



**Seattle Public Schools
The Office of Internal Audit**

Disbursements Internal Audit Report

September 1, 2015 through Current

Issue Date: June 13, 2017

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

Executive Summary

Background Information

The Disbursement process is centralized under the District's Business and Finance Division. The District has adopted the 6200 series of Board Policies and Superintendent Procedures to govern the procurement and disbursement process of the District, and ensure compliance with the Revised Code of Washington. This includes a Districtwide Disbursement Authority Matrix that identifies required approvals based on dollar threshold. All disbursements are paid in accordance to the method the services or item was procured for the District.

There are three major categories by which the District disburses funds:

Procurement Method	2015	2016
Purchase Orders	\$83.3 million	\$94.5 million
Personal Services Contracts	\$26.6 million	\$24.5 million
General Requisitions	\$13.2 million	\$17.1 million

The following information summarizes the payment processes for the District's different procurement methods:

- **Purchase Orders:** There are two kinds of purchase orders prevalent in the District:
 - **One-Time Purchase Orders:** These are one-time purchases that are normally executed through the B2B system. Employees can initiate a purchase requisition in the B2B system, which will automatically route the purchase to the responsible budget manager for approval. The B2B system is aligned with the approval matrix so that only authorized employees can approve a one-time purchase order initiated in the B2B system.

Payment process: The turnaround time for the payment of these orders is faster as the financial approvals are in place ahead of time. The system reflects that the item has been receipted. Once the accounts payable team reviews the quantity, item, and rate in the system, the payment is processed.

- **Open Purchase Orders:** These purchase orders are open for a definite period of time and allow for multiple purchases from a single vendor. Their purpose is to create efficiency with the purchase of numerous small-dollar-value items from a single vendor. District employees need to show a copy of the open purchase order in order to execute the purchase with the vendor. The District is billed directly by the vendor on a regular basis for such orders.

Payment process: These orders require pre-approval and an approved invoice from the budget manager before the accounts payable team will process payment.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

- **Contracting Services:** This function assists departments with the competitive selection of vendors. The methods of competitive procurement that the District uses include:

- **Bidding Contracts:** The majority of the bidding contracts at the District are construction related.

Payment process: These invoices are paid in accordance to the terms stated in each capital project contract or modification. The invoice is approved by the assigned project manager and certification of services rendered is required, along with any other contractually required documentation, in order to process payments.

- **Request for Proposal:** This type of competitive contracting is the primary means of obtaining consulting services over \$50,000. Vendors are requested to submit proposals for the specific services desired, showing qualifications and content for their proposal. The proposals are evaluated by District staff, and a contract is awarded to the vendor deemed best suited for the District.

- **Master Contracts** are umbrella contracts that the District procures for items that are widely used by District departments. For example, Robert Half has a master contract for staffing purposes. The Request for proposal process is followed for procuring such contracts. Master contracts create efficiencies in the procurement process because departments can use the competitively procured master contracts without having to obtain three quotes each time the services are required. These contracts are renewed on an annual basis.

Payment process: These contracts are paid in accordance to the description of services and terms stated in each contract or modification. The invoice is approved by the budget manager and certification of services rendered is required and verified by the staff that is over the service performed.

- **Personal Services Contracts:** This type of contract provides an agreement between the District and the vendor and relies on the unique skills and experience of the contractor. Personal services contracts are often used to execute Request for Proposal contracts. We have reviewed the procurement process for these contracts in this current audit. This process currently resides in the Business and Finance Division of the District.

Payment process: The payment is processed in accordance to the conditions stated in the contract. The invoice is approved by the budget manager and certification of services rendered is required and verified by the staff that is over the service performed.

- **General Requisition:** The general requisition process is the primary means of obtaining services that are for one-time purchases requiring a quick turnaround time. The general requisition process is intended to accommodate vendors that do not accept District purchase orders as a promise to pay.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

- Payment Process: Unlike the purchase order and contract processes above, the general requisition process does not have formal approvals that are present and documented in advance. General requisitions only require the budget manager to complete a form approving the payment, and to provide original invoices or other supporting documentation justifying the payment.

The SAP system has two main document types that it recognizes:

- **Document Type 51**: This type of document signifies that the transaction occurred as a result of an official contract. For example a purchase order, a bid, a request for proposal, or a personal services contract.
- **Document 19**: This type of document signifies that the transaction occurred as a result of the general requisition process. Anything that is not processed by a contract process is processed by the general requisition process, including employee reimbursements and travel. All ASB transactions are also processed through this document. ASB purchase orders are a paper process, which are initiated at the schools.

Roles and Responsibilities

This audit was completed as part of the *Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee on September 13, 2016. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Objectives

The primary objectives of this audit were to determine if the District's accounts payable function:

- Has adequate internal controls over the payments of goods and services.
- Has adequate policies and procedures over the payment process.

Scope of the Audit

September 1, 2015 through current

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

Audit Approach and Methodology

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with the Business and Finance Division to ensure that we had a strong understanding of the District's disbursements process.
- Interviewed accounts payable staff knowledgeable of the various processes that were covered during the course of the audit.
- Analyzed available data to corroborate the information obtained during our walkthroughs.
- Reviewed all applicable RCW's, WAC's, and OSPI reference material for state compliance requirements.
- Planned the audit in accordance with the Committee of Sponsoring Organizations of the Treadway Commission. The focus of this methodology is to determine if a framework of internal controls exists, and if those controls are executed in an efficient and effective manner.
- Performed tests and analysis of the objective areas to support our conclusions.

Conclusion

Based on the results of the audit procedures performed, the District appears to have adequate internal controls, policies, and procedures over the accounts payable function, except for the items noted in this report. This report identifies recommendations that are intended to improve the overall accountability and transparency of the accounts payable function.

We extend our appreciation to the staff within the Business and Finance Division for their assistance and cooperation during the course of the audit.

Andrew Medina

Andrew Medina, CPA, CFE
Director, Office of Internal Audit

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

Findings and Recommendations

1) Personal Services Contracts

A personal services contract represents an agreement between the District and a contractor that relies on the unique skills and experience of the contractor to provide professional or technical expertise that otherwise cannot be supplemented by current District staff. We tested invoices associated with personal services contracts and determined that the Accounting Department has adequate controls to ensure that the payments are processed properly. However, we noted non-compliance by the budget owners who are responsible for the monitoring the personal services contracts in their departments. Specifically we noted that Departments:

- Allow services to be rendered before a contract modification is approved by the Accounting Department.
- Allow payments against a personal services contract to exceed the total contract amount. Such overspending is not detected by the Accounts Payable Department until after the invoice is received from the vendor.

These items are recurring issues that have been reported in prior internal audit reports.

Recommendation

We recommend that the District continue to:

- Train and educate District staff on the proper approval and budget monitoring processes for personal services contracts and modifications.
- Monitor incidents of non-compliance and escalate incidents as necessary.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

2) Segregation of Duties

Accounts payable staff have the ability to input contracts in the District's accounting system and to process payments to contractors. We noted instances where the same accounts payable staff person input a contract in the system and processed payments to that vendor. This was mainly done for convenience, as the staff person was familiar with the contract. We are not aware of any inappropriate transactions associated with these contracts, but the responsibilities to input contracts and process payments are considered incompatible functions that should be properly segregated to reduce the risk of fraudulent payments.

Recommendation

We recommend that the District properly segregate the functions for inputting contracts and paying invoices to reduce the risk of fraudulent payments. Management should limit user access in SAP to only the role specifically related to an employee's job function.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

3) General Requisitions

The general requisition process is the primary means of obtaining services that are for one-time purchases requiring a quick turnaround time. The general requisition process is intended to accommodate vendors that do not accept District purchase orders as a promise to pay. We noted the following concerns related to the general requisition process:

- There is a lack of written administrative procedures governing the general requisition process. Administrative procedures should provide written guidelines on when it is appropriate for District staff to use the general requisition process, and when it is acceptable for the Accounting Department to process such transactions. Administrative procedures should establish a clear line of accountability between the staff requesting payments and the accounts payable staff who processing the payments.
- General requisitions, are being used to pay vendors that conduct regular business with the District, rather than just for one-time purchases.
- The general requisition process does not require budget encumbrances or other procedures to ensure adequate funding prior to processing payments. This process can potentially be a work around for District departments that have exceeded their budget.
- Payments for catering expenses with an external vendor were processed through the general requisition process. These expenses were not request through the District's Nutrition Services Department prior to purchasing with an outside vendor. Per District guidelines, catering services for any event paid with District funds should be offered to the District's Nutrition Services Department first.
- Commitment item recording is not always accurate. For example, we noted that a vendor paid by general requisition for a training function was actually posted to the commitment item for supplies. The District's accounting and finance system works in a way that all the commitment items are grouped in categories that roll up in the general ledger. Incorrect coding results in inaccurate account balance that can impact the District's financial statements.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

Recommendation

We recommend that the District:

- Create a detailed administrative procedure that identifies how the general requisition process should be used. The procedure should be communicated to all employees, and should be easily accessible on the District's website once completed.
- Create purchase orders or open purchase orders for the vendors that the District uses on a regular basis. This will align the approvals in accordance to the Districts disbursement matrix.
- Add budget approvals by managers as a required pre requisite to the general requisition process, or develop another procedure to verify budget capacity prior to processing a general requisition payment.
- Train and educate District staff that external catering is only allowed when the Districts Nutrition Services Department turns down an offer to provide catering for events paid with District funds.
- Ensure that expenditures are charged to the correct commitment item.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

4) Security of Contract Files and Supporting Documentation

During our audit, we noted that personal services contract files are stored in unlocked file cabinets. The files contain personal information for vendors, such as social security numbers and personal addresses. A lack of security around personal information exposes the District to potential legal, financial, and reputational risk, in the event that personal information is compromised at any level.

Recommendation:

We recommend that the Accounting Department restrict access to personal services contract files and create an effective check in and check out process. We also recommend that the Accounting Department conduct a review of other files retained by the department to ensure that any documents containing personal information are adequately secured.

**Internal Audit Report
Disbursements
September 1, 2015 – Current**

Management Response from Business & Finance

We thank our auditors for assessing our processes and internal controls related to the disbursements function of Seattle Public Schools. Management concurs with the audit findings. The areas highlighted in the findings will be addressed in a timely manner. Included below are some steps already taken to address the areas of concerns:

- *Segregation of Duties - Because of system limitations surrounding the input of contracts and payment invoices, steps have been taken to ensure the person responsible for inputting the contract is not the same person making the invoice payment against the same contract. Additional review and monitoring by management has been added as a compensating control to reduce the risk of fraudulent payments.*
- *Security of Contract Files – Accounting department staff are currently reviewing files and pulling documents containing personal information for secure storage with limited access.*