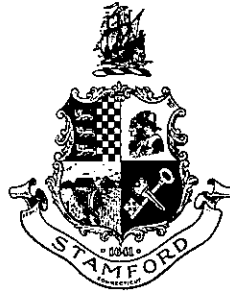


Minutes: April 19, 2017

DAVID R. MARTIN
MAYOR



BOARD OF FINANCE
RICHARD FREEDMAN
CHAIRMAN
MARY LOU T. RINALDI
VICE CHAIR
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BOARD OF FINANCE

STAMFORD GOVERNMENT CENTER
888 WASHINGTON BOULEVARD
P.O. BOX 10152
STAMFORD, CONNECTICUT 06904-2152

REPORT OF AUDIT COMMITTEE MEETING OF THE BOARD OF FINANCE HELD ON APRIL 19, 2017 at 6 p.m.

ATTENDEES: COMMITTEE CHAIR RICHARD FREEDMAN; SAL GABRIELE (arrived at 6:18 p.m.); AND MARY LOU RINALDI (arrived at 6:36 p.m.). ALSO IN ATTENDANCE WERE: JAY FOUNTAIN, INTERIM DIRECTOR OF OPM; ANN MARIE MONES, RISK MANAGER; DAVID YANIK, CONTROLLER; AND TERESA VISCARIELLO, INTERNAL AUDITOR.

1. Potential Audit of Worker's Compensation Program – Ann Marie Mones, Risk Manager and Jay Fountain, Interim Director of OPM (*Video 00:00:00*)

Mr. Freedman stated that the Board of Finance believes the amount of this line item definitely warrants some outside analysis. The total is \$9.3 million dollars and 90% of this amount occurs within the Police and Fire Departments and the Board of Education. Ms. Mones stated that it has been ten (10) years since the Worker's Compensation Program was last audited. At that time she reviewed Police Department files and found enough evidence that an audit was needed. She contracted with an auditor and new rules were implemented. Ms. Mones would be very happy with another review at this time to assure compliance with existing procedures. Mr. Freedman suggested that a well-designed audit be conducted, an RFP prepared and comparisons made with other municipalities. He also suggested that this matter be discussed further at the June 8 Audit Committee Meeting.

2. Potential Audit of Risk Management – Ann Marie Mones and Jay Fountain (*Video 00:17:59*)

Item 2 is similar to the item above but involves Risk Management and general liability. Mr. Freedman suggested that there be a review of insurance carried – or not carried, deductible amounts, comparison with other municipality premiums, efficacy of the coverage, and cost benefits, to name a few. The consensus was that an audit of the City's Risk Management be conducted and that an RFP be prepared. This item will also be discussed further at the June 8 meeting.

3. City of Stamford Internal Audit Review - Accounts Payable FY2012-2013 (DRAFT) - Teresa Viscariello, Internal Auditor (*Video 0023:34*)

Ms. Viscariello discussed the results of her review and identified four (4) areas that she has ranked in order of importance:

- i. Vendors (50 identified) with no FEIN (Federal Employer Identification Numbers) IDs that appear to have never had any transactional activity recorded, but still remain active in the vendor system;

Continued...

Minutes: April 19, 2017

- ii. Transactions (11 identified) totaling \$128,600 which require a correction of the FEIN number in the vendor maintenance screen for the fiscal periods under review;
- iii. Potential duplicate vendor information including 160 transactions totaling \$12.7 million with vendor FEIN number and 18 with no vendor FEIN number, that appear to contain historical transactions for the fiscal periods under review; and
- iv. Transactions (235 identified), with no FEIN number totaling \$0, which appear to contain historical transaction for the fiscal years under review.

Ms. Viscariello provided recommendations and discussed the Management responses she received. (See attached review.)

Meeting adjourned 6:51 p.m. (Video: 00:45:30 p.m.)

Please view the meeting video for a complete record of this discussion.

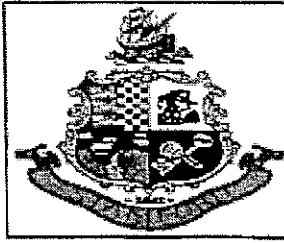
Wednesday, April 19, 2017 at 6:00 P.M.

Richard Freedman, Audit Committee Chair

Sal Gabriele, Member

cc: Mayor David Martin
Michael Handler, Director of Administration
Kathryn Emmett, Director of Legal Affairs
Ernie Orgera, Director of Operations
Jay Fountain, Interim Director of OPM
Lee Berta, Assistant Director of OPM

David Yanik, Controller
Karen Vitale, Assistant Controller
Lou Casolo, City Engineer
Beverly Aveni, City Purchasing Agent
Donna Loglisci, City and Town Clerk
Randall Skigen, President, Board of Representatives



**City of Stamford
Internal Audit Review
Accounts Payable
FYE 2012 & 2013**

**Prepared by: City's Internal Auditor, Teresa Viscariello
Date: April 5, 2017**

**City of Stamford/Board of Education
Internal Audit Review of Accounts Payable**

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Exhibit (A) City's Accounts Payable Accounting Manual (pages 18-21 and 23-25)
Exhibit (B) All Departments Accounts Payable Process Flow
Exhibit (C) Accounts Payable Testing Program (pages 1-5)
Exhibit (D) Additional Guidance on Purchasing Department Memo regarding Form W-9
requirement for New Vendors to be added to the H.T.E System (pages 1-3)

Overview:

In conjunction with City's Internal Audit Plan for fiscal 2015/2016, Internal Audit performed a review of the City's Accounts Payable processes and procedures. The objective of the internal audit were to evaluate internal controls over accounts payable, assess compliance with applicable procedures and policies, and verify vendor payments were made accurately and properly supported. The internal audit was conducted in accordance with generally accepted government auditing standards. Those standards required that we plan and perform sufficient appropriate evidence to provide a reasonable basis for the findings and recommendations based on the internal audit objectives.

Key steps in planning the internal audit program included the use of both traditional and nontraditional testing procedures (see **Exhibit C**). Various techniques, including data analytics were applied to the accounts payable transactions file to identify potential fraud and non-compliance with City's policy covering fiscal periods ending 2012 and 2013 (bases for fiscal periods selected were from carryover project identified on the "Annual Internal Audit Plan FYE 2014-2015").

A review and comparison of all employees' social security numbers, vendors' tax identification numbers, and vendors' addresses were performed for potential matches and payments were matched. The support documentation was requested and reviewed to determine any potential issues and no exceptions were found.

The accounts payable transaction file was analyzed to identify potential duplicate payments using data analytics techniques. From the transactions identified, 371 vendors with activity totaling \$56.8 million and 412 vendors with no FEIN (Federal Employer Identification Numbers) were selected and support documentation is pending further inquiry for 118 vendors with activity totaling \$28.9 million with the Controller's Office.

Background:

All vendors are required to send invoices directly to the departments that authorized the purchase (except capital projects). The Department's forward invoices to Accounts Payable department once goods and services are acknowledged as received on the H.T.E. purchasing application module system. Accounts Payable will only process payments based on submission of original vendor invoice (statements are not processed).

Oversight of the City's/BOE Accounts Payable department falls under purview of the City's Controller's Office. Accounts Payable manual policy is covered under the City's Accounting Policy and Procedures Manual revised 12/2008 (see **Exhibit A**).

Oversight of the City's/BOE Vendor Maintenance setup falls under the purview of the City's Purchasing department.

Findings and Recommendations (ranked in order of importance):

1. Finding:

Internal audit has identified **50** vendors with No FEIN Id's that appear to have never had any transactional activity recorded and still remain active in the H.T.E vendor maintenance.

Recommendation:

Storing and maintaining the same piece of vendor information under multiple vendor names may increase the risk of duplicate payment activities and may lead to errors in financial reporting, use of additional system memory, and confusion among the users as to which vendor is the correct one to use.

- a. Accounts Payable department or designee should implement a periodic review and document all changes made to the accounts payable master vendor file on an ongoing basis not only on a yearly basis for 1099 IRS reporting purposes.
- b. Accounts Payable department or designee should create and report findings of no vendor activity within the last 12-24 months to the Purchasing department.
- c. Purchasing department or designee should perform the **"Delete" function** in the H.T.E vendor maintenance.

Management Responses:

A. Purchasing Department Response

Upon receipt of the pertinent information from the Internal Auditor, the Purchasing department will delete the designated vendor names.

B. Controller's Office Management Response:

Assistant Controller and Accounts Payable Manager are reviewing the findings and are still in the process of drafting a response.

2. **Finding:**

Internal audit has identified 11 transactions totaling \$128.6 thousand, which require a correction of the FEIN # in the vendor maintenance screen for the fiscal periods under review.

Recommendation:

- a. Adherence to obtaining a completed W-9 form prior to vendor set-up was recommended as part of the City's Purchasing Audit and has been effective since March 14, 2016 (see **Exhibit D**).
- b. Controller's Office or designee should perform review of all changes to the master vendor file on an ongoing basis not once a year for 1099 IRS reporting.
- c. Any future change to 1099 IRS reporting should be communicated back to Purchasing department or designee and updates timely and accurately in the H.T.E vendor maintenance.
- d. Promote clear guidance can promote compliance with IRS 1099 regulations and reduce likelihood of errors occurring.

Management Responses:

A. Purchasing Department Response

Upon receipt of the pertinent information from either AP department and/or Internal Auditor, the Purchasing department will make the requested corrections/changes/updates to the vendor file.

B. Controller's Office Management Response:

Assistant Controller and Accounts Payable Manager are reviewing the findings and are still in the process of drafting a response.

3. Finding:

Internal audit has identified potential duplicate vendor information, 160 transactions totaling \$12.7 million with vendor FIN # and 18 with no vendor FIN #, that appear to contain historical transactions for the fiscal periods under review.

Duplicate vendor information may increase the risk of incomplete or overstated multiple payment histories that may lead to errors in financial reporting, use of additional system memory, and confusion among users as to which vendor is the correct one to use.

Recommendation:

- a. Adherence to obtaining a completed W-9 form prior to vendor set-up was recommended as part of the City's Internal Purchasing Audit and has been effective since March 14, 2016 (see **Exhibit D**).
- b. Controller's Office Accounts Payable personnel and Purchasing department personnel should establish a vendor maintenance policy that covers areas such as; deleting vendors with no data, merging duplicate vendors, and inactivating dormant vendors (with no activity within the last 12-24 months) and perform that maintenance regularly.

Note, H.T.E system support suggests utilizing a function call the **9 "Merge" option** to consolidate common vendor records (who have recorded historical transaction activity). This function will assist in merging all the vendor history information "**from**" one vendor to the correct vendor thus **deleting the "from" vendor** and **should only be performed after work hours, when no one is on the system or in the vendor files.**

- c. Management should task and delegate access rights and duties to a responsible employee in executing and performing recommendation (b.) above and properly train employees who are tasked with those responsibilities.
- d. It is critical that training be administered at least on a yearly basis to all employees (new and existing) involved in preparing purchasing requisitions on how to accurately perform a vendor inquiry.
- e. Controller's Office or designee should perform review of all changes to the master vendor file on an ongoing basis not once a year for 1099 IRS reporting.

Management Responses:

A. Purchasing Department Response Finding 3 (b)

Upon receipt of the pertinent information from either AP department and/or Internal Auditor, the Purchasing department will make the requested corrections/changes/updates to the vendor file on a regular ongoing basis.

B. Controller's Office Management Response:

Assistant Controller and Accounts Payable Manager are reviewing the findings and are still in the process of drafting a response.

4. Finding:

Internal audit has identified 235 transactions with no FEIN # totaling \$0, which appear to contain historical transactions for the fiscal periods under review.

Recommendation:

- a. Established policies should prohibit new vendor set up that does not provide FEIN number prior to being entered into the H.T.E vendor maintenance.
- b. Controller's Office or designee should consider a revision of the City's "Accounting Policy and Procedures Manual", page 23 (section 4.10.1 through 4.10.5) and pages 24/25 (section 4.13.1 through 4.13.3) (see **Exhibit A**).
- c. Management or designee should consider implement policies to address performing periodic purging to vendors that have had no activity with in last 12-24 months by selecting the "Delete" function option in the H.T.E vendor maintenance.
- d. Promote clear guidance can promote compliance with IRS 1099 regulations and reduce likelihood of errors occurring.
- e. Management or designee should implement a review and document changes to the master vendor file on an ongoing basis not only once a year for 1099 IRS reporting purposes.

Note: For vendors that are subsidiaries and not considered duplicates, H.T.E system support suggest utilizing the change option with the vendor profile and switch it from "active" vendor to "inactive".

Management Responses:

A. Controller's Office Management Response:

Assistant Controller and Accounts Payable Manager are reviewing the findings and are still in the process of drafting a response.

Summary Results of Accounts Payable Findings:

Description	Recommend Option 4=Delete	Recommend Correction of Error	Recommend Option 9=Merge	Recommend vendor maintenance status profile switch to "Inactive"	Pending Further Research by AP Department	Total Count/%
No FEIN & Amount	50	0	18	235	46	349
With FEIN & Amount	0	11	160	0	72	243
Total Combined Count	50	11	178	235	118	592
Percentage of Total	8%	2%	30%	40%	20%	92%

Summary of Dollars of AP Findings				
Description	Recommend Correction of Error	Recommend Option 9=Merge	Pending Further Research by AP Department	Total Amount/%
With FEIN & Amount	128,653.86	12,708,013.28	28,885,781.80	41,722,448.94
Percentage of Total	0%	30%	69%	100%



4. Accounts Payable

A. Process Overview

Accounting policies and procedures related to accounts payable are designed to ensure that all transactions are properly authorized and approved; goods and services conform with specifications and pricing; transactions are documented timely and appropriately; expenditures are properly classified; and transactions are recorded on the City's general ledger in an accurate and timely manner.

B. City Charter/Code of Ordinances References

<u>Reference</u>	<u>Subject</u>
§§ 23-14 to 23-18	City Purchasing ordinance, revised 2/1/99
§ 103-6	Annual statement of vendors paid by City
Ordinance No. 663	City of Stamford Travel Policy
§ 23-29	No payments to City employees for business travel entertainment or related expenses shall be made that do not comply with the City's written travel policy for these payments.

C. Significant Policies

- ◆ All invoices are to be received by the department and reconciled to the P.O. before being sent to the Accounts Payable department for review and payment.
- ◆ No department should accept or use goods or services that do not appear on a properly authorized purchase order (when required).
- ◆ All encumbrance rollovers (purchase orders) must be fully liquidated by October 31st of the new fiscal year unless special circumstances exist.
- ◆ No orders are placed with vendors without a valid, approved P.O. (except in an emergency).
- ◆ Accounts Payable may change line item prices by up to 10% of the total or \$300 whichever is greater assuming funds availability. All other changes must be done in the adjustment field.
- ◆ No encumbrance will be made in one fiscal year to pay for goods or services in a subsequent fiscal year.
- ◆ Purchasing/Procurement Cards may be used to improve the efficiency of purchasing procedures. These cards can be used as an efficient, cost-



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effective method of purchasing and paying for small dollar or emergency purchases.

- ◆ The City of Stamford Financial Policy No. 9-2 Payroll Tax Reporting states the following:

Any non-city entity which receives appropriated funds from the City of Stamford, including grant funds which are being passed through the City, must confirm their agency's compliance with federal and State payroll tax reporting, deposits, and payments for each year they are to receive City funds. The City Controller must receive confirmation of federal and State compliance by July 1 each year. Failure to provide adequate confirmation may withhold any future funding from the City.

D. Attachments – See Appendix A

1. Direct Disbursement Form
2. Travel Policy
3. Request to Add Vendor to the HTE System.
4. Orders Placed Before P.O. Issue
5. July 1, 2003 Memo providing additional guidance on encumbrances and purchase orders.
6. City Procurement Card Policies
7. Board of Education Purchasing Card Policies
8. City of Stamford Financial Policy No. 9-2 – Agreements Between Organizations Receiving City Funds



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4 Accounts Payable

4.1 Pre-Audit Approval of Purchase Requisitions

- 4.1.1 The Controller's Office is responsible for Pre-Audit approval of all purchase requisitions.
- 4.1.2 Once each purchase requisition has been approved on the HTE system at the first, second and third levels, the Controller's Office is responsible for reviewing the requisition for the following items:
- Proper completion and approval of requisition
 - Correct commodity code
 - Proper general ledger account and project code
 - Availability of funds
 - Compliance with requisition policy
 - Multiple approval levels

4.2 Receipt of Goods/Services

- 4.2.1 All goods should be shipped to, or otherwise delivered to the department that authorized the related purchase order.
- 4.2.2 When goods are delivered, the receiving personnel from the ordering department are responsible for documenting those items received and accepted. The packing slip is to be compared to each item received and a check mark (✓) is to be placed next to each item on the packing slip that has been received in working condition and in the quantity ordered. If a packing slip is not enclosed, a copy of the corresponding purchase order should be used.
- 4.2.3 If items listed on the packing slip are not received, those items should be identified on the packing slip and the initials N.R. (not received) noted next to them. If the quantity received is less than the amount ordered, that information should also be noted on the packing slip.
- 4.2.4 If the packing slip indicates that certain items are back ordered, those items should be identified and the initials B.O. (back ordered) noted next to them.
- 4.2.5 The individual responsible for unpacking and checking the shipment should be someone other than the requisitioner and should note any pertinent information about the order on the packing slip (see 4.2.2 through 4.2.4 above). This individual should also sign his/her name and note the date that the shipment was inspected.
- 4.2.6 Receipt of goods and services must be documented electronically on the HTE system in order for an invoice to be paid. Departments should only receive amount to be paid (not entire P.O.) unless order is complete. Upon receipt of goods and services, the appropriate departmental personnel are responsible for acknowledging the receipt on the system and noting partial shipments and backorders accordingly.
- 4.2.7 If a shipment is received and the receiving department does not have a corresponding purchase order on file, the City Purchasing Department should be contacted immediately. No department should accept or use items that do not appear on a properly authorized purchase order, or are



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duplicates of an order already received. Departments should only place orders after P.O.s have been issued. Departments not adhering to this policy will receive a standard form (attached) asking for an explanation.

4.3 Invoice Processing

4.3.1 All vendors should be instructed to send invoices directly to the department that authorized the purchase (except for capital projects, which should be sent to the Project Manager). Departments should forward invoices to Accounts Payable upon receipt of goods and acknowledgment of the same on the HTE system. Accounts Payable will only make payment on vendor invoices. Payments will not be made on statements, packing slips, or acknowledgments.

4.3.2 An invoice that has been entered into the HTE system must be characterized by one of seven status codes as follows:

- 3 – Awaiting acknowledgment of receipt
- 4 – Partially received, no invoice
- 5 – Partially received, invoice entered, invoice partially paid
- 6 – Received, no invoice
- 7 – Received, partially invoiced
- 8 – Completed
- 9 – Canceled

4.4 Authorization of Payment

4.4.1 Receipt of all goods and services must be acknowledged as received on the HTE system before the vendor will be paid.

4.4.2 Upon receipt of receiving reports, Accounts Payable is responsible for comparing information from the receiving report, vendor invoice and purchase order. Any discrepancies are noted and Accounts Payable refers the matter to the purchasing department.

4.4.3 Upon receipt of a purchase order, receiving report and vendor invoice, Accounts Payable is responsible for auditing these documents for accuracy and comparing them to the receiving information recorded in the HTE system. Audit procedures should include a comparison of items, quantities and unit prices from the invoice to the purchase order and receiving report and compliance with policy related to the requirement to have a valid P.O. before the order is placed and/or items are delivered. (See attached form.) All mathematical calculations should be recomputed for accuracy.

4.4.4 Each department is responsible for recording specific items, quantities ordered and quantities received on the HTE system when creating a purchase order. Accounts Payable is not responsible for this information and will process invoices as "Drawdown Purchases" when the ordering department does not input this information into the HTE system.

4.4.5 If a purchase order was not initially recorded as a Drawdown Purchase on the HTE system, and Accounts Payable is forced to process it as such, the invoice and purchase order are forwarded to the Purchasing Department. The Purchasing Department is responsible for changing the status of the purchase on the HTE system to "Drawdown Purchase", and for returning the invoice to Accounts Payable for payment.

4.4.6 Accounts Payable is responsible for entering the invoice information into the HTE system.



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4.4.7 Once checks have been issued, Accounts Payable is responsible for matching the check to the related invoice and other documents, and scanning into Optiview (HTE scanning storage software).

4.5 Invoice Adjustments

4.5.1 Accounts Payable is authorized to enter vendor invoices into the HTE system in amounts up to 10% or \$300 in excess of the related purchase order. Funding availability will be checked before payments are made in excess of authorized P.O. amount. Adjustments may be made for price changes or shipping charges. Sales tax should not be paid on City purchases.

4.6 Direct Disbursements

4.6.1 Direct disbursements may be processed when invoices are received representing usage charges for monthly services, or where charges for services and/or materials can be processed without violating purchasing procedures or impairing control. A direct disbursement allows an invoice to be paid directly, without the issuance of requisitions or purchase orders. Pre-audit function is performed on direct disbursements as well. This includes checking for proper account codes, funds availability and multiple approval levels.

4.6.2 Direct disbursements will not be paid unless the following criteria are met:

- Prior and appropriate understandings with the Controller's Office exist regarding the purchase of specified goods or services.
- The proper budget expense account is charged, sufficient funds are available in the account, and required signatures authorizing payment are present. The only exception will be to charge accounts payable set up in the balance sheet. All charges to balance sheet accounts must be approved by the Controller or the Controller's designee.

4.6.3 Items that must be paid by direct disbursement are limited to the following:

- Mileage/travel expense reimbursement
- Seminar fees (If line item 3202 account is used)
- Registration fees (If line item 3202 account is used)
- Replenishments to petty cash funds
- Tax refunds
- Operating subsidies
- Pension contributions
- Legal claims
- Miscellaneous refunds
- Artists' Invoices (Art Requirement)
- Tuition Reimbursement (Requires approval of HR Representative)
- Pay for rink instructors, election workers and game officials

Items that may be paid by direct disbursement are limited to the following:

- Association dues and subscriptions (magazines & newspapers)



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- Advertising
- Postage
- Insurance premiums (except one year renewable policies)
- Payroll tax payments
- Utility payments
- Food

4.6.4 In order to pay for goods or services by direct disbursement, the ordering department must complete a direct disbursement form complete with a vendor number. This form must be approved by the preparer, the preparer's department head (or a designee), and a designee of the Controller. (See copy of standard form)

4.6.5 Direct disbursements are to be input into the HTE system by a designee of the Controller. The Controller's designee is responsible for auditing each direct disbursement to ensure that it complies with City policy.

4.6.6 The Controller's designee is responsible for reviewing supporting documentation and approving all direct disbursements once they have been entered on the HTE system by updating the "IN" group.

4.6.7 Any transactions that fall outside the direct disbursement guidelines must be approved by the Controller.

4.7 Petty Cash

4.7.1 Petty cash funds should be established and maintained only as necessary. The Controller's Office is responsible for maintaining a record of all petty cash funds in use. Department heads are responsible for maintaining any petty cash funds in accordance with City policy.

4.7.2 The Finance Department petty cash fund is available for departments that have not established their own petty cash funds.

4.7.3 The limit on purchases with petty cash funds is \$50.00.

4.7.4 Petty cash funds are intended to facilitate departmental purchases of small, but necessary operating items of nominal dollar amounts, except in emergencies, or for specific exceptions granted by the Controller or the Controller's designee to meet any unique departmental needs.

4.7.5 Some items that may be purchased with petty cash funds include:

- Small office items
- Parking garage fees
- Books and periodicals
- Photocopying services
- Professional membership dues
- Postage

4.7.6 Some items that should not be purchased with petty cash funds include:



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- 4.8.6 The Board of Education or the City will be responsible for reviewing transactions, approving charges, account coding and verifying fund availability.
- 4.8.7 A procurement card group will be created in HTE to be edited and updated to post transactions to the general ledger.
- 4.8.8 JPMorgan Chase will initiate ACH payment for the full amount owed to the bank for monthly procurement card purchases.

4.9 Employee Travel Reimbursements

- 4.9.1 Employee travel reimbursements are governed by the City of Stamford Travel Policy, adopted pursuant to Ordinance No. 663. Consult the City of Stamford Travel Policy (attached) for further details beyond those presented in this Section.
- 4.9.2 Employee travel is subject to pre-approval by the applicable department head, Director, and the Mayor when such travel includes an overnight stay, air transportation, or when the destination is in excess of 200 miles from the City (400 miles round trip). Under these circumstances, the employee is required to complete a Conference or Out-of-Town Trip Request Form.
- 4.9.3 Department heads are responsible for approving all claims for employee travel originating in their departments and ensuring that all such claims are in compliance with the City's Travel Policy.
- 4.9.4 The Controller's Office is responsible for ensuring that all claims for employee travel are properly approved by the applicable department head, and for compliance with all of the requirements of the City's Travel Policy.

4.10 Vendor File Maintenance Standards

- 4.10.1 The City Controller's Office is responsible for maintaining the HTE vendor file.
- 4.10.2 To avoid creating duplicate vendors in the HTE database, the Controller's Office should thoroughly search all active and inactive vendor files prior to creating a new vendor record.
- 4.10.3 If a vendor cannot be located in either the active or inactive vendor files, the individual submitting the related purchase order or direct disbursement form is responsible for completing and submitting a Vendor Request Form to the Controller's Office. (See attached Request to Add Vendor to HTE System.)
- 4.10.4 When creating new vendor records in the HTE system, the Controller's Office requires completing the entire form including Tax ID number.
- 4.10.5 The Controller's Office retains copies of all vendors added. No vendor will be added without a fully completed form. All information is the responsibility of the Department/BOE requesting the new vendor.

4.11 Accounts Payable Accounting and Control

- 4.11.1 Each month, the Controller's Office is responsible for reconciling the open payables report (invoices approved and unpaid) to the general ledger.



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- 4.11.2 **Recurring Purchase Orders:** We will be requiring that all periodic recurring expenditures be encumbered as a draw-down for the full year amount. Remember, you can always add or reduce draw-down amounts as the year progresses. This process change will save us all time and effort in issuing and re-issuing requisitions/purchase orders month after month.
- 4.11.3 **Encumbrances for Future Services:** No encumbrance will be made in one fiscal year to pay for goods or services in a subsequent fiscal year.
- 4.11.4 **Duration of Encumbrance Rollovers:** All encumbrance rollovers (purchase orders) must be fully liquidated by the end of the first quarter (September 30th) of the new fiscal year unless special circumstances exist. All rollover encumbrances (purchase orders) not liquidated by September 30 will be cancelled, and the revised budget will be reduced by the amount of the cancelled encumbrance.
- 4.11.5 **Encumbrance Rollovers:** Encumbrance rollovers cover only specific goods or services ordered on or before June 30th but are not received, and therefore not paid for, until on or after July 1st. Once the goods or services are received, the payment will be made and the balance remaining, if any, on the purchase order will be cancelled.
- 4.11.6 **Orders Placed Before the Issuance of Purchase Orders:** The accounting and purchasing policies clearly state that no orders with vendors may be placed before a valid purchase order is issued. This includes requisitions stating "confirming orders" or "to pay invoices." We will continue to require that written explanations signed by a director accompany all requisitions for goods/services not in compliance with the above policy. You should explain what state of emergency existed that would necessitate non-compliance to the existing purchasing and accounting policies. Poor planning does not constitute an emergency.
- 4.12 Drug Assets Forfeiture Revolving Accounts**
- 4.12.1 The City maintains two drug assets forfeiture funds, one under the federal program, and one under the State program.
- 4.12.2 Forfeiture funds must be spent according to the relevant statutes.
- 4.12.3 Distribution of funds must be requested using the Request for Distribution of Proceeds of Forfeited Property form.
- 4.12.4 Forfeiture funds must be deposited into an account maintained solely for that purpose.
- 4.12.5 The City's Police Department is responsible for maintaining custody of and responsibility for federal and State forfeiture funds.
- 4.12.6 The Controller's Office is responsible for approving payments (3rd level approval) from the Asset Forfeiture Account. Payments can only be approved after the HTE requisition has been reviewed and the bank account is determined to have sufficient funds for this purpose.
- 4.13 Annual Processing of IRS Forms 1099**
- 4.13.1 The Controller's Office is responsible for issuing IRS Form 1099 to vendors by January 31st each year and reporting this information to the IRS by February 28th.
- 4.13.2 The City utilizes IRS Form 1099-MISC for all 1099's. IRS Form 1096 is used to transmit the related information to the IRS.



**CITY OF STAMFORD
ACCOUNTING POLICY AND
PROCEDURES MANUAL**

4.13.3 1099 Generation Process

- Create a work file on the HTE system of all vendors paid \$600.00 or more during the calendar year (payment history by calendar year).
- Review the work file and delete any vendors that are known to be incorporated, except professional corporations (e.g., law firms, doctors, other medical service providers).
- Using the flagged error messages from the work file, generate an error report that lists all individuals, partnerships and includable corporations with missing taxpayer identification numbers (TIN's) or addresses.
- Issue IRS Form W-9 to all vendors (from work file) that do not have a TIN recorded on the HTE system.
- For vendors with missing addresses, locate address by querying the HTE system or contacting the City employee who authorized the payment(s).
- Once vendor TIN and/or address information is received, input it into the HTE system and generate a new work file.
- Generate IRS Forms 1099-MISC for all vendors in the updated work file that have either an address or TIN and mail forms to vendors.

4.14 Payroll Tax Reporting – Organizations Receiving City Funds

- 4.14.1 Each entity is required to have its independent accountant provide the City with a certification of payment of payroll taxes before operating subsidies will be released. (See sample letter with requirements of Financial Policy No. 9-2.)

Purchasing Department

Performs Vendor Maintenance:

- Obtains and files completed "New Vendor" setup & W-9 forms.
- Updates existing vendor data information such as: vendor name, FEIN #, and remittance address etc.

Required Levels of H.T.E. Approvals:

- Level 1 - Employee department
- Level 2 - Manager department
- Level 3 - Operational Expenditures
 - BOE - Approves
 - City - Approves
- Level 3 - Capital Projects
 - City Approves including BOE
 - PreAudit (Level 4)
 - Buyer (Level 5)

Purchase Order Number is issued

City/BOE Departments

Departmental Responsibilities:

- Obtain all vendor original vendor invoices.
- Handles vendor disputes /investigates overpayments
- Receipt of acknowledgement of goods and services is made in H.T.E system.
- Forwards original invoice once receipt of goods is acknowledged in H.T.E system to Accounts Payable department.

Seven H.T.E system status codes:

- 3 = Awaiting Acknowledgment of receipt
- 4 = Partially received, no invoice
- 5 = Partially received, invoice entered, invoice partially paid
- 6 = Received, no invoice
- 7 = Received, partially invoiced
- 8 = Completed
- 9 = Canceled

(Controller's Office) Accounts Payable Department

AP Authorization of Payment:

- Reviews original invoices forwarded from City/BOE departments (no statements, packing slips, etc. will be accepted).
- Reviews invoices for accuracy and compliance with City's Accounting Policy and Procedures Manual.
- Receives receiving report for all goods/services acknowledged
- Compares information from receiving reports, vendor invoices, and purchase order issued.
- Enters invoice information into H. T. E system



Check Processing:

Check Run
Voided checks (if required)



Delivery/Scanning Check Processes:

Delivers/mailed check payments to vendors.
Scans invoices and copy of check remittance into Optiview system.



AP Reconciliation Process
Accounts Payable H.T.E. system subledger to ledger.

Overview

Key steps in the planning and execution of the review will include the use of both traditional and nontraditional test procedures.

Traditional transaction testing will include:

- Reviewing process descriptions
- Identify and review City's accounting policies and procedures manual section for accounts payable processing
- Identify key controls/test their design & effectiveness over key data files:
 - Vendor master files
 - Checks issued

Nontraditional data mining techniques used to test large data files will include:

- Accounts payable transaction data for the FYE2012 and FYE2013 with the goal of identified patterns, anomalies, or other irregularities including duplicate payment, etc.
- Voided checks, vendor credits & refunds
- Compare vendor and employee master files and investigate any similarities between: A constraint could exist if employee master file and vendor file have different PO Box/Street addresses and different Federal ID's or SS#.
 - Same ID's (vendor and employee master file) different addresses
 - Same Names (vendor and employee master file) different addresses
 - Same Addresses (vendor and employee master file) but different ID's

A. Accounts Payable Transaction Testing**Internal Audit Step****1. Analysis of Accounts Payable Data, Focus on Irregular Transactions:**

Utilize Active Data analytics software to analyze accounts payable data prior 2 fiscal year periods (2012 and 2013) with a focus on evaluating the validity of transactions while looking for:

- a. Duplicate payments
- b. Possible fraudulent activity
- c. Vendor master file issues

2. Transaction Testing:

Select a sample of invoices from the H.T.E AP system (payable transactions only) and obtain the original invoice and supporting documents from the accounts payable department and:

- a. Determine if the transaction was a check request (direct disbursements), purchase order or contract payment. If the transaction was a check request (direct disbursements) or purchase order, determine if the transaction was appropriate according to city policy.
- b. Verify that the information entered into H.T.E general ledger agrees with the invoice.
- c. Determine if the invoice was approved/authorized as required by the city based on amount or other criteria. Trace the authorization signature to documentation authorizing the signer.
- d. Determine the appropriateness of the expenditure.
- e. Determine if sales or use tax was paid in error.
- f. Determine if a discount was noted on the invoice, entered into the system and taken in a timely manner.
- g. Determine if the original invoice was maintained in the Accounts Payable Department according to policy.
- h. Verify that the purchase order and invoice information agree and cost is within the city's acceptable range.
- k. Determine if the purchase requisition is authorized by management. Trace the three tier level approval/authorization to supporting documentation.
- l. Determine if the purchase order was processed prior to the invoice date.
- m. If the transaction is for a contract payment or drawdown, determine if a purchase order is on file, a valid properly approved contract is on file, and if the payment amount is in accordance with the contract provisions.

3. Approval Process:

Review the City's approval process for expenditures and expenses to determine if appropriate controls are in place to ensure signature authorities are properly verified by payment processors prior to invoice payment.

B. Vendor Setup, Maintenance and Validation

Internal Audit Step

1. Review the vendor master file setup and maintenance process and determine if there are sufficient internal controls for:
 - a. Adding
 - b. Changing
 - c. Deleting

In addition, determine if a check can be cut to a vendor without adding the vendor to the vendor master list.
2. Select a sample of vendors recently added to the vendor file and review the documentation for proper completion and approval
3. Obtain the vendor master file, select a sample of vendors from the file and verify that they are legitimate vendors. Highlight vendors with unique addresses such as P.O. Box, etc.
4. Use data mining merge function in software to compare all employee addresses in the payroll system to vendor addresses in the AP system. Select the matching addresses and review recent accounts payable transactions to the vendors to determine the appropriateness of the payments. Determine if there is a potential conflict of interest or outside consulting and if it has been properly disclosed.
5. Create a report noting all vendors without a Taxpayer Identification Number (TIN) in the H.T.E Vendor maintenance system. Determine the appropriateness of the lack of TIN, such as employees, contracted individuals, etc.
6. Create a report noting all potential duplicate vendor records.

C. Accounts Payable Check Creation & Distribution Processes

Internal Audit Step
<ol style="list-style-type: none"> 1. Review the check creation process for proper internal controls (including segregation of duties), efficiency, and effectiveness. 2. Review and document the check distribution procedures (including procedures over undeliverable/returned checks). Determine if there are sufficient internal controls. 3. Review for checks that are returned to the ordering department, proper bond levels of key processing and mail room staff, and proper segregation of duties. 4. If any checks are distributed outside of the normal process, review the procedures for ensuring that the identity of the person is verified before the check is handed out.

D. Voided Checks

Internal Audit Step
<ol style="list-style-type: none"> 1. Review and document the voided check procedures and evaluate if they are sufficient to mitigate the risks. 2. Select a sample of voided checks and: <ol style="list-style-type: none"> a. Review the voided check to determine if it was properly voided (e.g. the on-line request form was authorized by the initiating department and approved by finance department; the check was stamped "void" on face.) b. Review the reason for voiding and determine if it is reasonable. c. If the check is not present, determine if a stop payment was placed. d. Review system to determine if the check cleared the bank.

E. Vendor Credits and Refunds

Internal Audit Step
<ol style="list-style-type: none"> 1. Review and determine the adequacy of the procedures for processing and monitoring vendor credit memos and refund checks. 2. Review the system to determine if there are any outstanding debit memos. Research any debit memos and evaluate the circumstances 3. Trace a sample of refund checks through the receipting process and determine if they were processed appropriately.

F. A/P Bank Account and General Ledger Reconciliations

Internal Audit Step
<ol style="list-style-type: none"> 1. Review and document the bank reconciliation procedures to determine if they are appropriate to ensure an independent, timely review of the accounts payable bank account. Review for best practice procedures, such as positive pay or reverse positive pay, for mitigating any potential risks. 2. Review current bank reconciliation documentation and: <ol style="list-style-type: none"> a. Determine if the documentation adequately supports the reconciliation and the appropriateness of the reconciling items. b. Review for dated outstanding items. Research for appropriateness.

G. Management Information and Reports

Internal Audit Step
<p>Review the management reports containing accounts payable information and determine if they provide sufficient information to meet the needs of management. Discuss this issue with a various managers for their input.</p>

H. System Security and System Backup

Internal Audit Step
<ol style="list-style-type: none"> 1. Review the procedures for setting up, changing and deleting individual access to H.T.E. module for accounts payable and <u>purchasing</u> system functions and determine if they are sufficient to ensure that only those employees with a job related need access to the system module. 2. Obtain a list of all of the current users of the system and their levels of access. <ol style="list-style-type: none"> a. Trace all users to Ceridian Human Resource reports or system to determine if they are still employed by the City. 3. Determine if there is adequate segregation of duties between access to accounts payable and purchasing system functions. 4. Review document back-up procedures for the AP data files in H.T.E. system to determine if the backup process provides reasonable assurance that the system information is adequately backed up.

MAYOR
DAVID R. MARTIN



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CITY OF STAMFORD
OFFICE OF ADMINISTRATION
808 WASHINGTON BOULEVARD
STAMFORD, CT 06901

Date: March 14, 2016

To: All City Departments and the Board of Education

Cc: Beverly Aveni
Karen Vitale

From: David Yanik

Subject: Additional Guidance on Purchasing Department Memo regarding
Form W-9 requirement for New Vendors to be added to the HTE System

In a memo dated February 1, 2016, Purchasing Agent Beverly Aveni, described the new procedure for requesting vendors to be added to the HTE System. The primary change from existing procedures was that a completed Form W-9 was **required** to be submitted with the request. The purpose of this requirement was to provide additional assurance that only legitimate vendors would be added to the HTE vendor database, and that the City of Stamford, including the Board of Education, (et al "the City") would continue to be compliant with IRS regulations regarding Form 1099 income reporting requirements.

Since this change was intended to apply to the vendors that provide goods and services to the City, and that are paid via the City's Accounts Payable Department, it is appropriate to provide for the following exceptions to this requirement (these exceptions are also exempt from Form 1099 income reporting and "back-up withholding" requirements):

- State or federal agencies doing business with the City
- Parents of students seeking reimbursement for their properly approved out-of-pocket expenses (these reimbursements are typically travel related, will no longer be authorized via purchase order, but should be paid by direct disbursement)
- Citizens seeking refunds of Recreation Department fees, Adult Education classes or books deposits, or reimbursement for properly approved out-of-pocket expenses (should be paid by direct disbursement)
- Board of Education teachers, administrators, and staff members' requesting reimbursement of out-of-pocket expenses would be exempt from this requirement and will continue to be authorized via purchase order, and paid in accordance with BOE expense reimbursement approval policies.
- Legal settlements, including direct payments to law firms in conjunction with legal proceedings (unless reportable under IRC section 6045)

Regardless of the applicability of Form W-9, effective immediately, requests to add new vendors must be made using the attached form (which has been revised in conjunction with this memo).

REQUEST TO ADD A VENDOR TO HTE SYSTEM

The following form must be used to add a vendor to the vendor list or **IT WILL NOT BE PROCESSED**. You must fill out the form **COMPLETELY** with the Vendor's Name, Mail to Address and Remit to Address, Phone, Fax, Federal Tax ID Number or Social Security Number. Also, forms must have the name, department and phone number of the person making the request.

MANDATORY REQUIREMENT: A COMPLETED W-9 FORM MUST BE INCLUDED WITH THE VENDOR REQUEST FORM. IF THIS REQUIREMENT IS NOT MET, A VENDOR NUMBER WILL NOT BE ISSUED.

Send completed packets (vendor and W-9 Forms) to Leon DiMartino, Purchasing Department, at fax: 203-977-5253; email: ldimartino@stanfordct.gov; or interoffice to: Purchasing Department, 10th floor.

Date: _____

Vendor #: _____
(Purchasing Dept use only)

Vendor Name: _____

Vendor Mailing Address: _____

(City)

(State)

(Zip)

If Different "Remit to Address":

Vendor Remit to Address: _____

(City)

(State)

(Zip)

Vendor Phone#: _____

Vendor Fax #: _____

Federal Tax ID #: _____

Vendor SS #: _____

Requested By: _____
(Name) (Ext.#)

School/Dept: _____

Verification: (for Purchasing Dept use only)

_____: W9 Completed Form

_____: HTE Vendor Form Completed

Verification - Exempt from W-9

(Requesting Dept
to complete)

____ State/Federal Agency

____ Parent

____ Citizen

____ BOE Staff

____ Legal Settlements

Note: W-9 not required for vendor changes in address.

D9 2/3

Request for Taxpayer Identification Number and Certification

Give Form to the
 requester. Do not
 send to the IRS.

Print or type
 See Specific Instructions on page 2.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.
2 Business name/disregarded entity name, if different from above
3 Check appropriate box for federal tax classification; check only one of the following seven boxes: <input type="checkbox"/> Individual/sole proprietor or single-member LLC <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ Note: For a single-member LLC that is disregarded, do not check LLC; check the appropriate box in the line above for the tax classification of the single-member owner. <input type="checkbox"/> Other (see instructions) ▶ _____
4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____ <small>(Applies to accounts maintained outside the U.S.)</small>
5 Address (number, street, and apt. or suite no.)
6 City, state, and ZIP code
7 List account number(s) here (optional)
Requester's name and address (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Social security number					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; border: 1px solid black; height: 20px;"></td> <td style="width: 5%; border: 1px solid black; text-align: center;">-</td> <td style="width: 25%; border: 1px solid black; height: 20px;"></td> <td style="width: 5%; border: 1px solid black; text-align: center;">-</td> <td style="width: 40%; border: 1px solid black; height: 20px;"></td> </tr> </table>		-		-	
	-		-		
OR					
Employer identification number					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; border: 1px solid black; height: 20px;"></td> <td style="width: 5%; border: 1px solid black; text-align: center;">-</td> <td style="width: 70%; border: 1px solid black; height: 20px;"></td> </tr> </table>		-			
	-				

Note: If the account is in more than one name, see the instructions for line 1 and the chart on page 4 for guidelines on whose number to enter.

Part II Certification

Under penalties of perjury, I certify that:

- The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
- I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
- I am a U.S. citizen or other U.S. person (defined below); and
- The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign Here	Signature of U.S. person ▶	Date ▶
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General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.
 Future developments. Information about developments affecting Form W-9 (such as legislation enacted after we release it) is at www.irs.gov/w9.

Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following:

- Form 1099-INT (interest earned or paid)
- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)

- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
 - Form 1099-C (canceled debt)
 - Form 1099-A (acquisition or abandonment of secured property)
- Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See *What is backup withholding?* on page 2.

By signing the filled-out form, you:

- Certify that the TIN you are giving is correct (or you are waiting for a number to be issued);
- Certify that you are not subject to backup withholding; or
- Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
- Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See *What is FATCA reporting?* on page 2 for further information.

