

head>

[Date]

[To: Board of Directors / Audit Committee]

[Company Name]

[Company Address]

Subject: Management Letter - Internal Control Weaknesses: Vendor Master File and Cash Disbursements

Dear [Name],

In connection with our audit of the financial statements of [Company Name], we have reviewed the internal controls relating to the Vendor Master File (VMF) and Cash Disbursement processes. Our objective was to identify areas where controls could be strengthened to prevent fraud, errors, and unauthorized payments.

1. Vendor Master File Controls

Observation: We noted a lack of formal procedures regarding the creation and modification of vendor records. Specifically, there is no segregation of duties between the employees who add new vendors and those who process invoices for payment.

Risk: This weakness increases the risk of fictitious vendors being created, leading to unauthorized or fraudulent payments.

Recommendation: Management should implement a strict segregation of duties. The responsibility for maintaining the VMF should be assigned to personnel who do not have access to invoice processing or payment functions. Additionally, all changes to the VMF should require independent review and approval.

2. Vendor Data Validation

Observation: The current system does not require mandatory Taxpayer Identification Number (TIN) verification or bank account validation before a vendor is activated.

Risk: The company may be exposed to regulatory penalties or "Business Email Compromise" (BEC) scams involving diverted bank transfers.

Recommendation: Implement a mandatory validation process for all new vendors, including independent verification of bank details via phone call to a known contact and verification of tax documentation.

3. Cash Disbursement Authorization

Observation: During our testing, we identified instances where payments were processed without a matching purchase order or formal evidence of receipt of goods/services.

Risk: Duplicate payments or payments for goods never received may occur.

Recommendation: Enforce a "Three-Way Match" policy (Purchase Order, Receiving Report, and Vendor Invoice) for all disbursements. The system should automatically flag or block payments where these documents do not match within predefined tolerances.

4. Review of Inactive Vendors

Observation: The Vendor Master File contains a significant number of inactive vendors that have not been used in over 24 months.

Risk: An excessively large VMF makes it difficult to detect duplicate entries and provides opportunities for dormant accounts to be misused for fraudulent payments.

Recommendation: Conduct an annual "cleansing" of the VMF to deactivate vendors with no recent activity. Deactivated vendors should require a formal re-approval process to be reinstated.

We would like to thank your staff for their cooperation during this review. We are available to discuss these findings and assist in the development of corrective action plans.

Sincerely,

[Your Name/Signature]

[Your Title]

[Firm Name]