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CASE STUDY: SEGREGATION OF DUTIES

SABRE, INC.

ASSIGNMENT OVERVIEW

Summary:	As a team, present the proposed solution to the case. The presentation should lay out clear recommendations for how management should address the problem.
Presentation Deliverable:	Case study presentation (in Microsoft PowerPoint format).
Executive Briefing Deliverable:	Single page case study executive briefing (in Microsoft PowerPoint format).

BACKGROUND

Sabre Inc.'s CEO, Michael Southard, has called you and your team to help improve the company's Segregation of Duties (SoDs)-related controls. Recently Sabre acquired a company called Dundie. In a purely business sense this was touted as two industry leaders joining forces. Most industry analysts had positive reviews on the acquisition – which was one of Michael's biggest triumphs as a CEO. However, right after the acquisition several gaps were found in Dundie's internal controls environment. Eventually certain pre-acquisition due diligence activities conducted by Dundie had to be escalated to the SEC. It was discovered that illegal payments had been made to secure lucrative contracts in the Middle East and Asia. These payments were possible mainly due to a lack of controls around segregation of sensitive roles and responsibilities. These incidents were in violation of the Foreign Corrupt Practices Act (Refer to Exhibit One in the Appendix below for brief description of the act). The incident, as cited by the SEC violation, is:

“Violation of anti-bribery, books and records, and internal controls provisions of the FCPA through illicit payments made to secure and maintain business opportunities worldwide.”

As a result, Dundie (and the newly combined Sabre) faced the threat of severe financial penalties, potential jail time for key executives and a public relations fall-out.

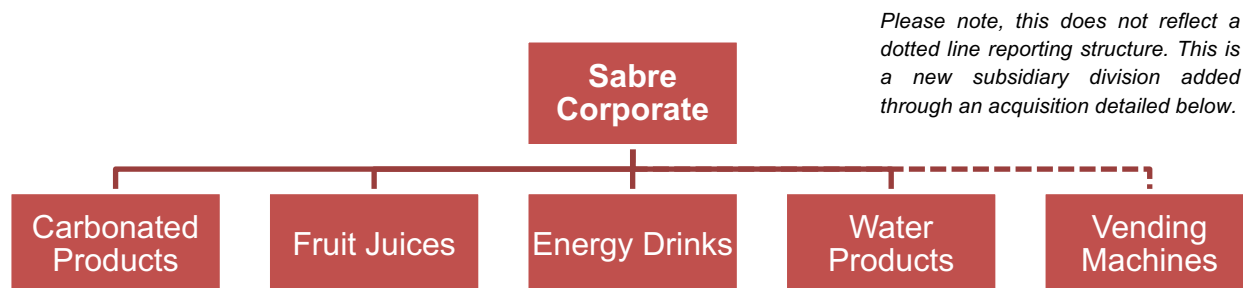
Because of these revelations, the SEC and US Department of Justice have opened up multiple investigations on Dundie (and hence Sabre). Michael not only wants to improve the current processes, but also wants to proactively implement controls to prevent similar incidents from occurring in the future.

SABRE, INC.

Sabre was founded in 1865 and has grown to a Fortune 50 multinational company serving customers in over 170 countries. It has an employee base of over 200,000 employees worldwide with its corporate headquarters in Omaha, Nebraska. Sabre operates in the consumer products industry, focusing specifically

on the soft drinks market. The company describes itself as a global company with a local customer reach. Company values for Sabre include: Integrity, Customer Satisfaction, Employee Engagement, Innovation and Sustainability. These values form the core of all its businesses and shape the way in which Sabre does business with its customers, suppliers, shareholders and the community. The company has a very autonomous culture; the business units that make up the core of Sabre's service offering do not like being "overseen" by the parent company. Typically, business decisions are delegated to the business units while strategic decisions are left to the "corporate" office.

The primary markets served by Sabre are: Carbonated Products, Fruit Juices, Water Products, and Energy Drinks. Shown below is an organizational chart with the different divisions reporting up to Sabre Corporate.



The product offerings in the different markets are briefly described below:

1. **Sabre Corporate:** The Corporate division of Sabre has oversight on the different divisions and different product offerings. All the common functions utilized by the different business units are housed within corporate and report to senior leadership through different levels. Functions housed in the corporate division include:
 - Payroll
 - Infrastructure
 - Security
 - Internal Audit
 - Corporate Communications
 - Performance Management and HR
 - Strategy

Each business unit has its own Product Development (including Research and Development) function and its own marketing function.

2. **Carbonated Products:** Sabre delivers products in the carbonated drinks market. This is Sabre's most mature division. Its legacy product is still its largest selling drink across divisions. This division has over 100 different brands and serves over 150 countries worldwide. Internally Sabre has a coveted "Billion Dollar Product" distinction for any product that earns revenues of a \$1 Billion. Majority of products produced and sold by this division have earned the title. Essentially this division is a 'Cash-Cow' for Sabre.
3. **Fruit Juices:** This is a relatively new division for Sabre. The division was a result of one of Sabre's biggest competitors introducing a similar line of products to the market. Essentially the division is a "healthier" alternative to the Carbonated Products division. Although fast growing, the division does not earn as much revenue as the Carbonated Products division. However, senior leadership

recognizes the growth potential for the division, and is making required investments to increase market impact.

4. **Water Products:** As the use of bottled water has increased, especially in developed countries, this division has been a significant growth area for Sabre. The division currently operates in over 60 countries. Majority of the revenue is generated by countries in the Western Hemisphere and emerging markets (especially BRIC Nations)
5. **Energy Drinks:** Energy Drinks is also a relatively new division. The division includes carbonated and non-carbonated energy drinks. Majority of the revenue comes from developed nations, just as for Water Products division. The division recently faced legal problems around caffeine content in the carbonated energy drinks. As a result countries with stringent health regulations (for example China) have banned the sale of this drink
6. **Vending Machines:** This division is a new and innovative way for Sabre to go to market with its products. The division is to be operated as an autonomous unit, reporting to Sabre Corporate.

DUNDIE ACQUISITION

Dundie International Corporation was a global manufacturing company that had a niche in the Vending Machines business. Dundie had a global footprint in providing vending machines to large companies and organizations. They had a wide network of business partners whom they partnered with to display and provide products to customers. Dundie's vending machines allow customers to use cash and credit cards to purchase products. Sabre viewed this as a perfect opportunity to achieve significant cross-selling synergies. Dundie's internal corporate values were similar to those of Sabre's. Sabre believed that acquiring Dundie would be the perfect way to go to market together and create a direct channel to its customers.

Sabre wanted to enter emerging markets, such as the Middle East, India, China and Latin America, which were seeing exponential growth in construction projects. Dundie had several established relationships with global construction contractors. With Dundie's network, Sabre hoped to accelerate the growth of not only its Vending Machines division, but also other divisions which were experiencing slower growth.

In December 2005, Sabre completed its acquisition of Dundie International Corporation. This was reportedly a \$3 billion acquisition for Sabre. The Dundie CEO, Mark Potter, joined Sabre as a Corporate Vice President and the President of the Vending Machines business. Dundie had annual revenue of \$5 billion and the acquisition was predicted to provide more than \$275 million of annual synergies in product offerings.

Sabre would manufacture the products and increase sales through Dundie's products. The acquisition ensured that Sabre's customers would have a single source to purchase, install and service Sabre products to customers.

KEY STAKEHOLDERS

1. MICHAEL SOUTHARD, CEO

Michael Southard has always been passionate about the soft drinks industry and about Sabre. Michael grew up in Vermont and attended Harvard Business School. After a working with a management consulting firm in New York and Paris, Michael was offered the Chief Executive Officer position at Sabre in an effort to expand the company and further diversify its products. Michael was thrilled at the position and has since successfully elevated the company to new levels.

Michael believes his most valuable contribution has been cutting into the market share of Sabre's competitors. Michael knows the soft drink market is fiercely competitive and product differentiation is essential to success. Michael places significant importance on the strategic impact the Dundie acquisition could have on Sabre, and hopes the success of this acquisition will be a part of his legacy at Sabre. Dundie's major product is Vending Machines to display and sell soft drinks. These are complimentary to Sabre's products. During the time of the acquisition, Dundie was the third largest manufacturer of the above equipment.

Michael understands that success of the acquisition depends heavily on strong processes and controls around segregation of duties. It is essential to ensure that no one person/role had access rights to a function/process for all end-to-end activities. By introducing robust controls, Michael believes that adherence to guidelines will become a part of Sabre's culture and will strengthen the organization against fraudulent activities.

2. BRIAN DAVIS, CFO

Brian Davis started his professional career at Ernst & Young in Chicago in the Assurance practice. Brian is a self-admitted typical CPA – he loves numbers and financial detail and always requires financial justification for every business and strategic decision. Michael describes Brian as “the voice of reason” on the Sabre executive team. Brian takes great pride in his conservative spending, cost-conscious outlook, and detailed knowledge of the business processes supporting Sabre's operations. Brian's weakness lies in his limited understanding of the complex IT systems that support Sabre's operations. Brian admits that, “...without Chad (CIO), I would be lost. He always takes the time to explain the high-level perspective without getting bogged down in technical details.” Thus, Brian avoids decisions pertaining to IT spending and usually defaults to the better judgment of his reporting CIO, Chad Coburn.

Brian was instrumental in the Dundie acquisition and worked closely with Michael in leading the acquisition team. Brian served as a key point of contact for the Dundie executives and the SEC in the acquisition process. He also lead a team to perform a thorough financial due diligence of Dundie before the acquisition.

3. CHAD COBURN, CIO

Chad's entire career has been at Sabre. Chad originally joined the company as a project manager in the Information Systems department and quickly rose to executive management upon completion of several successful projects. Chad possesses a vast technical background, but prefers to take a long-term strategic approach with his initiatives. Chad feels good about the nature of his reporting role to Brian; he knows that Brian places a great amount of faith in his skill and ability to make good decisions. Chad also heavily relies upon the skill of his directors and managers. He always prefers executive summaries and rarely examines detail.

One of Chad's bigger projects was to provide technical oversight on the Dundie acquisition. Being a trusted colleague to Brian, Chad was entrusted with putting together a new team to conduct due diligence on Dundie's IT systems to support financial due diligence

BUSINESS PROBLEM

In 2007, under admission from Sabre, the SEC and Department of Justice opened up numerous investigations against Dundie Inc.

Dundie, through its subsidiaries, made numerous payments to secure orders on commercial and government projects in the Middle East, China, India, United Kingdom and other countries. The subsidiary entities in each of these regions made elaborate schemes to conceal kickbacks to influential personnel to help them win the respective contracts. These payments were internally passed off as “consultancy fees”. Examples of payments made include the following:

1. Illicit payments made to government officials to secure contracts at a hotel and convention complex resulting in total earnings of \$3.7 million
2. Illegal bribes paid to the certain governments in the Middle East to provide Water Products in all government buildings resulting in total earnings of \$12 million
3. Payments made to select government military departments in south Asia to provide after installation support services resulting in added revenue of \$2.4 million

A major portion of this scheme was implemented in the Middle East region. The first mechanism used was through cash payments. In the UAE, complicit Dundie salespeople employed at Dubai and Abu Dhabi branches arranged for fake contractors to generate and submit invoices to Dundie Middle East for “consulting services”. In reality there were no consulting services performed. Either the Dubai or the Abu Dhabi branch paid for the invoice. The money was subsequently paid off to influential people to secure the contracts.

Another payment mechanism adopted by one of Dundie’s subsidiary was directly writing a check to influential people, based on false invoices for services that were never provided.

A third payment mechanism in some other countries (in the same region but with more mature anti-bribery processes) was to enable the customer to designate a fake consulting firm which would be paid directly through checks written to them. Eventually the money would end up with the customer to enable Dundie to win the contract.

Overall, the total amount paid through illicit payments was \$7.5 million across various countries.

Dundie lacks segregation of duties between sensitive responsibilities that enabled a few people to pull off these payments and avoid detection by any of Dundie’s internal controls, thus the fraudulent activities went undetected. For example, the vendor invoicing process in the Middle East: the same role was allowed to authorize creation of a vendor in the system and authorize payments to that vendor. This allowed the payments to be made for services that were never provided to Dundie.

YOUR TASK FOR THIS CASE – PRESENTING TEAM

This acquisition was Michael Southard's brainchild. Although Dundie has helped Sabre gain significant market share, a major portion of the associated return on investment could erode through SEC sanctions. Sabre has always maintained a culture of doing business "by the book" and the senior executives do not want that reputation to change. Michael has employed you to work closely with Chad to create a presentation addressing the current state of Dundie's weak internal controls and providing recommendations to address the gaps. The audience for this presentation is a joint committee consisting of Sabre executives and representatives from the Department of Justice.

1. Identify minimum 10 SoD conflicts from the processes above. Leverage the detailed responsibilities specified in Exhibit Three in the Appendix below.
2. Create a SoD matrix (refer to the GRC Toolkit for a sample) for the conflicts identified above. Refer to the 'sample' SoD conflicts provided for reference in Exhibit Six of the Appendix below.
3. Write risk statements for each conflict identified to specify the risk and the impact if the conflict is not addressed.
4. Rank/classify the risks as 'High', 'Medium', 'Low'. Refer to Risk Assessment Criteria from the GRC toolkit for sample classification methodology. Clearly specify why each risk is classified the way it is and detail the overall approach followed for the risk assessment. Your team should be clear on why a risk was marked 'high' against another risk marked 'medium'.
5. Identify recommended initiatives, comprised of redesigned processes and controls to remediate the 'High' priority risks so that they no longer exist. If the controls involve hiring new resources, please mention briefly the new roles and responsibilities and reporting structure.
6. Identify appropriate mitigating controls for the 'Medium' and 'Low' priority risks. If the controls involve hiring new resources, please mention briefly the new roles and responsibilities and reporting structure.

YOUR TASK FOR THIS CASE – ALL OTHER TEAMS

CASE STUDY EXECUTIVE BRIEFING

Having performed the current state assessment noted above, Michael Southard has asked you to create a placemat showing the importance of maintaining segregation of duties across the Sabre Inc. environment which he can use in upcoming meetings he has with several of his direct reports. The one-slide placemat should highlight the importance of segregation of duties and also contain details around why segregation of duties conflicts can arise and remediation activities that can be performed to avoid segregation of duties issues.

GENERAL CASE STUDY GUIDANCE

At a minimum, the solution to your case study should include the criteria below. Though not mandatory, you may use this as a format and general flow for your case study.

- A clear and concise background of the facts of the case.
- Key issues, observations and complicating factors that contribute to the root cause business problem at hand.
- A clear statement of the business problem to be solved.

- An overview of the solution and its components. The solution should address the key tasks outlined for you in the case.
- Demonstration of sufficient analysis that led you arrived at your solution.
- Clear recommendations for how the solution should be implemented or deployed.
- A timeline for execution of your recommendations.
- A budget or cost model for implementing your solutions. Be sure to include the cost to build and deploy your solution and the cost to run and operate your solution after it is built.
- An analysis of the risks, issues, key assumptions and any mitigating factors you will employ to minimize the likelihood and/or impact.

You have been asked for a lot of detailed information to solve this case. The trick will be to package this up into a digestible executive presentation your audience can understand. Detailed supporting information can be included in an exhibit in the appendix of your presentation.

Your case study solution should also include:

- Citation of key sources in the form of end notes cited in your appendix.
- Application of standards and leading practices that help to inform your solution.

A few tips and tricks for solving this case:

- Company financials have intentionally not been provided to you for this case. To build your model about sizing of the company, please conduct your own independent research and find similar peer companies.
- Feel free to make assumptions that support your conclusions. Be sure to state your assumptions in an exhibit in your appendix. Your assumptions should not significantly alter the facts of the case; rather, they should support the recommendations by filling in the missing pieces of information in the case.
- You should NOT simply copy/paste from COBIT or any of the other standards. The key is to use the standards to help you solve the case. Remember: standards are NEVER the answer on their own; they must be applied to the business problem.

APPENDIX**EXHIBIT ONE: FOREIGN CORRUPT PRACTICES ACT (FCPA)**

The Foreign Corrupt Practices Act (FCPA) of 1977 was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials in order to obtain or retain business. Anti-bribery provisions in the FCPA prohibit use of mails or other means of communication to make an offer to pay, an actual payment of money or anything of value to any person who is a government official. This could constitute a bribe in the form of cash or kind. Another term in the FCPA is that these payments cannot be made while knowing that all or a portion of the payment will be offered to a foreign official in order to influence the foreign official to act in violation of lawful duty, or to secure any improper advantage in obtaining or retaining business with the receiving entity

Since 1977, the anti-bribery provisions of the FCPA have applied to all U.S. persons and certain foreign issuers of securities. After the enactment of certain amendments in 1998, the anti-bribery provisions of the FCPA now also apply to foreign firms and persons who cause, directly or indirectly, an act of bribery to take place within the territory of the United States.

The FCPA also requires companies whose securities are listed in the United States to meet its accounting provisions. These accounting provisions, which were designed to operate in tandem with the anti-bribery provisions of the FCPA, require corporations covered by the provisions to (a) make and keep books and records that accurately and fairly reflect the transactions of the corporation and (b) devise and maintain an adequate system of internal accounting controls.

FCPA violations can result in criminal and civil liability for companies and their individual officers. Companies can potentially face a fine of up to \$2 million per violation and other related penalties such as debarment from government business. In addition, enforcement officials can obtain multi-million dollar settlements by disgorging profits based on the improper payment. Individuals involved in violations can risk thousands of dollars in criminal and civil fines as well as imprisonment for up to five years per count for criminal violations.

EXHIBIT TWO: PROCESSES IDENTIFIED BY SABRE

1. **Customer adjustments:** There is currently one role in vendor purchasing groups with respect to adjustments – Regional Adjustment Officer (RAO). Whenever an adjustment (for example, when a sales staff requests a credit) to customer accounts needs to be made, the sales staff requests this adjustments to the RAO. The RAO investigates if the adjustment is reasonable. Once this is done, the request is approved and the RAO enters it into the customer management system.
2. **Cash disbursements:** In certain regions, Dundie does not have a strong employee base. In most cases, these regions have a single Financial Manager responsible for printing checks to local vendors. Whenever a discrepancy arises between the checks presented at the bank and the positive pay file, the bank managers call these Financial Managers and clarify the discrepancy.
3. **Human resources:** Each employee in Dundie is assigned an HR representative. Whenever the employee moves roles within the organization, all changes to the Employee Master File (compensation changes, title changes, job description) are approved and made by the HR representative for that employee.
4. **Payroll:** Dundie has a distributed payroll system. This means that each region is responsible for maintaining and processing its own payroll system. This also means that some lower-budget regions do not have a mature system in place. In order to reduce cost often times an office will have a single employee performing various payroll functions such as approving payroll, generating payroll checks, distributing checks and modifying employee master files.
5. **Inventory:** A lot of plants and warehouses for Dundie are located in remote places across the globe. Dundie has a policy that any warehouse storing inventory needs to go through a bi-weekly physical inventory count. In most cases, the warehouse manager performs this count and emails a report to corporate.

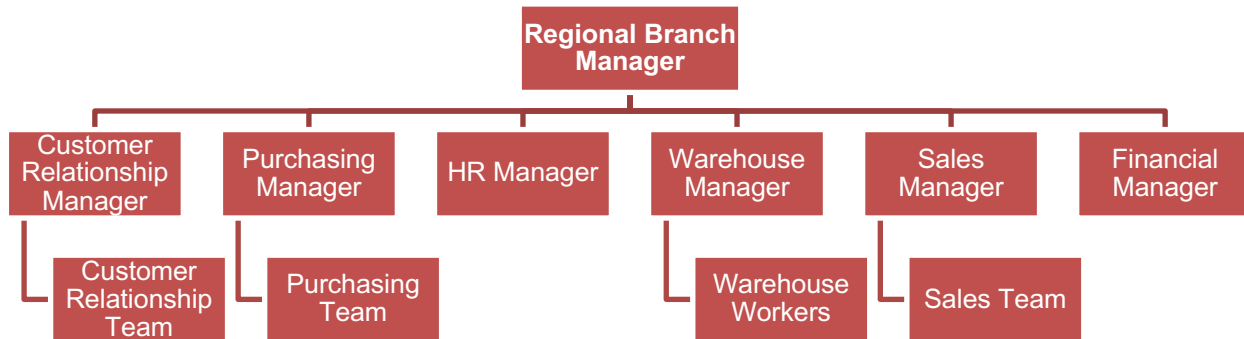
EXHIBIT THREE: OTHER ROLES AND RESPONSIBILITIES


Figure 1: Typical regional office organizational chart

Customer Relationship Manager	Purchasing Manager	HR Manager
<ul style="list-style-type: none"> • Opening customer payments and remittances • Recording payments in system • Reconciling bank account(s) • Authorize customer write offs in accounts 	<ul style="list-style-type: none"> • Initiates purchase requisition • Approves purchase requisition • Initiate purchase order to vendor • Modify Vendor Master File • Record vendor invoices • Receive vendor goods in the system • Modify inventory records • Reconcile inventory records • Approve vendor payment • File vendor change reports 	<ul style="list-style-type: none"> • Maintain Employee Master File • Have access to payroll system • Is involved in the hiring and termination of personnel • Generates payroll checks • Distributes payroll checks • Receives final payroll reports
Warehouse Manager	Sales Manager	Financial Manager
<ul style="list-style-type: none"> • Initiate and record a manual adjustment in inventory system • Reconcile adjustments in inventory systems to physical inventory counts • Approve disposal of scrapped goods and obsolete inventory • Invoice buyer of scrapped goods 	<ul style="list-style-type: none"> • Conduct due diligence on potential new accounts/customers • Create customer accounts and enter sales in sales systems (which then automatically update the accounts receivables system) • Initiate customer orders in system • Approve sales orders • Modify Customer Master File • Modify Pricing Master File used to keep record of prices of goods sold • Mail customer invoices • Enter sales returns from customers in system 	<ul style="list-style-type: none"> • Initiating customer invoicing process • Generate customer invoices • Have "Edit" access to Customer Accounts page of Customer Master File • Have access to Customer contracts • Receive customer payments • Manage accounts receivable • Collection on delinquent accounts • Access to Customer contract system

EXHIBIT FOUR: DUNDIE FINANCIAL SUMMARY BEFORE ACQUISITION

THREE YEAR SUMMARY OF SELECTED FINANCIAL DATA (in thousands, except per share data and other information)	Current Year	Last Year	The Year Before
Statements of Operations Data:			
Net sales	\$4,510,143	\$4,076,054	\$ 3,843,373
Gross profit (a)	830,817	783,250	727,752
Restructuring and other charges, net (b)	(1,007)	(91,395)	111
Gain (loss) on divestiture	-	345	(10,319)
Income from operations (a)(c)	128,181	56,021	151,196
Interest expense, net	(41,773)	(47,535)	(48,485)
Income before income taxes and cumulative effect of changes in accounting principles (a)(c)	94,977	14,068	106,891
(Provision) benefit for income taxes	(13,398)	(2,653)	(25,715)
Income before cumulative effect of changes in accounting principles (a)(c)	81,579	11,415	81,176
Net income (loss) (a)(c)(d)	81,579	(3,998)	(98,260)
Basic earnings (loss) per share (a)(c):			
Income before cumulative effect of changes in accounting principles	1.99	0.29	2.06
Net income (loss)(d)	1.99	0.10	(2.50)
Diluted earnings (loss) per share (a)(c): Income before cumulative effect of changes in accounting principles	1.96	0.28	2.04
Net income (loss) (d)	\$ 1.96	\$ (0.10)	\$ (2.47)
Weighted average common shares and common equivalents outstanding:			
Basic	41,072	39,684	39,351
Diluted	41,623	40,206	39,770
Cash dividends per share	\$ 0.80	\$ 0.60	\$ 0.60
Capital expenditures	82,696	84,704	69,562
Depreciation and amortization of property, plant, and equipment	75,047	69,990	62,167
Amortization of deferred charges, intangibles, and goodwill (c)	4,540	3,966	2,768
Balance Sheet Data (d):			
Working capital (e)	401,810	354,175	417,593
Total assets (c)(e)	3,010,415	2,729,823	2,560,917
Long-term debt	545,468	582,027	618,224

Stockholders' equity (c)	\$ 878,863	\$ 776,400	\$ 682,814
Other information:			
Employees	23,200	22,300	22,800
Backlog (in thousands)	\$1,169,161	\$1,026,593	\$ 928,499
Total debt as a percent of total capital	39.1%	44.1%	48.8%
Current ratio (e)	1.33	1.35	1.47
Book value per share (a)(c)(d)	\$ 21.04	\$ 19.02	\$ 17.22

EXHIBIT FIVE: DUNDIE SEGMENT ANALYSIS BEFORE ACQUISITION

Segment analysis (in thousands)	Current Year	Last Year	Dollar Change	Percent Change
Net sales:				
Americas	\$ 1,520,645	\$ 1,388,930	\$ 131,715	9.5%
Europe, Middle East, and Africa	1,512,006	1,343,138	168,868	12.6%
Asia	611,655	490,063	121,592	24.8%
Intragroup sales	-234,865	-194,537	-40,328	20.7%
Total	3,409,441	3,027,594	381,847	12.6%
Income from operations:				
Americas	\$ 50,387	\$ 54,855	\$ (4,468)	(8.1)%
Europe, Middle East, and Africa	47,085	44,691	2,394	5.4%
Asia	69,656	69,634	22	0.0%
Total	167,128	169,180	(2,052)	(1.2)%

EXHIBIT SIX: SAMPLE SOD CONFLICTS

Sample SoD conflicts for reference. Transaction 1 and 2 are sensitive functions, which if performed by the same role/person lead to a conflict. SoD controls are implemented to ensure segregation of these functions (duties).

Transaction 1	Transaction 2
Create/Modify/Delete Customer Master Data	Create/Modify/Delete Sales Order
Create/Modify/Delete Purchase Orders	Create/Modify/Delete Vendor Master File
Create/Modify/Delete Sales Order	Approve Sales Order
Create/Modify/Delete Customer Payment	Authorize write-offs on payments
Create/Modify/Delete Customer Master File	Create/Modify/Delete Customer Invoices
Create/Modify/Delete Sales Order	Create/Modify/Delete Price Master File
Create/Modify/Delete Employee Master File	Create/Modify/Delete Payroll Records
Input physical inventory count results	Post inventory reconciliation
Create/Modify/Delete Vendor Master File	Post vendor payment
Create/Modify/Delete Inventory	Post inventory reconciliation
Create/Modify/Delete Customer Invoice	Receive customer payment
Create/Modify/Delete Customer Invoice	Create/Modify/Delete Customer Contract
Create/Modify/Delete Customer Payment	Prepare Bank Reconciliations
Create/Modify/Delete Vendor Invoice	Receive Goods/Services