MIS 5121: Business Processes, ERP Systems & Controls

Week 3: *Fraud, Procure to Pay Process Controls*

FOX|MIS
Management Information Systems

James Baranello
James.Baranello@temple.edu
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Video: Record the Class
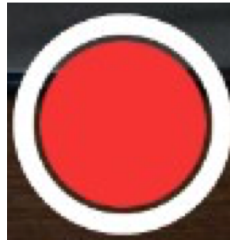
Discussion

❖ Something really new, different you learned in this course in last week

YOU LEARN SOMETHING NEW EVERY DAY

❖ Questions you have about this week's content (readings, videos, links, …)?

❖ Question still in your mind, something not adequately answered in prior readings or classes?

Risk

Definition

'Probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive actions (controls?)'

Business Dictionary

'Anything that could go wrong'

Class Definition
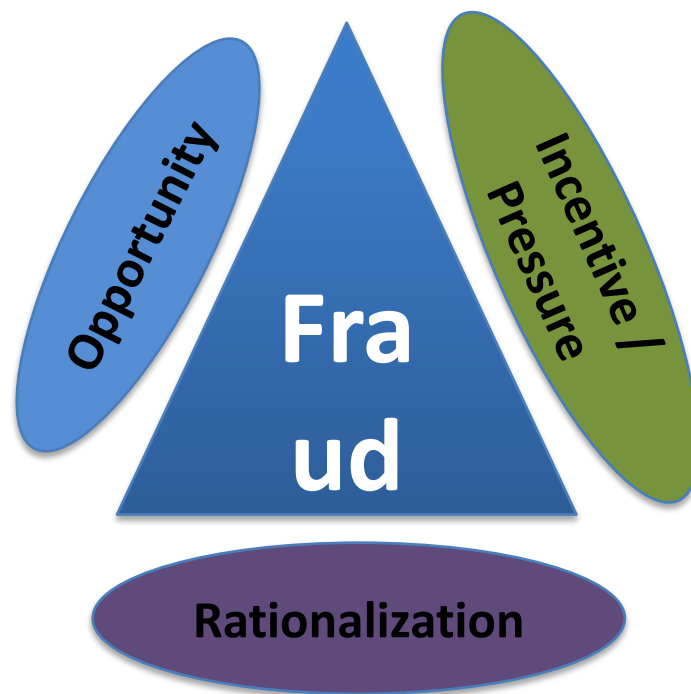
Fraud

Definition

'deception (misrepresentation or omission) deliberately practiced in order to secure unfair or unlawful gain'

Environment Favorable to Fraud

Framework for spotting high-risk situations

- Perceived **opportunity** *(I can do it / conceal it and not get caught)*
  - ➤ Poor internal controls
  - ➤ Lack of oversight

- **Incentive or Pressure** *(Financial or emotional force pushing to commit fraud)*
  - ➤ Meet expectations
  - ➤ Avoid criticism
  - ➤ Cover a mistake
  - ➤ Personal failures, needs

- **Rationalization** *(Personal justification for dishonest actions)*
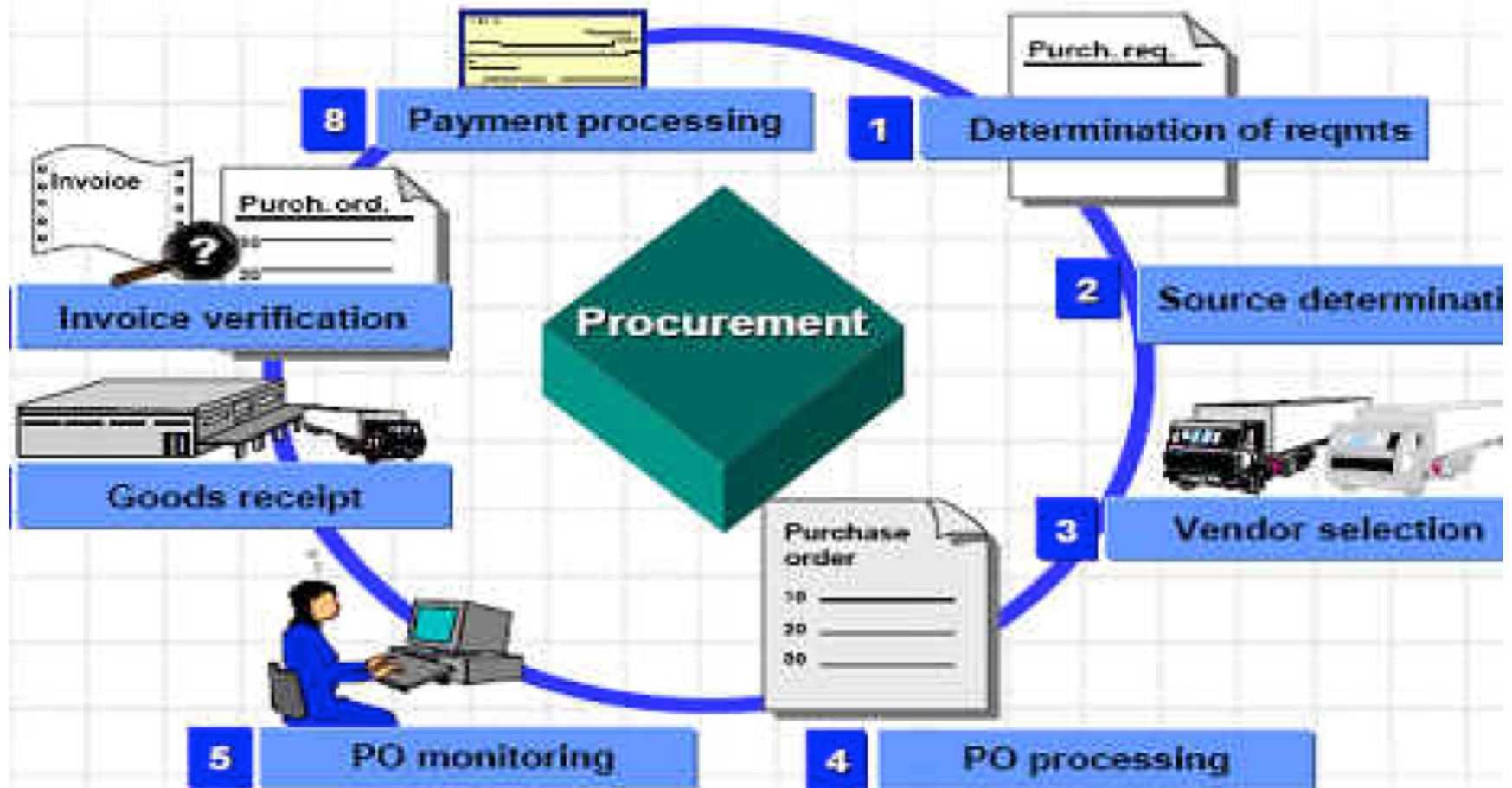 - ➤ Low compensation
  - ➤ Company is profitable

Opportunity

Incentive / Pressure

Fraud

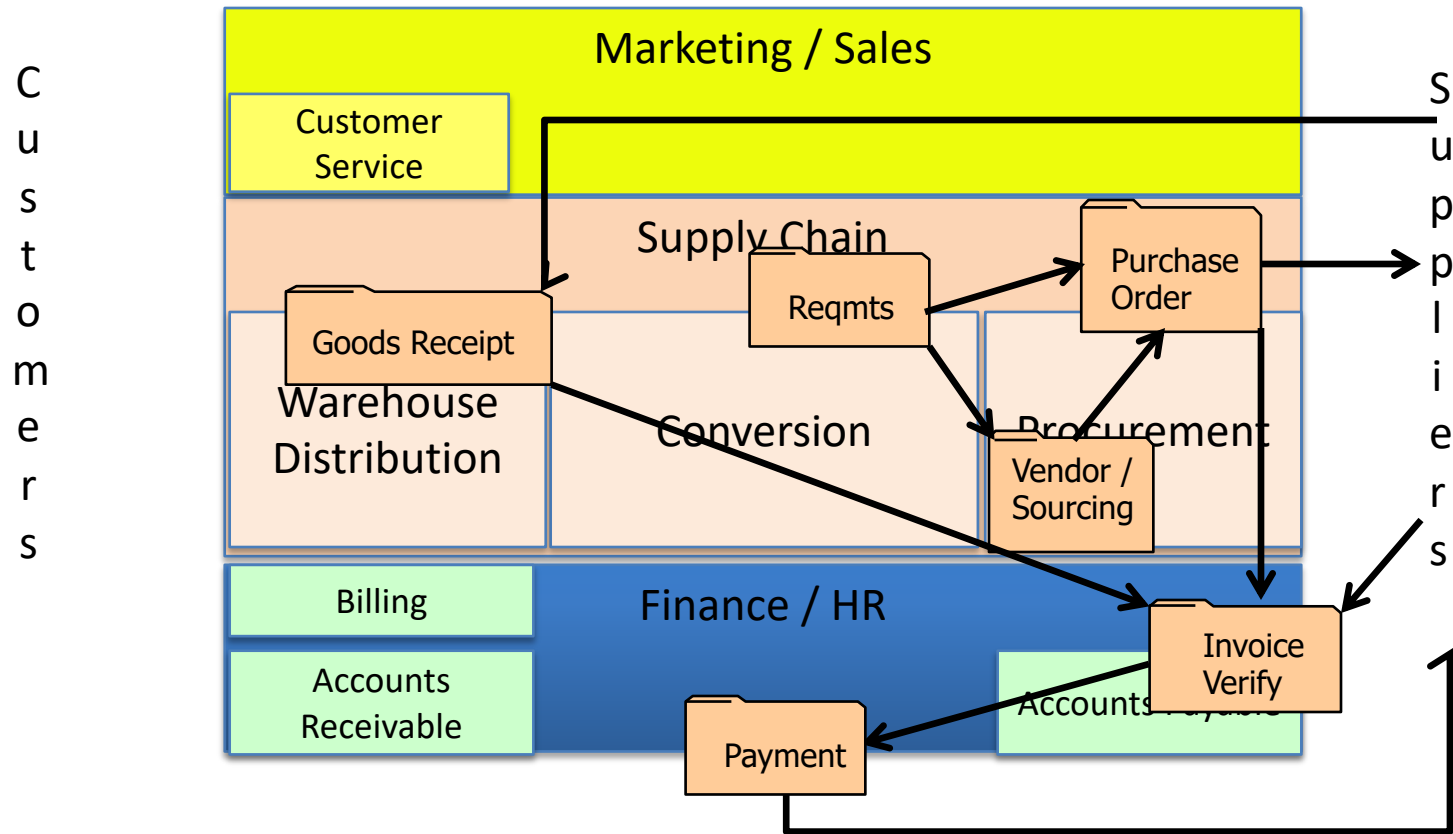Rationalization

Fraud Triangle

Business Process Controls

Procure to Pay

Procurement Process

Procurement at GBI

The Many Flavors of Procurement

What Does Global Bike, Inc. Procure?

- ___
- ___
- ___
- ___
- ___
- ___
- ___
- ___
- ___

The Many Flavors of Procurement

What Does Global Bike, Inc. Procure?

- Parts,
- Helmets,
- Computers, systems, I/T
- Supplies - office, plant
- Buildings, warehouse – lease, rent
- Packaging, branding materials – stickers
- Freight, shipping, logistics
- Services – cleaning, maintenance,

The Many Flavors of Procurement

- Materials / Raw Materials
- Labor Services
- Other Services
- Leases / Rentals
- Supplies (Office, Maintenance, Production, …)
- Logistics
- Information Technology
- No PO
- Inter-company vs. 3rd Party
- Acquisitions

Procure to Pay: Common Risks

Vendor / Purchase Order
- Creation of fictitious vendors, purchase orders and service/good receipt
- Purchases not correctly Authorized
- Delivery address modification
- Inadequate price negotiation
- Price increase in purchase orders (to establish a kickback program)
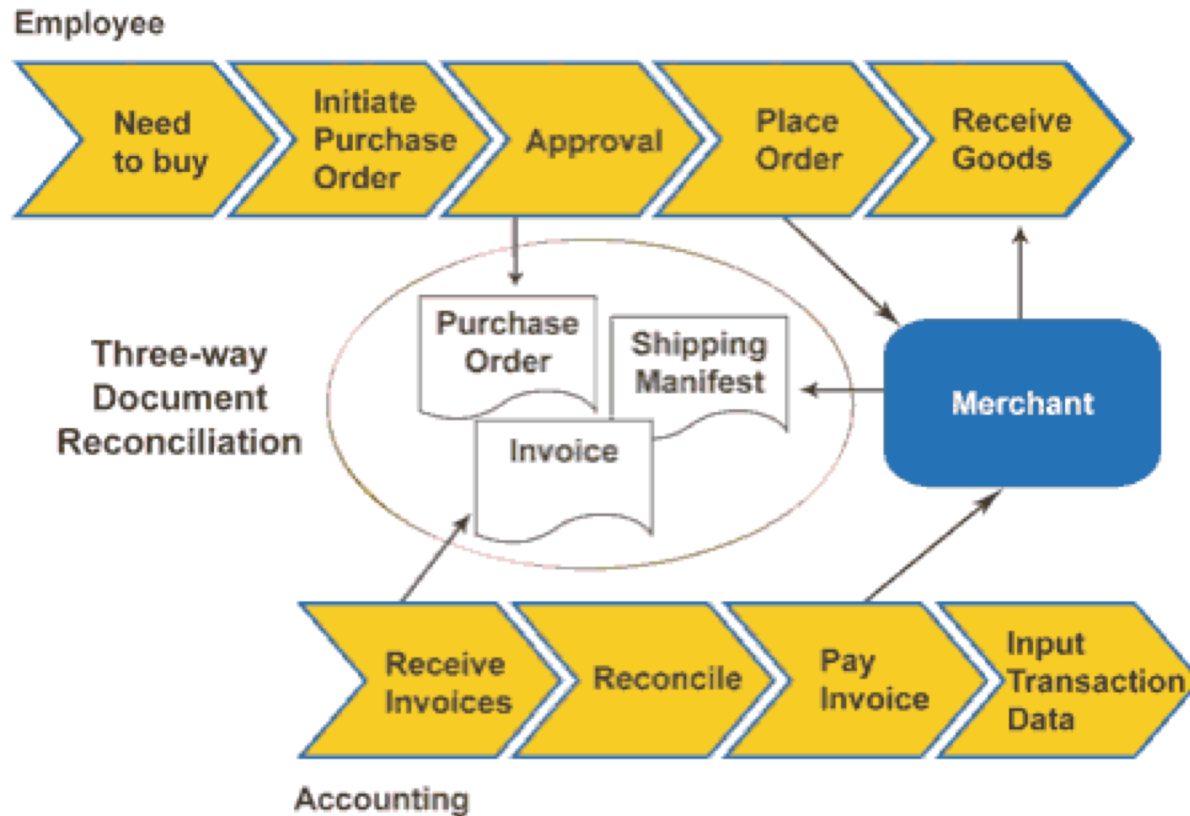- Records lost / destroyed

Goods / Service Receipt
- Import / export control violations
- Quality of goods / services received
- Inventory manipulation
- Records lost / destroyed
- Over / under charged workload / hours / costs

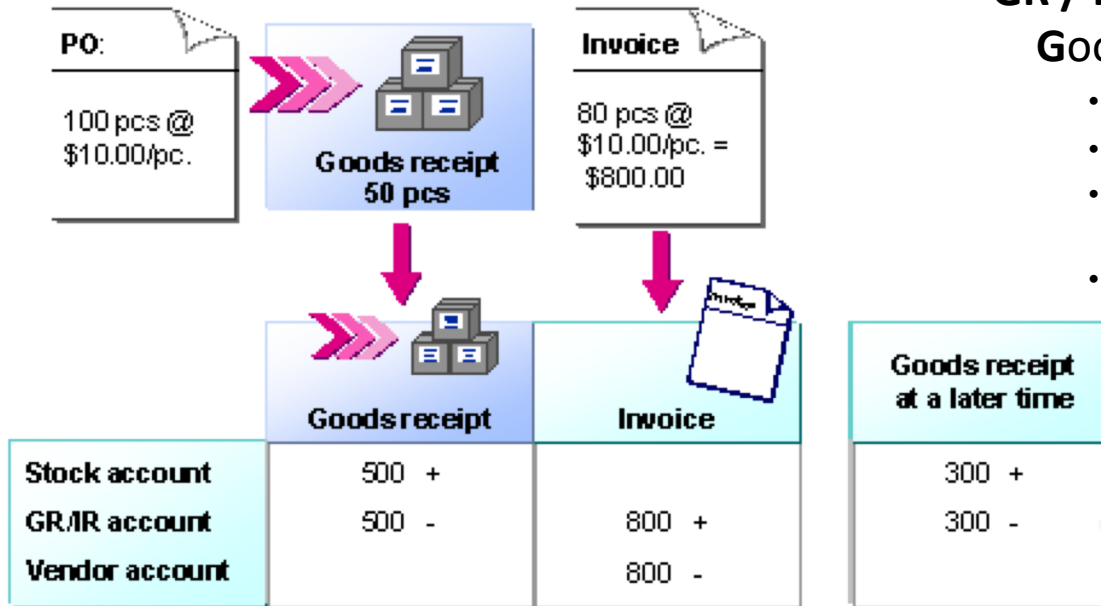# Procure to Pay: Common Risks

Invoice Processing / Payment

- Modification of vendors payment information
- Manipulation of client names and addresses on vouchers / refund
- Price increase in purchase orders (to establish a kickback program)
- Over / under charged workload / hours / costs
- Wrong payments / duplicate payments
- Approval of fictitious travel expenses
- Records lost / destroyed

Controls: 3-way Match

Employee

| Need to buy | Initiate Purchase Order | Approval | Place Order | Receive Goods |

Three-way Document Reconciliation

Purchase Order — Shipping Manifest — Invoice

Merchant

| Receive Invoices | Reconcile | Pay Invoice | Input Transaction Data |

Accounting

Example of Configurable Control

Controls: GR/IR Reconciliation Account

GR / IR:
Goods **R**eceipt / **I**nvoice **R**eceipt

- Standard accounting method for P2P
- 'In/Process' type of account
- For given transaction (PO) once complete the account value should be zero
- Easy focus on incomplete, erroneous transactions

PO:
100 pcs @ $10.00/pc.

Goods receipt 50 pcs

Invoice
80 pcs @ $10.00/pc. = $800.00

	Goods receipt	Invoice	Goods receipt at a later time
Stock account	500 +		300 +
GR/IR account	500 -	800 +	300 -
Vendor account		800 -	

Goods receipt

Procure to Pay: Common Controls

- Segregation of Duties
- Purchasing policies (Written, taught, monitored)
- Contract / PO approvals
- PO revisions monitored / controlled
- Vendor / source / price Decisions Monitored
- Supplier / Procurement independence
- Avoid Advance payments
- Invoices sent to A/P
- Monitor GR / IR Account
- Return Procedures (written, taught, monitored)
- 'No PO' payments avoided / controlled
- 3-way Match used where possible

Reference

- [Checklist: Standards of Internal Control for Purchasing and Ordering](#) (Institute of Finance & Management)

- [Checklist: Standards of Internal Control for Supplier Selection (Institute of Finance & Management)](#)

Purchase-to-Pay Exercise

- Primary Learning objectives
  - Experience the steps in a typical purchasing transaction
  - See how an ERP system handles typical purchasing transactions
  - Work through the procedures involved in a test of transactions
  - Investigate related application controls in an ERP system

- Secondary learning objectives:
  - See the integration between materials management (MM) and financial accounting (FI) modules of SAP
  - View some basic FI module settings than enable proper system functions

Exercise 1: Purchase to Pay

- Agenda
  - Last Class *(September 5)*: Logging On; Steps 1 - 6
  - This Class *(September 12)*: Steps 7 - 14
  - *Due Tuesday September 18 11:59 AM:* Assignment Submission

Exercise 1: Purchase to Pay

- Task 5 – Create Information Record for the Vendor/Material
  - Menu: *Logistics ► Materials Management ► Purchasing ► Master Data ► Info Record ► Create*
  - Transaction: *ME11*

Exercise 1: Purchase to Pay

- Task 6 - Check Status of Various Accounts
  - Check Inventory: MM Inventory Quantity
    Transaction: **MMBE** *(Stock Overview)*

  - Check GL Inventory, GL Cash, GL A/P, GR/IR (Goods Received / Invoice Received):
    Transaction: **S_ALR_87012291** *(Line Item Journal)*

    Recommend: Use **/MIS5121** Layout Variant

  - Check A/P Vendor sub-ledger:
    Transaction: **FBL1N** *(Vendor line item display)*

Exercise 1: Purchase to Pay

- Task 7 – Create a Purchase Order to Buy the Trading Good
  - Menu: *Logistics ► Materials Management ► Purchasing ► Purchase Order ► Create ► Vendor/Supplying Plant Known*
  - Transaction: *ME21N*

- Task 8 - Check Status of Various Accounts
  - Check Inventory: MM Inventory Quantity
    Transaction: *MMBE (Stock Overview)*
  - Check GL Inventory, GL Cash, GL A/P, GR/IR (Goods Received / Invoice Received):
    Transaction: *S_ALR_87012291 (Line Item Journal)*
    Recommend: Use */MIS5121* Layout Variant
  - Check A/P Vendor sub-ledger:
    Transaction: *FBL1N (Vendor line item display)*

Exercise 1: Purchase to Pay

- Task 9 – Receive the Product from the Vendor
  - Menu: *Logistics* ► *Materials Management* ► *Inventory Management* ► *Goods Movement* ► *Goods Receipt* ► *For Purchase Order* ► *PO Number Known*
  - Transaction: *MIGO*

- Task 10 - Check Status of Various Accounts
  - See details of Task 8

- Task 11 – Receive the Invoice from the Vendor
  - Menu: *Logistics* ► *Materials Management* ► *Purchasing* ► *Purchase Order* ► *Follow-on Functions* ► *Logistics Invoice Verification*
  - Transaction: *MIRO*

Exercise 1: Purchase to Pay

- ## Task 12 - Check Status of Various Accounts
  - – See details of Task 8

- ## Task 13 – Make the Payment to the Vendor
  - – Menu: **Accounting ▶ *Financial Accounting ▶ Accounts Payable ▶ Document Entry ▶ Outgoing Payment ▶ Post***
  - – Transaction: ***F-53***

- ## Task 14 - Check Status of Various Accounts
  - – See details of Task 8

- ## Task 15 – Write down the system-generated journal entries
  - – Non-SAP task

Extra Slides

Most Common Fraud Techniques

- Understatement of expenses/liabilities (31%)

- Other techniques such as acquisitions, JVs, netting of amounts (20%)

- Disguised through use of related parties (18%)

- Misappropriated assets (14%)

Asset Misappropriation Fraud Schemes

Category	Description	Examples	% cases
Billing	Causes employer to issue payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases	Employee creates a shell company and bills employer for services not actually rendered	26.0 %
Non-Cash	Employee steals or misuses non-cash assets of the organization	Employee steals or misuses non-cash assets of the Organization steals or misuses confidential customer financial information	16.3 %
Revenue Reimburse	Employee makes a claim for reimbursement of fictitious or inflated business expenses	Employee files fraudulent expense report, claiming personal travel, etc.	15.1 %
Skimming	Cash is stolen from an organization **before** it is recorded on the organization's books and records	Employee accepts payment a customer, but does not record the sale, and instead pockets the money	14.5 %
Check tampering	Person steals his employer's funds by intercepting, forging, or altering a check drawn on one of the organization's bank accounts	Employee steals blank company checks and makes them out to himself or an accomplice	13.4 %
Cash on Hand	Perpetrator misappropriates cash kept on hand at the victim organization's premises	Employee steals cash from a company vault	12.6 %
Cash Larceny	Cash is stolen from an organization **_after_** it is recorded on the organization's books / records.	Employee steals cash and checks from daily receipts before they can be deposited in the bank	9.8 %
Payroll	Employee causes his employer to issue a payment by making false claims for compensation	Employee claims overtime for hours not worked or adds ghost employees to the payroll	8.5 %
Cash Register	Person makes false entries on a cash register to conceal fraudulent removal of cash	Employee voids a sale on the cash register and steals the cash	3.0 %

Exercise 1: Purchase to Pay

- Task 6 - Check Status of Various Accounts
  - Check Inventory: MM Inventory Quantity
    Transaction: **MMBE** *(Stock Overview)*

  - Check GL Inventory, GL Cash, GL A/P, GR/IR (Goods Received / Invoice Received):
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  - Check A/P Vendor sub-ledger:
    Transaction: **FBL1N** *(Vendor line item display)*