



CITY OF SAN ANTONIO

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SAN ANTONIO TEXAS 78283-3966

October 12, 2011

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Elisa Chan
Councilwoman, District 9

Carlton Soules
Councilman, District 10

SUBJECT: Audit Report of Finance Department's Cash Disbursements

Mayor and Council Members:

We are pleased to send you the audit report of the Finance Department's Cash Disbursements. This audit began in September 2010 and concluded with an exit meeting with department management in August 2011. Management's verbatim response is included in Appendix B of the report. The Finance Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Finance Department's Accounts Payable Division

Cash Disbursements

Project No. AU10-008

October 12, 2011

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the payment process managed by the Finance Department's Accounts Payable (AP) Division. The audit objective, conclusions, and recommendations follow:

Are controls in place and operating to ensure cash disbursements are appropriate?

Yes. Finance Department controls are in place and operating to ensure cash disbursements are appropriate. We determined AP accurately paid invoices and amounts paid were properly authorized. We also determined that no duplicate payments were made for the period under review.

However, there are opportunities to strengthen controls associated with the Vendor Master File and SAP access privileges. Specifically, the Vendor Master File contained several outdated and duplicate vendors. We also determined that 8 of 35 employees with access privileges were not actively assigned to AP. Also, three AP employees had the access privileges to create and make changes to vendors, as well as privileges to process invoices and payments.

We recommend the Chief Financial Officer ensure that:

- SAP Vendor Maintenance staff conduct and document regular scheduled reviews of the Vendor Master File and consistently run SAP searches for pre-existing vendors.
- Finance adhere to Administrative Directive (AD) 7.8E, *User Account Management*, requirements for terminating and reviewing accounts.
- Finance reevaluate and assign SAP user access roles to ensure accounts payable duties are properly segregated.

Finance Management's verbatim response is in Appendix B on page 7.

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Background

The City Manager and Chief Financial Officer issued Administrative Directive (AD) 8.3, *Accounts Payable*, effective January 31, 2011. The AD establishes citywide guidelines, uniform procedures and related internal controls for management of the City's accounts payable.

The Finance Department (Finance) is responsible for the City's cash flow. By ordinance, Finance maintains signatory approvals for all disbursements to conduct City transactions. Accounts Payable (AP) is a section in the Accounting Services Division of Finance. AP is responsible for processing and recording all payments for the City. AP routinely disburses payments to trade vendors, customers, employees, third-party payrolls, and other miscellaneous departmental accounts (petty cash, change funds, etc). **Table 1** illustrates total payments disbursed by AP for fiscal years 2009 and 2010 related to specific types of transactions.

Table 1: Total Disbursements for FY 2009 and FY 2010

Payment Type	FY 2009	FY 2010
Employee Reimbursements	\$ 1,805,704	\$ 1,527,806
Miscellaneous	5,398,088	4,384,494
Refunds	10,934,295	18,344,426
Non PO	167,564,358	195,024,574
Purchase Orders	776,906,689	739,124,020
Total Payments	\$ 962,609,134	\$ 958,405,320

Note: This table excludes payments related to payroll, third party payroll, and debt service

According to AD 8.3, each City department is responsible for the following:

- Ensuring that all purchasing activities contain the appropriate approvals
- Ensuring that expenditures are eligible and paid from approved funding sources
- Ensuring that staff is trained in SAP accounts payable process
- Maintaining SAP role approvals for assigned personnel
- Maintaining segregation of duties as prescribed by policy and good accounting and fiscal responsibility

Audit Scope and Methodology

The audit scope consisted of all City cash disbursements for fiscal year 2010.¹

We interviewed personnel from Finance and Purchasing and General Services Departments. We also observed processes and reviewed relevant documentation, including the SAP User's Guide for Vendor Master Maintenance, AD 8.3, and policies and procedures to obtain an understanding of the City's cash disbursement process.

We used a statistical attribute sampling methodology to obtain a sample of paid invoices for review. We reviewed source documents that included vendor invoices, receipts, authorization forms and other documents to determine if the payment of invoices were accurate and properly authorized.

We relied on computer-processed data from SAP and compared it to source documents to determine if disbursements were appropriate. We performed direct tests on the data rather than evaluate the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit. We reviewed access privileges relevant to the disbursement process for segregation of duty issues and outdated access privileges.

Finally, we conducted data analysis of payments in FY 2010. The data analysis consisted of Benford's Law, search for rounded numbers, threshold analysis, above average payments, and horizontal activity analysis. Additionally, we compared the City's vendor master file to the employee file and reviewed for matching information. Due to the scope of this audit, we did not conduct detailed research into the results of our analysis. However, the results have been discussed with management and will be considered as a basis for future audit projects.

We conducted this audit from September 2010 to July 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the information obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

¹ The following disbursements were not included in the scope: debt service, refunds, payroll and third party payroll.

Audit Results and Recommendations

A. Payment Controls

Controls associated with the payment process are in place and operating as intended. Based on the items tested, we determined that AP accurately paid invoices and amounts paid were properly authorized. We used a statistical attribute sampling methodology to obtain 4 random samples for an overall sample size of 276 paid invoices totaling \$15.9 million for review. The 4 samples included payments for \$1,000 or greater from April 1, 2010 through September 30, 2010 related to Purchase Order (PO) payments, Non-PO payments, Wire Transfers, and ACH payments. We compared invoice amounts to SAP and tested for appropriate approvals. We did not identify any material exceptions.

We also reviewed payments from April 1, 2010 through September 30, 2010 for duplicate invoice payments. Based on our testing, AP did not make duplicate payments.

Recommendation

No recommendations

B. SAP Vendor Master File

The Vendor Master File contained outdated and duplicate vendors. Out of 24,543 active trade vendors, 170 were employees. Upon further research, 160 out of the 170 employees set up as "active" trade vendors were actually inactive. Additionally, there were 83 trade vendors with multiple records. SAP Vendor Maintenance staff are not conducting and documenting regularly scheduled reviews of the Master File to ensure the list is current. Also, consistent searches have not been conducted to determine if vendors exist prior to creating a new vendor.

The City's AD 8.3 indicates that a single master vendor record will be centrally established in SAP and maintained for each vendor. According to the AD 8.3, SAP Vendor Maintenance staff are responsible for: (1) vendor setup and all file maintenance to ensure system and data integrity and (2) proactively searching vendor data to initiate corrective actions as needed and performing periodic reviews to identify inactive account records. In addition, the SAP User's Guide for Vendor Master Maintenance requires the Vendor Master Maintainer to search SAP to see if new vendors being requested for addition already exist.

The Vendor Master File is an integral part of the procurement and accounts payable control environments. A well maintained vendor master file helps prevent failure of system controls, process inefficiencies and inaccurate management reporting. Failure of system controls can result in duplicate and erroneous payments, missed earned discounts, uncashed checks, unapplied credits, tax reporting errors and misappropriations.

Recommendation

The CFO should ensure SAP Vendor Maintenance staff conduct and document regular scheduled reviews of the Vendor Master File and consistently run SAP searches for pre-existing vendors.

C. Accounts Payable Access Controls

C.1 Inappropriate Access Privileges

We reviewed the SAP access roles for 35 employees associated with accounts payable. We determined that 8 of the employees had inappropriate AP access privileges. Of these eight, one was no longer employed with the City and seven did not have accounts payable duties.

Finance is not consistently informing ITSD administrators when employees leave, transfer, or no longer need access privileges. Additionally, administrators are not consistently reviewing the accounts for which they are responsible on an annually basis.

Administrative Directive (AD) 7.8E, *User Account Management*, requires business owners to inform System Administrators, who are tasked with terminating accounts, when users leave, transfer, or no longer need their access privileges. In addition, AD 7.8E requires that System Administrators review the accounts defined by the business owners no less than annually against rosters of possible users. Moreover, staff are only to be given system access to the minimum resources necessary to perform the duties associated with their position.

The inconsistent notification along with the lack of review could result in unauthorized cash payments. Furthermore, unmanaged access privileges can significantly contribute to breaches in confidentiality, integrity, or availability of City resources.

C.2 Segregation of Duties

Three AP employees have inappropriate access privileges to create and make changes to vendors, as well as privileges to process invoices and payments. Having conflicting access privileges may also result in unauthorized cash payments

The City uses *Approva*, which is the software that helps establish and maintain appropriate segregation of duties in SAP. According to the *Approva* Accounts Payable Rule Book, allowing a user to create maintain vendor master records along with entering vendor invoices and processing payments are transaction conflicts.

Accounts Payable personnel process payments for employee reimbursement purposes. Employees must be set up as an employee vendor in order to process payments. Three AP personnel possess the "PRAA" access privilege, which creates an employee vendor. However, currently an employee cannot possess "PRAA" without possessing "XK01" and "XK02", which are access privileges that create and make changes to vendors respectively.

Recommendation

C.1 The CFO should ensure that Finance adhere to AD 7.8E requirements related to terminating and reviewing accounts.

C.2 The CFO should also ensure that Finance create a new transaction or restrict the current transaction, allowing AP the access to process employee reimbursement payments without access to create or change a vendor.

Appendix A – Staff Acknowledgement

Brian K. Williams, MBA, CFE, CIA CGAP, Audit Manager
Buddy Vargas, MBA, CFE, Auditor in Charge
Doug Francis, MSA, Auditor
Gabriel Trevino, CISA, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 27, 2011

Kevin Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Finance Account Payable Cash Disbursements Audit

The Finance Department has reviewed the audit report and developed the Corrective Action Plans below corresponding to report recommendations.

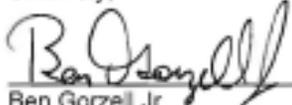
Recommendation				
Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
<p>SAP Vendor Master File</p> <p>The Chief Financial Officer should ensure SAP Vendor Maintenance staff conduct and document regular scheduled reviews of the Vendor Master File and consistently run SAP searches for pre-existing vendors.</p>	4	Accept	<p>Troy Elliott, Assistant Finance Director</p> <p>Juanita Mack, Disbursements & Receivables Administrator</p>	11/30/2011
<p>Action plan:</p> <p>The Accounts Payable AD 8.3 which became effective February 2011 outlines the responsibilities of the vendor master data maintainer and requires a single vendor record per Tax Identification Number (TIN). During the course of the review conducted by the City Auditor's Office 83 duplicate vendor records were identified from the population of approximately 24,500 trade vendors. With the implementation of SAP in October 2004, the vendor database from FAMIS was converted into SAP. Although a vendor clean up was performed prior to converting the records to SAP, 22 of the 83 duplicate vendors mentioned above were transferred from the previous financial system. The 83 duplicate records were inactivated immediately upon receipt of this information.</p> <p>Finance is working with the Information Technology Services Department (ITSD) to develop reports to assist with on-going data validation of vendor master accounts in order to strengthen the controls supporting vendor maintenance. Reports under development will include an ageing of vendor payments in order to identify inactive vendors and also highlight possible duplicate tax identification numbers and addresses.</p> <p>The 2012 Adopted Budget provides for the consolidation of the Purchasing Department into the Finance Department. The consolidation will provide the opportunity to evaluate the centralization of SAP Master Data Maintenance for vendors, customers and fiscal accounts and strengthen the management and maintenance of financial master data. In the interim, the Accounts Payable Manager will manually analyze the creation of new vendors through a variety of existing reports.</p>				

Appendix B – Management Response (continued)

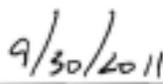
C.1	<p>Accounts Payable Access Controls</p> <p>The Chief Financial Officer should ensure that Finance adhere to AD 7.8E requirements related to terminating and reviewing accounts.</p>			<p>Troy Elliott, Assistant Finance Director</p>
C.2	<p>The Chief Financial Officer should also ensure that Finance create a new transaction or restrict the current transaction, allowing AP the access to process employee reimbursement payments without access to create or change a vendor.</p>	5	Accept	<p>Juanita Mack, Disbursements & Receivables Administrator</p>
<p><u>Action plan:</u></p> <p>The audit identified employees that had inappropriate access privileges providing them the ability to process employee reimbursement payments and have access to create or change a vendor. These conflicting roles are scheduled to be resolved by the end of September 2011.</p> <p>In order to strengthen the controls surrounding role assignments, Administrative Directive 7.8 will be reissued to all Finance Department managers and supervisors with training and direction regarding their responsibility to role security for terminations, transfers, and job changes. Additionally, the Information Technology Services Department (ITSD) has improved the process regarding terminations and transfer of employees between departments through automated notifications.</p> <p>Finance Department and ITSD are in the process of implementing a Segregation of Duties software "Approva" that will further assist the Finance Department in identifying both role and user violations. The software, business processes and policies are being implemented in conjunction with the implementation of the Shared Services Program.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



 Ben Gorzell Jr.
 Chief Financial Officer



 Date



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

September 27, 2011

Kevin Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

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Recommendation				
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Action plan:

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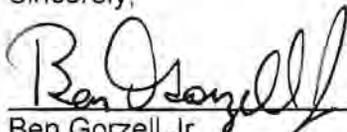
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<p>C.1</p> <p>C.2</p>	<p>Accounts Payable Access Controls</p> <p>The Chief Financial Officer should ensure that Finance adhere to AD 7.8E requirements related to terminating and reviewing accounts.</p> <p>The Chief Financial Officer should also ensure that Finance create a new transaction or restrict the current transaction, allowing AP the access to process employee reimbursement payments without access to create or change a vendor.</p>	<p>5</p>	<p>Accept</p>	<p>Troy Elliott, Assistant Finance Director</p> <p>Juanita Mack, Disbursements & Receivables Administrator</p>	
<p><u>Action plan:</u></p> <p>The audit identified employees that had inappropriate access privileges providing them the ability to process employee reimbursement payments and have access to create or change a vendor. These conflicting roles are scheduled to be resolved by the end of September 2011.</p> <p>In order to strengthen the controls surrounding role assignments, Administrative Directive 7.8 will be reissued to all Finance Department managers and supervisors with training and direction regarding their responsibility to role security for terminations, transfers, and job changes. Additionally, the Information Technology Services Department (ITSD) has improved the process regarding terminations and transfer of employees between departments through automated notifications.</p> <p>Finance Department and ITSD are in the process of implementing a Segregation of Duties software "Approva" that will further assist the Finance Department in identifying both role and user violations. The software, business processes and policies are being implemented in conjunction with the implementation of the Shared Services Program.</p>					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,


 Ben Gorzell Jr.
 Chief Financial Officer

9/30/2011
 Date