



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

**Internal Audit Report
Key Controls Quantitative Analysis
Contract Data Audit**

April 20, 2023 – October 22, 2023

Issue Date: March 5, 2024



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Executive Summary

Background

In 2021, The District conducted an enterprise risk assessment which identified the greatest risks to the District's strategic, compliance, reporting and operating objectives. Structural Deficit, Governance/Management, Siloed Communications, and Internal Non-Compliance related to policies and procedures within Central Administration were identified as some of the top enterprise risks. In response to the risk assessment, a three-year Internal Audit Work Plan was developed, approved by the Audit Committee, and implemented in March 2022. The Internal Audit Work Plan serves as the catalyst for improving District operational effectiveness and efficiency, and further supports internal departments by an assessment of the control environment. An effective control environment mitigates threats to the achievement of strategic/program initiatives while reducing the potential for errors and fraud.

Key Controls Quantitative Analysis audits are a recommended procedure for evaluating and analyzing data to enhance District monitoring and compliance. In April 2023, Internal Audit initiated a Key Controls Quantitative Analysis of contract data. The development of data analytics is essential in determining if key controls related to contracts are effective and functional in monitoring and detecting non-compliance. In addition to identifying data points that are available for analysis, an assessment of key controls provides insight into how future analytics can be performed.

The operational process of a contract is managed and overseen by the Contracting Services Department. The District's enterprise financial software, SAP, is managed by the Department of Technology Services (DoTS) and provides a robust ability to efficiently analyze data. Documentation supporting contracts resides within the Contracting Services Department and many of the contract data elements are also entered into SAP. The Business and Finance Services Department utilizes SAP to facilitate payment of contract invoices and encumbers the amount of the purchase of goods and services against the budget. The District has key controls which are internal to each department. A Key Controls Quantitative Analysis provides an independent and objective assessment of those controls as they relate to the analysis of specific data elements (data analytics).

Roles and Responsibilities

Under the direction of the Audit Committee, the Office of Internal Audit is implementing its 2022-2025 Audit Plan which was approved on March 1, 2022. The Audit Plan includes Key Controls Quantitative Analysis audits. District management has the primary responsibility to establish accurate processes, monitor internal controls, and implement operational improvements. Internal Audit's function is to assess current operations, test internal controls, provide recommendations for optimization, and offer reasonable assurance on the adequacy and effectiveness of internal controls.



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Objectives

The following objectives were developed for this engagement:

- Identify contracting internal controls and assess the adequacy of the key controls identified.
- Identify and analyze contract metrics, contract trend analysis, data anomalies, and potential non-compliance with policies and procedures.
- Utilize a data driven approach to address contract monitoring.
- Determine if opportunities exist for a recurring data analytic audit process to effectively and expediently review for non-compliance.

Scope of the Engagement

This audit was conducted from April 20, 2023, to October 22, 2023, and examined contract data available in SAP that occurred in the 2021-2022 and 2022-2023 fiscal years.

Approach and Methodology

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Internal Audit is an independent appraisal activity that is purposed with evaluating the efficiency and effectiveness of operations. The Office of Internal Audit is designed to add value and improve the District's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal controls and governance of processes. Recommendations included in this audit engagement are designed to improve operations and serve as the basis for informed discussions. To achieve the audit objectives, the following procedures were performed:

- Planned the engagement in cooperation with Department of Technology Services and Financial Services leadership.
- Reviewed District policies, administrative procedures, and written guidance.
- Identified data elements present and absent in SAP.
- Conducted an assessment of the available contract data elements:
 - Analysis of contracts in total volume by purchasing group.
 - Identified the top 10% of contracts and analyzed by spend, vendor and cost center.
 - Conducted a comparative analysis of total contract to invoice amounts to determine overages and identify inconsistencies.
 - Tested personal (hourly) service contracts compared to the master employee list to identify potential conflicts.
 - Reviewed data anomalies pertaining to invoices with no matching contract entered, negative amounts, adjustments, and rebates.



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Racial Equity Considerations

This engagement included completion of the Internal Audit Racial Equity Advancement Tool. This activity is intended to help align Internal Audit with the District's Strategic Plan and racial equity goals by increasing Internal Audit's awareness of potential racial equity issues impacting the area being reviewed. This engagement did not identify areas of racial inequities within the operational and administrative aspects of data analytics related to contracts.

Conclusion

Based on the data analytics and audit procedures performed, we determined that contract monitoring can be enhanced with the integration of additional contract documentation and data elements in SAP. This includes additional data elements to analyze and track unauthorized contract approvals, contract term extensions, expenditure increases, overspend, and reimbursements. An improved centralized database will enhance controls and provide the ability to conduct data analysis efficiently and transparently across integral departments.

While this was not a contract audit and was not intended to test the accuracy of individual contract terms, it is recommended that consideration be made to developing key controls within SAP to enable timely and relevant reviews for detective analysis. The testing and analysis performed with select data available for this audit did not identify material non-compliance or data anomalies, however, it did highlight opportunities for future analytical and internal control assessments.

This report includes recommendations that are intended to improve the accuracy and accountability of the objective areas. Increased support of District resources dedicated to the incorporation of data analytics will enhance internal controls and monitoring.

We extend our appreciation to the DoTS leadership and staff for their valuable assistance and cooperation during this audit engagement.

Andrew Medina

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



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Findings and Recommendations

1) Record Keeping of Contract Data

This audit engagement focused on Contracting Services data elements for analysis and assessment of key controls. We assessed the District's contract data management to determine if appropriate data elements of relevant transactions and contract activities were recorded in SAP. Contracting Services has a long-established procurement methodology, however, only select contracting data points have been built out and managed in the SAP architecture. The absent data elements are necessary to complete a full analytical assessment. Without the necessary data elements, there may be an overreliance on manual processes for contract monitoring. The following internal control components and data points are not recorded in SAP:

- Contract type
- Type of solicitation
- Employee approving payment
- Highest contract approver

In addition to absent data points, the following data elements recorded in SAP only provide partial information which cannot be adequately analyzed:

- Date contract approved
 - The initial purchase order (PO) date is recorded; however, the date of the contract approval/authorization is not captured. An analysis of services provided prior to the signing of the contract cannot be performed with available data.
- Initial amount approved and increases to approved amounts
 - SAP reports display the current PO amount, not the initial approved amount nor approved increases. A record of incremental changes, the employee who entered the changes, a record that the changes were approved and when those changes were made is not available. A comparative analysis cannot be conducted via SAP reports until these data elements are entered and updated for each contract.
- Initial contract end date and extensions to end date
 - Some POs have a "validity end date" which corresponds to the end of the contract. Similar to the initial amount approved and increases approved, POs would need to be reviewed individually, on an item-by-item basis to see if this date was extended during the life of the contract. These data elements would need to be added to SAP reports to review and monitor on a large-scale basis so that trend analysis and anomalies can be detected.

District contracts are inherently complex, and while information is tracked by Contracting Services, selective review of individual contracts is the only method currently available to monitor contract activities. The absence of data records limits the ability to create metrics for comparative analysis utilizing SAP reports and to properly assess risk.



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Recommendations

Utilizing SAP to conduct a data analysis of contracts will enhance monitoring and maximize the limited resources of the District. We recommend the following:

- Develop and build-out the identified data fields to enhance data management. By integrating and resolving absent and partial contract data elements into SAP, data analytics can be adequately performed. Specifically, we recommend that the SAP architecture be updated to capture the following:
 - Contract type
 - Type of solicitation
 - Employee approving payment
 - Highest contract approver
 - Date contract approved
 - Initial amount approved and increases to approved amounts
 - Initial contract end-date and extensions to end-date
- Collaborate with Contracting Services to plan and implement the addition of key data elements designed to monitor contract modifications. Recording approved amounts and incremental changes for the life of the contract in SAP will strengthen internal controls.
- Create additional data fields in the current SAP architecture; include rebates, reimbursements, credits, adjustments and term extensions.
- Consider the creation of automated SAP reports specific to contracts for on-going analytics and timely assessments.



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2) Contract Approval Authority and User Access Reviews

A key internal control implemented by the District is Superintendent Procedure 6220SP.B; Responsibilities for Review, Approval, and Execution of Contracts and Other Agreements. This Procedure defines the signing authority and thresholds permitted for executing contracts, modifications, requisitions and invoice approval. The segregated duties of the reviewer and approver relationship is designed to enhance controls and prevent noncompliant transactions. Work and services pursuant to covered contracts cannot begin until final contract execution is secured according to the requirements of this Procedure. The Procedure is effectively designed, but the approval structure is not integrated and applied as a control mechanism in SAP.

Integrating the District's approval structure into SAP as a control will improve compliance with the Superintendent Procedure and reduce the risk of unapproved transactions by ensuring that all contracts receive the appropriate authority for initial approval, modifications of terms or amounts, and extension of terms. A digital approval will provide a digitized timestamp for tracking contract activities, enable user access reviews, and provide detective controls for unauthorized actions. This added control step would provide specific checks and balances and function as a digital core component of controls over contract execution signatory authority.

Recommendations

We recommend that DoTS implement the following:

- Develop an approval authority matrix aligned with current District approval thresholds for digital sign-off authority in SAP.
- Collaborate with Contracting Services to develop criteria that could be used to continuously monitor contract data for compliance with policies and procedures going forward.
- Consider developing a control and version history report in SAP along with user access reviews. This will enable the identification and monitoring of unauthorized changes and allow for tracking the initiators and approvers of contract activities.



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Management Response

DoTS Management has reviewed the findings and recommendations of the audit. We concur with the spirit and intent of the findings and recommendations and are preparing an action plan to be completed by March 5, 2024.