



Seattle Public Schools The Office of Internal Audit

Internal Audit Follow-Up Report Segregation of Duties - Disbursements

Issue Date: March 2, 2021



Internal Audit Report

Segregation of Duties Follow-Up Audit – Disbursements

Executive Summary

Background

On June 13, 2017, the Office of Internal Audit issued an audit report for Disbursements as part of its evaluation of the District's overall system of internal controls. The report identified one audit finding related to segregation of duties. We recommended that District management address this finding since segregation of duties is an essential internal control designed to help prevent fraud and errors.

In accordance with the 2019-2020 Annual Risk Assessment and Audit Plan, we completed a follow-up audit to assess the corrective action plans for the segregation of duties audit finding:

Audit Finding: Accounts payable staff have the ability to input contracts in the District's accounting system and to process payments to contractors

Internal Audit recommended that District management properly segregate the duties of inputting contracts into the accounting system and processing payments to contractors. Segregating these duties reduces the risk of fraudulent payments.

Roles and Responsibilities

District management is responsible for follow-up and corrective action to address audit findings. To fulfill this responsibility, the District has a process in place to track the status of audit recommendations and ensure that audit issues are resolved.

Approach and Methodology

The objective of this audit was to determine if District management properly segregated the duties related to inputting and paying contractors or implemented other compensating controls to effectively mitigate the risk of fraudulent payments.

To complete this follow-up audit, we performed the following procedures to address the audit objective:

- Reviewed the prior audit report and its supporting documentation to gain an understanding of the issues related to segregation of duties in disbursements processes.
- Inquired with department staff to gain an understanding of what changes were implemented to address segregation of duties issues in disbursements processes.
- Worked with the Department of Technology Services (DoTS) to retrieve user access data and data for contracts and payments.



Internal Audit Report

Segregation of Duties Follow-Up Audit – Disbursements

- Extracted contract data from SAP to determine if Accounts Payable staff entered any contracts into the system, and to determine which employees are performing tasks related to creating and paying contracts.
- Extracted data from organization charts to supplement data provided by DoTS to match SAP access to job functions.
- Analyzed data to determine if the changes implemented by District management match the corrective action plans communicated to Internal Audit, and if the implemented corrective action plans sufficiently address the prior audit finding.

Results

District management implemented the following corrective actions in response to our prior audit recommendations:

- 1) Reassigned accounting staff and restricted SAP access to improve the segregation of duties associated with creating vendors, approving contracts, and paying invoices. Specifically, a contracts specialist and two capital accountants are no longer part of Accounts Payable and report directly to the Accounting Director.
- 2) The Director of Accounting Services performs a monthly review of payments against contracts to review for irregularities and errors.

Conclusion

Based on the results of the audit procedures performed, the District appears to have implemented corrective actions to mitigate the risk of fraudulent payments. This report identifies one area of concern that was promptly corrected prior to the completion of the audit.

Andrew Medina

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



Internal Audit Report Segregation of Duties Follow-Up Audit – Disbursements

Findings and Recommendations

1) Contract Payments

The risk of fraudulent contract payments can be mitigated by effectively segregating employee responsibilities to ensure that a single employee cannot independently pay a contractor. Multiple steps are required for creating and paying contracts. The three key steps include:

1. Creating a vendor
2. Entering a contract for a vendor
3. Entering an invoice against a contract

Optimal segregation of duties would require different employees to complete each of these steps. During the prior audit, the Contracts Specialist had the ability to perform all three steps in addition to having the ability to disburse checks. Management corrected this situation by eliminating the Contract Specialist's ability to approve vendors and make contract payments. This change effectively segregated the roles of creating vendors and processing payments to those vendors.

Two Capital Projects Accountants have the ability to perform the last two steps for capital contracts, but they do not have the ability to perform the first step. This reduces the risk of fraudulent payments and provides an operational benefit to the District.

Although the Capital Project Accountants can perform two out of the three steps necessary to pay a contract, there appears to be valid justifications for the current process design:

- Operational Efficiency: Capital contracts can be complex, and Accounting leverages the Capital Project Accountants' knowledge and expertise to prevent errors when reviewing invoices. The Capital Project Accountant that inputs a contract into the system has detailed knowledge of the contract. Management deems it beneficial to have someone with detailed knowledge of the contract also review the invoices that were submitted by the vendor. This allows the Capital Project Accountants to provide an extra level of control to the District by ensuring that the invoices are in line with the terms of the contract.
- Capital Project Accountants cannot create vendors: Prior to creating a contract, a vendor needs to be entered into the SAP. Capital Project Accountants do not have system access that allows them to create vendors in the system. This segregation prevents a single employee from completing all the required steps to create and pay a contract.

Internal Audit performed data analysis on SAP data to determine which employees have system access to perform the steps needed to create and pay a contract. We verified that the Capital Accountants and the Contracts Specialist do not have SAP system access to perform these three steps.

However, during this analysis Internal Audit identified a Capital Projects Management Analyst with system access allowing the employee to complete all steps in the contract creation and payment process. Internal Audit notified the Accounting Department about this employee's



Internal Audit Report

Segregation of Duties Follow-Up Audit – Disbursements

system access and they immediately made appropriate adjustments to correct the employee's ability to perform incompatible functions.

Our analysis identified five instances in 2019 where the Capital Projects Management Analyst created a vendor, created a contract for the same vendor, and created invoices against the contract. Internal Audit reviewed these transactions and determined the vendors, contracts, and invoices were legitimate. We did not identify any instances in 2020 where this employee performed these same steps in the system.

Recommendations

Internal Audit validated that the system access for the Capital Projects Management Analyst position was corrected, but we recommend that the District perform a periodic review of SAP access to ensure that the functions for creating a vendor, entering a contract for a vendor, and paying an invoice against a contract are segregated to prevent a single employee from performing all three functions.



Internal Audit Report Segregation of Duties Follow-Up Audit – Disbursements

Management Response

Fixes have been implemented to ensure positions that can create a contract and/or pay invoices do not have the ability to create a vendor in the system.

We will periodically review SAP system access, especially when individuals change positions within the department, or when new hires are given access to SAP.