

# COUNTYWIDE VENDOR VALIDATION ASSURANCE ENGAGEMENT

Report No. AE-2024-7

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SEPTEMBER 23, 2024

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Utah County Auditor Internal Audit Division  
Internal Audit Manager: Calvin Bergmann, CIA, MPA  
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# AUDITOR'S LETTER



## Office of the County Auditor Internal Audit Division

September 23, 2024

Rodney Mann, Utah County Auditor  
Utah County Auditor's Office  
100 East Center Street, Suite 3600  
Provo, Utah 84606

Dear Mr. Mann:

The Internal Audit Division ("Division") performed an assurance engagement of Utah County Financial Information Systems ("COFIS") Vendor Maintenance Module vendor validation and management. During this limited review, we performed the following procedures:

1. Tested policy and procedures existence.
2. Tested COFIS Vendor Maintenance Module separation of duties.
3. Tested a sample of active vendors to verify an Internal Revenue Service ("IRS") Form W-9 was submitted.
4. Tested a sample of active vendors to reconcile submitted IRS Form W-9 data with COFIS data.
5. Tested a sample of active business vendors to verify a valid IRS Taxpayer Identification Number ("TIN") and verify that IRS data reconcile with COFIS data.
6. Tested a sample of active individual vendors to verify a valid IRS TIN and verify that IRS data reconcile with COFIS data.
7. Tested a sample of active vendors to verify a Utah Division of Corporations and Commercial Code business registration, as applicable.
8. Tested a sample of active vendors with both P.O. Box remittance addresses and P.O. Box mailing addresses to verify if the vendor has an associated documented physical location.
9. Tested the active vendor population (excluding tax codes of "E," "G," "R," "S," "V," "Voter," and "W") to verify if all vendors have unique TINs.
10. Tested a sample of active vendors associated with tax code "E" to verify Utah County employee status.

11. Tested a sample of active vendors associated with tax code "R" to verify legitimate refund issuance.
12. Tested a sample of active vendor individuals for supporting documentation of Lockdown inmate existence or Senior Volunteer program (i.e., Senior Companion or Foster Grandparent) volunteer existence.

The Division discovered two findings and three other matters during the engagement. For finding(s) and other matter(s), we provide recommendations to improve the COFIS vendor validation and management control environment. Finding and other matter numbering is correlated with the procedures listed above.

Note that our report, by nature, disproportionately focuses on weaknesses. This does not mean there were not strengths within the areas reviewed and other areas not reviewed. For example, the Purchasing Division implemented an IRS TIN validation tool into its vendor approval process and entered missing vendor data before we concluded the engagement.

The Division appreciates the courtesy and assistance extended to us by Purchasing Division personnel during the engagement process. We look forward to a continuing professional relationship.

Sincerely,

Utah County Internal Audit Division

CC: Robert Baxter, Purchasing Division Manager, Utah County Auditor's Office  
Jeremy Walker, Director of Financial Services, Utah County Auditor's Office  
Patrick Wawro, Director, Utah County Information Systems Department  
James Longhurst, Associate Director, Utah County Information Systems Department

## FINDING(S) & OTHER MATTER(S)

### Finding 1.1: Insufficient Vendor Validation and Management Policy and Procedures

#### Condition

Acknowledging that the Purchasing Division has a *Vendor Validation* (dated 12/12/2022) document containing limited written procedures mentioning the vendor submission of IRS Form W-9 and a review of adverse actions on the sam.gov website, we find (1) no policy regulating vendor validation and maintenance, (2) no procedures providing reasonable assurance on a vendor's TIN accuracy and existence, and (3) no procedures regulating vendor maintenance {although we acknowledge an unwritten practice of regularly classifying inactive vendors as inactive (i.e. editing vendor status from "ACT" to "SUSPEND")}

#### Criteria

Per the United States Government Accountability Office's ("GAO's") *Standards for Internal Controls in the Federal Government*: "Management should implement control activities through policies."

Because the *Vendor Validation* (dated 12/12/2022) document does not include "why" language (i.e., policy main objectives), primary audience, and applicable situations/restrictions, we do not consider *Vendor Validation* (dated 12/12/2022) document a policy that regulates vendor validation and maintenance.

Because the submission of an IRS Form W-9 and a review of sam.gov website adverse actions does not prevent fictitious vendors from being added to the vendor system {e.g., an IRS TIN is not being verified with the IRS as legitimate and a physical address is not being verified as existing and being associated with the vendor}, a vendor's existence is not being validated and we do not consider the *Vendor Validation* (dated 12/12/2022) document a document that contains procedures implementing a vendor validation control activity.

Because the current vendor validation document does not include procedures for maintenance (e.g., entering a vendor, suspending a vendor, editing vendor information, etc.), we do not consider the *Vendor Validation* (dated 12/12/2022) document a document that contains procedures implementing a vendor maintenance control activity.

We do not consider the *Vendor Validation* (dated 12/12/2022) document adequate documentation of a control activity that provides reasonable assurance that entity objectives (e.g., effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations) will be achieved.

### **Cause**

Previous tone at the top sentiment did not prioritize written policy and procedures and current management has not, until recently, prioritized drafting and enforcing comprehensive vendor validation and management policy and procedures.

### **Effect**

Management has decreased assurance that:

- vendors are legitimate;
- vendor data is adequately monitored; and
- Utah County is compliant with Internal Revenue Code (i.e., backup withholding requirements and IRS Form 1099 accuracy).

The IRS may impose penalties for failure to:

- withhold 24% of a vendor's payment for federal taxes if a vendor's TIN is incorrect; and
- report vendor payments accurately on IRS Form 1099.

### **Recommendation**

We recommend management draft and enforce comprehensive vendor management policy and procedures. We recommend these procedures include:

- verifying IRS TIN accuracy via the IRS TIN matching application;
- verifying applicable business registration via the Utah Division of Corporations and Commercial Code business search;
- verifying the IRS Form W-9 provided address is a valid address and an address associated with the vendor; and
- user types and timeframes for entering new vendor data, editing vendor classification, and editing other vendor data.

## Finding 3.1: Nonexistent IRS Form W-9s

### Condition

Three sampled vendors (i.e., ID Number 1155, ID Number 1854, and ID Number 24366), did not have an IRS Form W-9 saved in County records.

### Criteria

Per the Purchasing Division's *Vendor Validation* (dated 12/12/2022) document:

At present, when the County receives a new vendor, the vendor submits a W-9. Purchasing logs on to the System for Award Management ("SAM") website and checks to see if there are any adverse actions against the vendor. The vendor is then entered into the County vendor module in the Finance system.

### Cause

Unknown. Two of these three vendors (i.e., ID Number 1155 and ID Number 1854) do not have a COFIS "Created By" username listed, which may indicate the vendor was created in another system version and imported into the current system version without all fields being imported (assuming a previous system version recorded this data), COFIS did not have functionality at the time of vendor creation to record the username who created the vendor, or that this data was deleted. All three vendors appear to have been created before the *Vendor Validation* (dated 12/12/2022) document was drafted and Purchasing Division staff are uncertain if current procedures were being complied with and enforced at that time.

### Effect

Without verifying IRS Form W-9 data, management has decreased assurance that a vendor is a legitimate business, which may increase fraud risk, and that Utah County is compliant with Internal Revenue Code (i.e., backup withholding requirements and IRS Form 1099 accuracy), which may increase IRS penalties assessed.

### Recommendation

We recommend management require IRS Form W-9 submission and validation before a vendor is entered into COFIS. We also recommend management request IRS Form W-9 for these three vendors and verify vendor data accuracy.

## Other Matter 3.1: Blank Vendor Change History Page

### Condition

We observed a blank *Change History* page after searching for vendors and accessing each vendor's *Vendor Identification* page. It appears no vendors have data displayed on the *Change History* page, regardless of the user signed in to COFIS.

### Recommendation

We recommend Information Systems management configure the COFIS Vendor Maintenance Module *Change History* page to display all vendor data changes, including username, date, time, field edited, and data entered.

## Other Matter 9.1: High Number of Vendors

### Condition

Purchasing Division staff have communicated that multiple vendors per week are activated in COFIS. The COFIS Vendor Maintenance Module has a population of 34,480 vendors, consisting of the following statuses:

- Active ("ACT"): 6,332
- Suspended ("SUSPEND"): 28,147
- Temporary ("TEMP"): 1



Figure 1: COFIS Vendors: ACT, SUSPEND & TEMP Tax Types

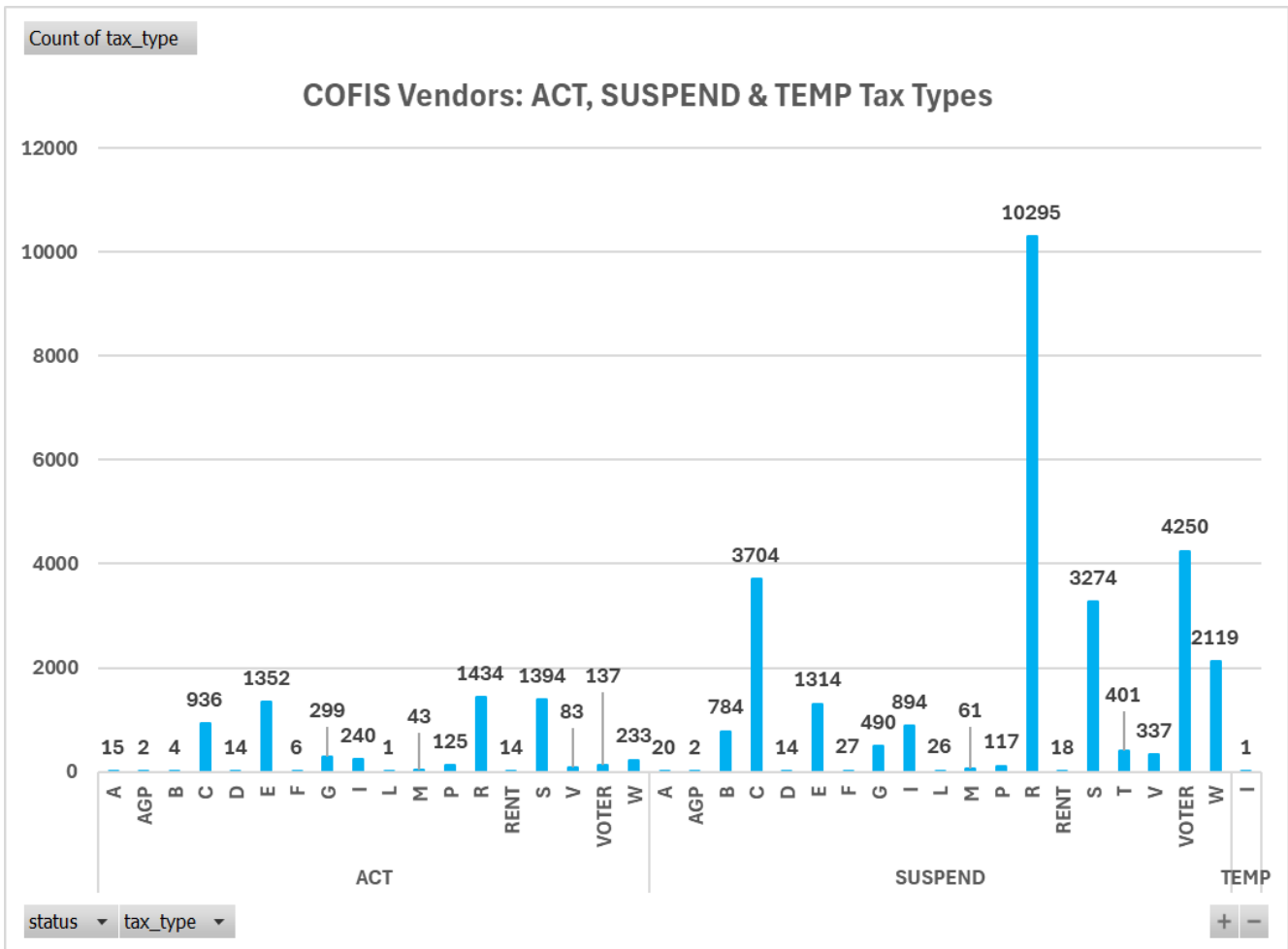


Table 1: COFIS Vendor Tax Type Legend

Tax Type	Description
<b>A</b>	ATTORNEY FEES
<b>AGP</b>	ATTORNEY GROSS PROCEEDS
<b>B</b>	BUSINESS/TAXABLE NONPROFIT
<b>C</b>	CORPORATIONS/501(c)(3)
<b>D</b>	PMT FOR DECEASED EMPLOYEE
<b>E</b>	EMPLOYEE
<b>F</b>	FOREIGN
<b>G</b>	GOVERNMENT
<b>I</b>	INDIVIDUAL
<b>L</b>	LAND SALE
<b>M</b>	MEDICAL
<b>P</b>	PARTNERSHIP
<b>R</b>	REFUND/GARNISHMENT
<b>RENT</b>	RENT
<b>S</b>	STIPEND
<b>T</b>	TEMPORARY
<b>V</b>	VOLUNTEER/NON-CTY EMPLOYEE
<b>VOTER</b>	ELECTION JUDGE
<b>W</b>	WITNESS

**Recommendation**

Acknowledging that 1,352, 1,434, and 1,394 active vendors are associated with “E,” “R,” and “S” tax types, respectively, but also recognizing that 926 active vendors are associated with tax type “C,” we recommend management, with the collaboration of County departments, establish and enforce an approved vendor list with a decreased vendor population, curated from Utah Division of Purchasing and General Services state cooperative contracts, that can provide all required products and services.

**Other Matter 9.2: Nonunique IRS TINs**

**Condition**

Of the active vendors tested (i.e., 1,371 active vendors which excluded “E,” “R,” “S,” “V,” “Voter,” and “W” tax codes), we noted 69 vendors did not have unique IRS TINs. Based on the vendor names listed, it appears these 69 vendors could be reduced to 23 vendors.

**Recommendation**

We recommend management reduce vendors, where possible, to achieve a vendor population where each vendor has one unique IRS TIN.

# MANAGEMENT RESPONSE(S)

## Finding 1.1: Insufficient Vendor Validation and Management Policy and Procedures

### Management Response

Auditor’s note: This response was provided by Purchasing Division management.

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
<p>We recommend management draft and enforce comprehensive vendor management policy and procedures. We recommend these procedures include:</p> <ul style="list-style-type: none"> <li>• verifying IRS TIN accuracy via the IRS TIN matching application;</li> <li>• verifying applicable business registration via the Utah Division of Corporations and Commercial Code business search;</li> <li>• verifying the IRS Form W-9 provided address is a valid address and an address associated with the vendor; and</li> <li>• user types and timeframes for entering new vendor data, editing vendor classification, and editing other vendor data.</li> </ul>	Agree	The Vendor Validation policy has been updated to include the recommended actions.	Robert Baxter, Purchasing Manager	10/18/2024

\*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

### Finding 3.1: Nonexistent IRS Form W-9s

#### Management Response

Auditor’s note: This response was provided by Purchasing Division management.

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management require IRS Form W-9 submission and validation before a vendor is entered into COFIS. We also recommend management request IRS Form W-9 for these three vendors and verify vendor data accuracy.	Agree	Tad is requesting W-9s from the three named vendors.	Robert Baxter, Purchasing Manager	11/18/2024

\*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

### Other Matter 3.1: Blank Vendor Change History Page

#### Management Response

Auditor’s Note: This response was provided by Information Systems management.

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend Information Systems management configure the COFIS Vendor Maintenance Module <i>Change History</i> page to display all vendor data changes, including username, date, time, field edited, and data entered.	Agree	Estimated start date – Dec 2024  Estimated time to complete – 2 days to 3 weeks depending on exact requirements and if we can simply build upon existing tracking code or if we must build a more comprehensive solution like we did for fixed assets.	Mike Kniephof, Programming Team Supervisor	01/21/2025

\*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

## Other Matter 9.1: High Number of Vendors

### Management Response

Auditor’s note: This response was provided by Purchasing Division management.

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
Acknowledging that 1,352, 1,434, and 1,394 active vendors are associated with “E,” “R,” and “S” tax types, respectively, but also recognizing that 926 active vendors are associated with tax type “C,” we recommend management, with the collaboration of County departments, establish and enforce an approved vendor list with a decreased vendor population, curated from Utah Division of Purchasing and General Services state cooperative contracts, that can provide all required products and services.	Agree	This will be actively addressed as we convert to the new ERP. All existing vendors will need to be validated before they are transitioned into the new system.	Robert Baxter, Purchasing Manager	04/18/2025

\*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

## Other Matter 9.2: Nonunique IRS TINs

### Management Response

Auditor’s note: This response was provided by Purchasing Division management.

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management reduce vendors, where possible, to achieve a vendor population where each vendor has one unique IRS TIN.	Agree	This will be accomplished as we transition to the new ERP.	Robert Baxter, Purchasing Manager	04/18/2025

\*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.