



INTERNAL AUDIT DEPARTMENT

INTEROFFICE MEMORANDUM

Date: July 15, 2009

To: Honorable Mayor Ron Jones
Members of the City Council
Members of the Audit Committee

cc: Brad Neighbor, City Attorney
Priscilla Wilson, Senior Managing Director, Human Resources

From: Craig Hametner, City Auditor

Subject: Employees set up as Vendors – Follow-up

This is a follow-up of the memo "Employees set up as Vendors" issued on October 2, 2008.

In the original memo, we noted the following issues:

- Conflict of Interest
- Consultant Representation
- Outside Employment

The following are the recommendations with responses that were noted with the follow-up results:

1. Conflict of Interest

Recommendation was: Management is requested to take appropriate action in handling these matters and to ensure that when vendors are added to the Finance System that verification is done by social security numbers and addresses to determine the information does not match with a current employee or that it does not create a conflict of interest for the City.

Response was: Management is in general agreement with Internal Audit's findings on this matter. We found that the only active City of Garland vendor contract that is currently in use was granted an exception by the previous City Manager. This vendor contract has now been cancelled by the City per the Directive.

I have also asked Purchasing to develop a process to better verify that new vendors are not employees of the City.

Follow-up: In the original memo issued on October 2, 2008, we found matches between the HR System (Employee) and the Finance System (Vendor) files for 7 employees. Of the 7 vendor numbers, four have been deleted; two were set up as “Landlords” and are not addressed because it was determined that they do not fall under the “Conflict of Interest,” and one vendor number is still active. The one vendor number that was not deleted belongs to an employee who no longer works for the City.

In the original memo we also found 3 matches between employee home addresses and vendor addresses. Two vendor numbers have been deleted and the other one does not live at the same address anymore. We also updated the report between matches of addresses and found no matches at all between employees and vendors. There is a possibility of matches that were not picked up by our report. The reason that the report would not pick them up is because one database spells out “North” as “North” and the other database shows “North” as “N”. In another example one database shows “Street” as “Street” and the other database shows “Street” as “St.” More manual work would have to be performed in order to find “matches.”

As for verifying that new vendors are not employees of the City, we found out through the Finance Department that during the fiscal year end process they compare social security numbers from the HR system (Employee) to the Finance system (Vendor) looking for checks issued to employees. The Accounting Manager has performed this internal control procedure for the last two fiscal years. The Accounting Manager stated that the only checks being issued to employees through the Finance System are for expense reimbursements, petty cash, or cash drawer. He also stated there have not been any payments to employees for goods and services. Testing of the 7 employees (mentioned in paragraph one of this follow-up) set up as vendors was performed for the last two fiscal years to determine if any payments were made for goods and services. We used FY07 and FY08 for our testing and found that a total of \$18,236 was paid to these employees for services performed or rendered to the City.

Using Crystal Report Writer we created more extensive reports from the HR system to pull all active employees with their social security numbers. From the Finance System, we pulled all active vendor numbers with social security numbers excluding any that were set up as “Employee,” “Petty Cash,” “Landlord,” “Council,” etc. We then joined the two databases to pull matches between the two reports of social security numbers. The results indicated 56 active employees whose social security numbers match with an active vendor number. In this report, 17 of the 56 vendor numbers were set up for employee “Insurance Claim” purposes. Several others were for professional services provided to the City prior to being hired as an employee. Having an active vendor number for an employee that was paid an insurance claim, or after being hired or for any other reason creates a risk of the vendor number being used for wrongful purposes. Not putting in the right categories such as “Employee”, “Petty Cash”, etc in the Finance system when the vendor number for the employee is added creates a problem of inaccurate reports when trying to run reports to perform this type of analysis of matches between the two databases.

Recommendation was Partially-Implemented

For future consideration: We did not verify every single employee that was set up as a vendor especially in the cases where they were given a vendor number for the purpose

of reimbursements. We did find that there are active vendor numbers for employees that no longer work for the City, vendor numbers that were issued before the employee was hired and vendor numbers that are still active but have not had any activity in several years.

2. Consultant Representation

Recommendation was: Management is requested to take appropriate action in handling these matters and to ensure it does not create a conflict of interest for the City.

Response was: Concerning the finding on consultant representation that happened some 8 years ago, I have directed my staff to look into revising this Directive that would allow consideration for unique circumstances that favor the City of Garland.

Follow-up: There was a revision made to Human Resources Directive #8, Conditions of Employment, section 5 Consultant Representation by adding a section 5.1.1 that states: "Any exception to 5.1 requires the approval of the City Manager."

Recommendation was Fully-Implemented.

3. Outside Employment

Recommendation was: Every employee should be required to fill out an Outside Employment Request form for all other employment other than the City of Garland. This would be another tool to use to determine if the employee is trying to provide services to the City or if a conflict of interest exists between the employee and the City.

Response was: Not addressed by management.

Follow-up: There was a revision made to Human Resources Directive #8, Conditions of Employment, section 6 Outside Employment by adding section 6.1.1 that states: "Employment must be approved by an employee's Department Director and the Human Resources Director. Requests involving Department Directors and Managing Directors must be approved by the City Manager" and 6.1.2 that states: "The request form will be kept in the employee's personnel file and a copy will be sent to the department once it is approved/disapproved."

Recommendation was Fully-Implemented.