments made from November 20, 2022, to June 3, 2024, and vendors that were created prior to November 20, 2022.
[4] The period used for the auditor's testing was payments made from November 20, 2019, to June 3, 2024, and vendors that were created prior to November 20, 2019.
[5] The period used for the auditor's testing was payments made from November 20, 2016, to June 3, 2024, and vendors that were created prior to November 20, 2016.
[6] Each payment period is a subset of the last period. As such, a vendor could be included in multiple payment periods.

Additionally, based on feedback received by Procurement Services staff, we compared the 2,057 vendors they deactivated against payment data over the last 18 months. We found that a total of 64 (3%) vendors appeared to be inaccurately deactivated as they had received a payment in that time frame.

As noted above, we met with Procurement Services staff to understand their process and how they identify vendors for deactivation. During the meeting, Procurement Services staff and the auditors found that the two reports configured specifically for Procurement Services to perform the deactivation process were inaccurate and incomplete. As such, vendors were incorrectly left active even though they did not have payment activity over the last 18 months and some vendors were deactivated even though they had received payments over the last 18 months.

Ongoing Efforts and Recommendations

After reviewing our observations and analysis with Procurement Services staff, they immediately requested a listing of the 2,183 unique active vendors who had no payment activity over the prior 18-month period so that they could review and correct the file if necessary. They also requested the 64 vendors that were deactivated even though they received payments in the prior 18-month period. Procurement Services committed to updating their process to include accurate reports for future vendor deactivation reviews. As such, we recommend:

1. ***The Procurement Services Senior Manager of Operations review and update the procedures related to vendor deactivation and ensure accurate reports are produced for the deactivation process.***

2. ***The Procurement Services Senior Manager of Operations complete the review of vendors provided by the City Auditor's Office and determine if:***
   - ***the 64 inactive vendors should be activated, and***
   - ***the 2,183 active vendors should be deactivated.***

APPENDIX A: MANAGEMENT RESPONSE FORM
2024-09 Follow-Up - Active Vendor Deactivation Process

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	The Procurement Services Senior Manager of Operations review and update the procedures related to vendor deactivation and ensure accurate reports are produced for the deactivation process.	Y	DPS Business Systems Analyst is working with DIT to recreate the Vendor Deactivation automated PO and Payment Reports. Until the automated reports are created, the Vendor Deactivation Team will run manual reports. Moving forward vendors will be deactivated Quarterly in the following months to not conflict with year-end: February, May, September & December. Lastly, the December reports will be run manually to validate the accuracy of the automated reports.
	TITLE OF RESPONSIBLE PERSON		**TARGET DATE**
	DPS Senior Manager/Operations & Business Systems Analyst		July 8, 2024 - Manual Vendor Deactivation Report to be created and reviewed with the Auditor's Office for accuracy. August 16, 2024 - New automated Vendor Deactivation Report will be validated for success or usage terminated.
	IF IN PROGRESS, EXPLAIN ANY DELAYS		**IF IMPLEMENTED, DETAILS OF IMPLEMENTATION**
	Business Systems Analyst is working with DIT to correct the CORERP automated Vendor Deactivation Report.		Not implemented at the time of this response.
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	The Procurement Services Senior Manager of Operations complete the review of vendors provided by the City Auditor's Office and determine if: • the 64 inactive vendors should be activated, and • the 2,183 active vendors should be deactivated	Y	DPS Senior Manager/Operations reviewed reports and agreed that the 64 inactive vendors should be reactivated as there was a payment and/or PO during the previous 18 months and the 2,026 active vendors should be deactivated. (Note: 2,183 less 157 vendors required to remain active: Government entities and DSS required vendor.)
	TITLE OF RESPONSIBLE PERSON		**TARGET DATE**
	DPS Senior Manager/Operations & Supplier Operations Analyst Team		June 21, 2024 - Reactivation of 64 inactive vendors. July 8, 2024 - Deactivation of 2,026 active vendors.
	IF IN PROGRESS, EXPLAIN ANY DELAYS		**IF IMPLEMENTED, DETAILS OF IMPLEMENTATION**
	The vendor reactivation and deactivation process is manual. Procurement's Supplier Operations Analyst Team is actively completing the process.		Not implemented at the time of this response.