



# **Corrective Action Plan Follow-up Review: Vendor Master File Audit**

**Audit Plan Code: 22.19.FF**

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## **Final Follow-up Report**

**September 8, 2022**

Management implemented a corrective action plan (CAP) with 17 activities to address the findings, observations, and recommendations in the original audit report. As such, this represents the close-out of the CAP.



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## Abbreviations

AP	Accounts Payable
BOT	Board of Trustees
CAP	Corrective Action Plan
EPISD	El Paso Independent School District
IRS	Internal Revenue Service
IT	Information Technology
SFO	School Funds Online
TIN	Tax Identification Number
VMF	Vendor Master File



## Background

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, Performance Standard 2500 - Monitoring Progress, require we "...establish and maintain a system to monitor the disposition of results communicated to management." Internal Audit has established the Corrective Action Plan (CAP) process to meet this requirement. The process includes monitoring and reporting whether management has implemented corrective actions to address audit findings, observations, and recommendations.

Internal Audit issued the Vendor Master File (VMF) Audit Report to District management and administration on August 20, 2020. The [original audit report](#) is posted on the EPISD's website. We performed the audit as part of the Board-approved 2019-2020 Internal Audit Plan. The objectives of the original audit were to:

1. Determine whether sufficient controls exist for the management of the VMF and if controls are operating effectively.
2. Determine if security roles of individuals who have access to modify the VMF are aligned to their job descriptions and if proper segregation of duties exists.

The audit scope included all vendors in the VMF as of and for the twelve-month period ended February 14, 2020, and security roles related to the VMF as of February 14, 2020.

The original audit report included six (6) findings, four (4) observations, and fourteen (14) recommendations. For reference, a summary of the original audit report findings and observations is provided in **Exhibit A**. District management and administration agreed with our recommendations and developed a CAP with seventeen (17) activities.

## Objective and Scope

The objective and scope of this follow-up review were to determine whether management implemented the 17 CAP activities or took other actions to address the six (6) findings, four (4) observations, and fourteen (14) recommendations outlined in the VMF Audit Report.

## Methodology

To achieve the objective of our follow-up review, we:

- Held meetings and communicated with persons responsible for carrying out the CAP activities.
- Reviewed supporting documentation maintained by management as evidence of completion of the CAP activities provided to Internal Audit.
- Tested the access selected EPISD employees have to the VMF.

## Inherent Limitations

This was a limited scope follow-up review covering only the actions taken by administration to address the original audit findings, observations, and recommendations stated in the Objective and Scope section of this report. No representations of assurance are made to other areas or periods not covered by this follow-up review.

## Summary of Results

CAP Activities	Implemented	Overall CAP Status
17	17	Closed

Internal Audit previously completed two follow-up reviews of the CAP on March 31, 2021, and June 29, 2022. The reports for these follow-up reviews are posted on the EPISD's website. This third and final follow-up review was required due to delays in implementing CAP activities.

In summary, District management and leadership implemented a corrective action plan (CAP) with 17 activities to address the six (6) findings, four (4) observations, and fourteen (14) recommendations in the original audit report. This report represents the close-out of the CAP.

## CAP Activities and Action Taken

Management and leadership agreed with the recommendations in the original audit report and incorporated them into 17 CAP activities. The details of the 17 activities, the person(s) responsible, and the action taken for the CAP activities are outlined below.

### Activity 1 Implemented

"Procurement & School Resources will evaluate the access level by role/position to the VMF. Procurement & School Resources will ensure that proper segregation of duties and controls are considered during the evaluation and determine if the access aligns to the employee's job responsibilities, and request access changes if necessary. If access is not necessary to perform the employee's job responsibilities, the access will be removed."

**Person(s) Responsible:** Executive Director of Procurement & School Resources, Executive Director of Financial Services, and Chief Information Officer

**Action Taken:** Procurement & School Resources personnel requested a report from Information Technology (IT) to identify employees who had access to edit vendor profiles. Access to edit vendor profiles was removed from employees outside of the Procurement & School Resources Department.

### Activity 2 Implemented

"Procurement & School Resources will work with IT to revise the access security role that allows the two employees in Procurement to enter a vendor and approve it automatically. This will assist in establishing segregation of duties where the person entering a vendor is not approving it."

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Chief Information Officer

**Action Taken:** The access for the two Procurement & School Resources employees was revised. Their access does not allow automatic approval when entering a vendor into the system.

### Activity 3 Implemented

"Procurement & School Resources will perform a periodic cleanup of the VMF every other year in June. The cleanup process will include consolidating and inactivating duplicate information in Frontline, ensuring information is current and

accurate, filling-in missing information, obtaining and uploading missing documents, and resolving issues causing holds. Procurement & School Resources will involve other stakeholders such as AP to determine the extent (all vendors or only certain vendors) of the cleanup. There are several risk factors that Procurement & School Resources will consider in prioritizing the order to clean vendor data in the VMF, such as:

- Vendors with issues documented in the CP-2100A IRS notices,
- Vendors with duplicates,
- Vendors with holds,
- Vendors with incomplete information,
- Vendors who share TIN, email, address or phone number with current employees,
- Vendors with missing documents, and
- Vendors with PO Boxes as remit-to addresses.

To aid in the process of identifying vendors missing attachments, Procurement & School Resources will work with IT to create a query that pulls only the vendors used in the last 24 months that do not have attachments.

The cleanup process should be clearly documented in the operating procedures or the Procurement Manual.”

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Chief Information Officer

**Action Taken:** Procurement & School Resources:

1. Worked with Accounts Payable (AP) to correct vendor setup in the system. Corrections included 1099 records, misspellings, typos, and W9 classification status.
2. Inactivated vendors with no activity for more than 24 months from the vendor master file.
3. Obtained a list of vendors who were missing attachments in the system and requested new vendor packets from those vendors.
4. Obtained a report from IT to identify vendors who share Tax Identification Number (TIN), email, address, or phone number with current employees.
5. Documented the periodic vendor master file cleanup process in the Procurement Manual. The cleanup will take place every other year in odd-numbered years.

## Activity 4 Implemented

“To facilitate the search of vendors on Frontline and reduce the number of duplicates created, Procurement will institute the use of a naming convention. The naming convention will be documented in the New Vendor Set Up Procedures and the Procurement Manual.”

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources documented in the Procurement Manual a naming convention to be used when entering new vendors into the system.

## Activity 5 Implemented

“Procurement & School Resources will update and expand upon the written operating procedures for adding, changing, and inactivating vendors per the recommendation.

Procurement will also implement a checklist delineating the steps to perform to add a new vendor so that no steps are missed. The checklist will include review



of the documents in the new vendor packet. Procurement will also institute a tracking mechanism so that requests to add vendors and requests for changes are not missed or entered twice (in the case of adding vendors)."

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources implemented a checklist to add new vendors which includes a review of the documents needed to set up the vendor. Procurement & School Resources will be using a Smartsheet to track requests to add new vendors and requests for changes to vendor information.

## Activity 6 Implemented

"Procurement & School Resources will update the Procurement Manual to reflect current practices for adding new vendors to the VMF. The updated procedures will clearly identify the person/position that will have the responsibility of reviewing and approving new vendors and the documents required as part of the new vendor packet."

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources identified in the Procurement Manual (i) the positions responsible for setting up new vendors in the system, and (ii) the documents required to become a vendor with the District.

## Activity 7 Implemented

"Procurement & School Resources will ensure additional verification steps are implemented prior to adding a vendor to ensure that the vendor is legitimate. The validation process may involve phone calls, requesting references, etc.

Procurement & School Resources will implement a validation process to follow prior to making a change in vendor information such as Procurement & School Resources reaching out directly to the vendors via phone and asking them to confirm the last four digits of their TIN, plus the date of the last check, and the amount of the last invoice, or some other similar information. Direct communication with the vendor will not only serve as a confirmation that the change request is legitimate, and the new information is correct, but it will also serve as a notification to the vendor that the change has been made."

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources outlined validation procedures in the Procurement Manual for new vendor set up and for changes in vendor information.

## Activity 8 Implemented

"Procurement & School Resources will work with IT to set up a change log for the VMF. The change log should include, at a minimum, the following fields: (1) Date & time of change. (2) Related Vendor ID and Company ID. (3) Modified by (the user who made the change.) (4) Name of the field changed. (5) old value and new value."

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Chief Information Officer

**Action Taken:** IT developed a change log for the VMF; however, the change log did not capture the "Modified by" field. The current TEAMS system configuration cannot track this information. Procurement & School Resources submitted a ticket to Frontline to capture the "Modified by" information; Frontline considers this request an enhancement. Procurement & School Resources will continue

collaborating with IT and the Chief Financial Officer to escalate the Frontline enhancement. Also, they will continue using the Smartsheet log and review process (described in Activity 9 – Action Taken below) for changes to vendor information. The decision was documented in a Risk Acceptance Form.

### Activity 9 Implemented

“Given that there are no controls associated with changes to the VMF, a review process over the change log could be used as a mitigating control. The control could consist of periodically inspecting the change log to verify that all changes have appropriate supporting documentation from the vendor attached to Frontline (i.e., the legitimacy of change), and the changes were made accurately and completely. The review control should be assigned to an employee who is not involved in making the changes. This process will be clearly documented in the operating procedures or the Procurement Manual.”

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources outlined in the Procurement Manual a process to review changes to vendor information for accuracy and completeness. Also, as part of their quarterly review, Procurement & School Resources will request the change log from IT and compare it to the changes recorded in the Smartsheet log. If discrepancies are identified between the logs, they will follow up to determine the reason for the discrepancy.

### Activity 10 Implemented

“Procurement & School Resources will obtain the required documents (Packet) to add Auctions Unlimited to the VMF. In addition, Procurement will consult with AP to determine if this vendor should be issued a Form 1099. Procurement will verify whether Auctions Unlimited should be added to the VMF due to state requirements.”

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Executive Director of Financial Services

**Action Taken:** Procurement & School Resources (i) added Auctions Unlimited to the VMF, (ii) attached the required documents to the vendor profile, and (iii) determined the vendor will be issued a Form 1099.

### Activity 11 Implemented

“Procurement & School Resources will determine whether (i) there are other vendors who do not follow the traditional procurement process, (ii) those vendors will be added to the VMF, and (iii) they require a Form 1099. In addition, Procurement & School Resources in consultation with Financial Services will determine the documentation process for vendors who do not follow the traditional procurement process.”

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Executive Director of Financial Services

**Action Taken:** Procurement & School Resources consulted with Financial Services and determined the non-traditional vendors are those related to one-time payment for legal settlements, payroll deductions, and government entities. The documentation process for these types of vendors is mentioned in Activity 15 – Action Taken.

### Activity 12 Implemented

“Procurement & School Resources will work with IT to determine the best feasible solution to ensure vendors with holds or a status of "Approval in Progress" are not transferred from Frontline to School Funds Online (SFO).”

## Activity 13 Implemented

**Person(s) Responsible:** Executive Director of Procurement & School Resources and Chief Information Officer

**Action Taken:** IT updated the data feed from Frontline to SFO to include only vendors with a status of "Approved;" as such, vendors with a status of "Approval in Progress" are not migrating to SFO. Campus Accounting and Procurement & School Resources determined the best solution for the District was to place SFO vendors on hold in Frontline. This would restrict processing requisitions for the vendors in Frontline, but the vendors could still be used by campuses through SFO (student and campus funds). According to Procurement & School Resources, they will obtain reports of the Campus Principal's general fund accounts on a quarterly basis to identify vendors that have a high dollar activity and they will recommend that vendors with high dollar activity be inactivated to prevent non-compliance with State Procurement Laws.

"Procurement & School Resources will perform an analysis to determine the pros and cons of inactivating vendors but not the companies. Other stakeholders, including AP and Campus Accounting, will be involved in the process of conducting the analysis. If the decision is that inactivating vendors is not sufficient, Procurement & School Resources and IT will run a test to determine whether inactive companies can be issued checks on SFO, just like inactive vendors. If inactivating companies does not prevent vendors from being used on SFO, Procurement & School Resources and IT will collaborate to find a feasible solution.

If inactivating both vendors and companies produces the results desired, Procurement & School Resources will work with Campus Accounting to determine whether the companies of the vendors inactivated on April 13, 2020, should be inactivated as well. Procurement & School Resources will work with IT and Campus Accounting to determine the feasibility of creating a computer script that will automatically inactivate the vendors/companies not used in 24 months while also retaining vendors used on SFO but not Frontline."

**Person(s) Responsible:** Executive Director of Procurement & School Resources, Executive Director of Financial Services, and Chief Information Officer

**Action Taken:** Procurement & School Resources determined inactive vendors in Frontline cannot be issued a check through SFO. Campus Accounting and Procurement & School Resources determined the best solution for the District was to place SFO vendors on hold in Frontline, instead of inactivating them, so campuses would be able to use fundraising/club fund vendors.

IT locked the button that allowed users to add vendors from the company tab in Frontline. Also, IT indicated creating a computer script to automatically inactivate vendors not used in 24 months was not feasible. Procurement & School Resources will submit Zendesk tickets to IT every other year to inactivate vendors in Frontline.

## Activity 14 Implemented

"Procurement & School Resources will update the IRS W9 form used to the most current IRS form in the Packet and online at <https://www.episd.org/Domain/198> and will periodically verify that the Packet includes the most current version. The process will be documented in the operating procedures or the Procurement Manual."

**Person Responsible:** Executive Director of Procurement & School Resources



**Action Taken:** Procurement & School Resources included the most recent IRS W9 form in the Packet and online, and outlined a procedure in the Procurement Manual to review forms every other June to ensure the most current versions are utilized.

## Activity 15 Implemented

"Procurement & School Resources will collaborate with other departments, such as Legal or AP, to establish an efficient process to manage one-time vendors added for special purposes (e.g. settlements). The process will establish (i) when to add one-time vendors (ii) what supporting documentation should be collected, and (iii) when to inactivate the vendors. One-time vendors will be inactivated as soon as the vendor is paid. This prompt action will minimize the accumulation of one-time vendors and will reduce the possibility of unauthorized payments being issued. In the case of settlements, the Legal Department will provide the date the vendor should be inactivated."

**Person(s) Responsible:** Executive Director of Procurement & School Resources, Executive Director of Financial Services, and General Counsel

**Action Taken:** Procurement & School Resources consulted with General Counsel and Financial Services on the process for setting up and inactivating one-time vendors. The process and supporting documentation required for one-time vendors are outlined in the Procurement Manual.

## Activity 16 Implemented

"Procurement & School Resources will enforce the requirement to send a written notification to the vendor and end user when a vendor has bad performance as outlined in the Procurement Manual. We also recommend Procurement promote that only vendors with outstanding service and ethical conduct are maintained as District vendors and encourage users to fill out vendor performance reviews. Otherwise, the District could be using vendors who under-deliver or who fail to meet responsibilities, etc."

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources posted a notice in myepisd.org landing page indicating the importance of evaluating vendor performance. Also, Procurement & School Resources personnel were informed about the requirement to follow up on negative vendor performance issues.

## Activity 17 Implemented

"Communicate all changes in the New Vendor Procedures and Procurement Manual to employees involved in the areas affected after approval by the appropriate parties."

**Person Responsible:** Executive Director of Procurement & School Resources

**Action Taken:** Procurement & School Resources updated the Procurement Manual, presented the updates to Cabinet, and obtained approval in August 2022. Procurement & School Resources communicated vendor procedure updates to the pertinent personnel.

## Exhibit A – Summary of Original Audit Results

The complete [original audit report](#) with recommendations is posted on the EPISD's website.

Findings	Summary of Findings
1	We identified seven employees (within and outside of Procurement) who have improper access to the VMF. Improper access to the VMF creates a risk that access is used intentionally or accidentally to make inappropriate changes to vendor information. This may create issues with segregation of duties where there is no oversight or where errors are not prevented or detected and corrected timely. Procurement does not have a process in place to periodically evaluate the access level by role/position to the VMF.
2	As of February 25, 2020, we noted 35.8% of the vendors in the VMF had not been used in more than two years, and 30.5% had no activity in Frontline or School Funds Online (SFO). Also, the remaining vendors that had activity in the last 24 months had instances of duplicates or data integrity issues such as missing or incorrect information. Having these issues can increase (i) the risk of not identifying fictitious vendors, (ii) the risk of making incorrect payments to vendors, (iii) the time spent by employees to process accurate Forms 1099-MISC Miscellaneous Income (Forms 1099), and (iv) the risk of reporting incorrect expenditures by vendor.
3	Some vendors were added to the VMF without the required forms, incompletely, or inaccurately. If a vendor is missing the required forms, there is no evidence the vendor was created legitimately or that the external verification was performed. Incomplete or inaccurate information might cause issues such as checks delivered to incorrect addresses, or Forms 1099 issued to incorrect Tax Identification Numbers.
4	Some changes to the VMF did not have appropriate supporting documentation in Frontline or were not entered accurately or completely. We found no evidence that changes are reviewed or that vendors were contacted to verify the legitimacy of the change requests. This is a potential weakness in the process as it could lead to fraudulent changes being taken as legitimate requests and cause payments to be redirected to incorrect remit-to addresses. In addition, there is no audit change log in Frontline to help research and detect unauthorized or fraudulent modifications to the VMF.
5	We identified one vendor that is not part of the VMF. Having vendors that are not part of the VMF increases the risk of (i) understating expenditures and revenues, (ii) not filing all the Forms 1099 that should be filed according to the IRS guidelines, or (iii) failing to comply with regulations such as CHE(Local) or section 22.0834 of the Texas Education Code.
6	Campuses issued checks to 25 vendors with holds through SFO in the 12-month period tested, as the interface between Frontline and SFO does not transfer the holds. Therefore, the campuses could be using vendors identified as having issues or being out of compliance.

Observations	Summary of Observations
1	On April 13, 2020, 5,314 vendors were inactivated without inactivating the company. Using the Frontline testing environment, Internal Audit verified that by not inactivating the company, a vendor can be added to an active company without requiring approval. In addition, we noted 31 vendors that were inactivated in Frontline were used on SFO after the inactivation.
2	The W9 in the vendor packet and online is outdated. New vendors should fill out the most current version of the W9 form because the information requested has changed.

3	Vendors added as part of lawsuit settlements (one-time vendors) or garnishment of wages have different supporting documentation than the standard forms. Neither the Procurement Manual nor the New Vendor Set Up Procedures provides information on the documentation required for adding these types of vendors and when to inactivate them. Lack of documented procedures might lead to (i) inadequate retention of forms that contain important information to support the purpose of adding the vendor and (ii) the accumulation of one-time vendors.
4	Written notifications of bad performance have not been sent to vendors that received an unsatisfactory vendor performance form as outlined in the Procurement Manual. Not sending notifications to the vendors will enable problems with vendors to continue uncorrected.



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#### Internal Audit Department

📍 1014 N. Stanton St. El Paso, TX 79902

📞 Phone 915-230-2743    ✉️ Email [audit@episd.org](mailto:audit@episd.org)

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