



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

October 13, 2014

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Councilman, District 6

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Shirley Gonzales
Councilwoman, District 5

Ron Nirenberg
Councilman, District 8

SUBJECT: Audit Report of Finance Department – Refund Transactions

Mayor and Council Members:

We are pleased to send you the final report of the Audit of the Finance Department - Refund Transactions. This audit began in March 2014 and concluded with an exit meeting with department management in September 2014. Management's verbatim response is included in Appendix B of the report. The Finance Department management and staff should be commended for their 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,

A handwritten signature in blue ink, appearing to read "Kevin W. Barthold".

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

Distribution:

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Finance Department

Refund Transactions

Project No. AU14-011

October 13, 2014

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically City-wide refund transactions. The audit objectives, conclusions, and recommendations follow:

Are customer refunds processed in accordance with City policies?

Yes, customer refunds are processed in accordance with City policies. Departments were properly approving and processing refund transactions. Also, before March of 2014, refunds could be processed in SAP by the creator with no additional approval. Finance, in conjunction with ITSD, created a credit memo approver role in SAP for refund transactions. As such, refund transactions are now properly segregated in SAP.

However, we did note that some users were able to both create and approve refunds in SAP. This allows refunds to be issued by one person without any additional approval. These exceptions have been communicated to Finance management and they are in the process of working with ITSD to delimit the roles.

We recommend that the Director of Finance:

Implement procedures to ensure SAP users do not have both the credit memo creator and approver role. Additionally, Finance should perform periodic monitoring of user access rights in SAP to determine if users have conflicting roles.

Finance Management's verbatim response is in Appendix B on page 5.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	2
Audit Results and Recommendations	3
A. Refund Transactions.....	3
B. Access Roles	3
Appendix A – Staff Acknowledgement	4
Appendix B – Management Response.....	5

Background

Many different City departments issue refunds and they cover a variety of transactions including development permit fees, deposits for the use of City-owned facilities, animal adoption fees, alarm permit fees, and municipal court citations. Refunds are governed under Administrative Directive (AD) 8.4 – Financial Management of Accounts Receivable. Departments are responsible for developing internal procedures to comply with AD 8.4. Departments process refunds by creating a credit memo in SAP. Once these are approved, they are issued by central finance like a standard cash disbursement. For FY 2014, total refunds issued were approximately \$2.6 million through April 30, 2014. The FY 2013 total refunds issued was approximately \$3.9 million.

Audit Scope and Methodology

The audit scope was Fiscal Year 2014 from October 1, 2013 to April 30, 2014. We interviewed Finance and departmental staff regarding refund transactions and how they are processed at both the department level and in SAP. We reviewed policies and procedures pertaining to processing refund transactions. Additionally, we reviewed training documents Finance provided to departments.

We selected seven departments for testing and obtained a random sample of 40 refund transactions from each department. If a department did not process 40 refund transactions, the entire population was tested. We obtained supporting documents for each refund transaction to determine if payment for the original transaction existed and was not returned for insufficient funds, the refund was properly approved, if it was correctly recorded in SAP, and not processed more than once.

Additionally, we reviewed access roles in SAP related to refund transactions to determine if segregation of duties issues existed.

We relied on computer-processed data in SAP to validate the accuracy of refund transactions. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included obtaining supporting documents for refund transactions and then tracing them into SAP. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence 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.

Audit Results and Recommendations

A. Refund Transactions

Customer refunds are processed in accordance with City policies. We reviewed seven departments with refunds totaling \$504,534 and determined that refunds were properly supported, approved, and not issued more than once. Additionally, we determined the refunds were not issued for a non-sufficient funds transaction.

Recommendations

None

B. Access Roles

In March of 2014, Finance, in conjunction with ITSD, created a credit memo (credit memos are used to process refunds in SAP) approver role in SAP. Before this new role was created, refunds could be processed in SAP by the creator with no additional approval. With the creation of the new role, however, the refund process is now properly segregated in SAP between a credit memo creator and credit memo approver. This significantly mitigates the risk of erroneous refunds being processed going forward.

However, during our review of all users with the credit memo creator or approval role, we noted 17 individuals held both roles. AD 7.8, Access Controls, states when technically feasible appropriate access controls should be in place to enforce segregation of duties. Individuals with access to both create and approve credit memos increases the risk of fraudulent or erroneous refunds being issued.

Recommendations

The Director of Finance should implement procedures to ensure SAP users do not have both the credit memo creator and credit memo approver role. Additionally, Finance should perform periodic monitoring of user access rights in SAP to determine if users have conflicting roles.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Douglas Francis, Auditor in Charge
Cristina Stavley, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

September 24, 2014

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

RE: Management's Corrective Action Plan for Finance Revenue Refunds

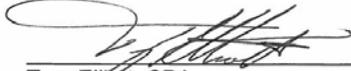
The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Access Roles</p> <p>Recommendation</p> <p>The Director of Finance should implement procedures to ensure SAP users do not have both the credit memo creator and credit memo approver role. Additionally, Finance should perform periodic monitoring of user access rights in SAP to determine if users have conflicting roles.</p>	3	Accept	Melanie Seale/ Asst Director & Marion Gee/ Asst Director	Completed (Sept 5, 2014)
<p>Action plan:</p> <p>In July 2013, the Finance Department identified a segregation of duties control issue regarding the City's receivable and credit memo refund function. Upon review it was determined that staff who had the ability to create sales orders could also request credit memo refunds in SAP without the proper authorization and</p>					

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>approval. In an effort to strengthen controls surrounding the credit memo process, Finance requested ITSD create a new credit memo approval role to ensure a separate level of review and approval from the user entering the sales orders. While the role was being created to strengthen the credit memo review and approval process, Finance issued guidelines for a temporary process where a weekly refunds list was e-mailed to DFAs for manual approval before checks were issued.</p> <p>The new credit memo approver role was created in SAP in February 2014. Department Fiscal Administrators (DFAs) were requested to provide a list of authorized approvers for their department to the Finance Department and were subsequently assigned the new credit memo approver role. Finance, while aware that some of the individuals identified for the credit memo approval role also had the billing specialist role, overlooked communicating with ITSD to not load the credit memo approver role for those impacted individuals.</p> <p>As of September 5, 2014, all 17 users who had both the roles had either the sales order specialist role or the credit approver role delimited resolving the conflicting segregation of duties issue. Going forward, Finance's Compliance & Resolution group will review user role requests for new hires and transfers to ensure roles being requested are not in conflict. Further, the DFAs will continue to undergo a department-wide user role review and validation process initiated by Finance's Compliance & Resolution group semi-annually to ensure roles authorized still agree with the job and duties being conducted by the employees, and that any changes requested do not result in future conflicts.</p>				

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

Sincerely,



 Troy Elliott, CPA
 Director
 Finance Department

9.24.14

 Date



 Ben Gorzell, Jr., CPA
 Chief Financial Officer
 City Manager's Office

9/25/14

 Date