INTERNAL AUDIT REPORT

DATE: March 24, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
             Glenn Brown, Deputy Chief Administrative Officer
             William O'Mara, Commissioner of Finance & Administration
             Phyllis Cooper, Director of Accounting
             Susan Straub, Director of Communications
             Urban County Council
             Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
             Chris Ensslin, CIA, CFE, Deputy Director of Internal Audit

RE: Accounts Payable Continuous Monitoring

The Office of Internal Audit designed tests using ACL audit software to detect possible duplicate payments. This was an Internal Audit Board approved project. Validating the uniqueness of the data can confirm the information is not intentionally tampered with to potentially generate duplicate payments. Accounts payable applications have controls to alert a user about the existence of records in the same table with the same details. However, these warnings can be ignored and overridden by the user by simply changing the invoice date or invoice number. Identifying transactions that appear to be suspicious can detect the possibility of duplicate payments issued to vendors.

The objective of this analytic was to identify possible duplicate transactions in invoices. The analytic processed the data four different ways in order to identify four possible circumstances for duplicating an invoice in the PeopleSoft system. Each test examined invoice data to identify possible duplicate invoices.

Test One identified invoices containing the same vendor number, same invoice amount, and the same invoice date. This particular test identified 656 records to investigate that were in the PeopleSoft System from October 1, 2013 through December 19, 2013. There was one duplicate billing. The duplicate billing was identified by Accounts Payable before the payment was made, indicating the internal controls were effective. The remaining records identified in this test were false positives, i.e. these were not duplicate payments. Most of the false positives were caused by blanket purchase orders and multi-line vouchers, which compounds the number of false positives.

Test Two identified invoices containing the same vendor number, same invoice number, same invoice date and the same invoice amount. This particular test identified 0 records to investigate that were in the PeopleSoft System from October 1, 2013 through December 19, 2013.

Test Three identified invoices containing the same vendor number, same invoice number, and different invoice date. This particular test identified 2,206 records to investigate that were in the PeopleSoft System from October 1, 2013 through December 19, 2013. There was one duplicate payment in the amount of $200. The vendor was contacted and a refund check was received by LFUCG on March 7, 2014. The remaining records identified were false positives, i.e. these were not duplicate payments. Most of the false positives were caused by blanket purchase orders, using the account number as the invoice number (e.g. utilities, auto parts stores, internet service providers, etc.) and multi-line vouchers, which compounds the number of false positives.

Test Four identified invoices containing the same vendor number and similar amounts (amount differences within 0.05%). This particular test identified 5,003 records to investigate that were in the PeopleSoft System from October 1, 2013 through December 19, 2013. All of the identified records were false positives, i.e. these were not duplicate payments. Most of these were caused by blanket purchase orders, same vendor used in different divisions (e.g. utility companies), and multi-line vouchers, which compound the number of false positives.

In conclusion, during the time period examined only one duplicate payment was found. The vendor was contacted and a refund of $200.00 was received on March 7, 2014. The results of these tests, and the duplicate billing incident identified by Accounts Payable prior to payment being made, provide reasonable assurance that internal controls are in place to prevent or detect and correct duplicate billings under the four test scenarios for records that were in the PeopleSoft System from October 1, 2013 through December 19, 2013. The significant number of false positives noted during our testing are a function of the ACL test methodology and do not represent Accounts Payable control weaknesses. There are no recommendations for corrective action.