

April 16, 2015

FAYE MC CULLOUGH
Director
Disbursements and Travel
0955

Subject:*Continuous Controls Monitoring Program
Project 2015-06*

The final audit report for Continuous Controls Monitoring Program, Audit Report 2015-06, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them. We also request that draft reports not be photocopied or otherwise redistributed.

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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Continuous Controls Monitoring Program April 2015

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Project Number: 2015-06

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Continuous Controls Monitoring Program as part of the approved audit plan for Fiscal Year 2014-15. This report summarizes the results of our review.

During Fiscal Years 2004-05 and 2005-06, AMAS partnered with the UCSD Controller's Office to implement an electronic monitoring system that regularly extracts and analyzes procurement and disbursements data. The application program was based on a software application called ACL Continuous Controls Monitoring (CCM) – Purchase to Payment. The CCM data analytics were used to evaluate financial transaction data for potential fraudulent financial activity and control effectiveness. Upon completion of the platform configuration, 21 Purchase-to-Payment (P-to-P) analytics were fully turned over to the Controller's Office. In turn, the Controller's Office charged Business and Financial Services (BFS) - Disbursements with continuous monitoring using CCM. Eventually, six of the 21 P-to-P analytics were transferred to BFS – Procurement to ensure an effective monitoring effort.

After the CCM P-to-P implementation, the campus installed a second application, CCM Procurement Cards, to review Express Card activities. A total of 25 analytics were adopted. The Express Card Program Team (ECPT) was assigned responsibility for regularly reviewing the CCM Procurement Cards data analytic reports.

In 2008, UCSD began implementing the MarketPlace procurement system, which incorporated features and functionality to handle complex and high-value purchases. As of July 1, 2012, the Marketplace system completely replaced the previously used FinancialLink Department Orders and High Value Requisitions systems. Marketplace added control functionality that was not present in these prior procurement systems. In addition, the implementation of Marketplace required changes to the data warehouse, which impacted the usability of some of the CCM P-to-P analytics. As a result, six of the 15 P-to-P analytics that were being used by BFS-Disbursements were either deemed no longer necessary, or required revisions in order to restore them to their original functionality.

In 2013, BFS – Disbursements began migrating CCM P-2-P and Procurement Cards data analytics to a new platform, Audit Exchange, in order to take advantage of a more intuitive system interface. As of the date of this report, CCM Procurement Cards data analytics had been successfully upgraded to Audit Exchange platform. While the migration of the P-to-P data analytics from CCM to Audit Exchange was essentially complete, final revisions for end user testing were still ongoing.

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In addition to using Audit Exchange to run data analytics locally, Disbursements recently began generating and providing results from six procurement card analytic reports to UCOP, and all other UC campuses.

II. Audit Objective, Scope, and Procedures

The objective of our review was to validate the effectiveness of the continuous monitoring tools in identifying errors and non-compliant transactions. Our scope of work included Audit Exchange procurement cards analytics actively used by ECPT.

In order to achieve our objectives we completed the following:

- Reviewed prior audits relating to the use of the Express Card and Express Card policies and procedures;
- Met with the BFS – Disbursements Director and the Disbursements/Travel Accountability and Tax Compliance Manager to gain an understanding of the ACL application upgrade status and exception reports reviewing processes;
- Reviewed the ACL Audit Exchange Procurement Cards Requirements Document version 4.2;
- Interviewed ECPT members to gain an understanding of Audit Exchange analytic review processes and documentation;
- Extracted and analyzed the completeness and accuracy of Audit Exchange Procurement Cards data analytic reports;
- Evaluated the effectiveness of Audit Exchange Procurement Cards data analytic results review procedures, the complete results of which were provided to BFS – Disbursements under separate cover; and
- Using data obtained from FinancialLink, evaluated the completeness and accuracy of the April 2014 Audit Exchange Procurement Card analytics, on a sample basis;

As of the date of our review, the Audit Exchange P-to-P data analytics were still in the process of being validated and implemented. As a result, our review did not include an evaluation of the Audit Exchange P-to-P data analytics.

III. Conclusion

We concluded that most of the Audit Exchange Procurement Cards data analytics were effective in identifying errors and non-compliant transactions. However, we noted some opportunities to improve the continuous controls monitoring processes. Our observations are discussed in the balance of this report.

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IV. Observations and Management Corrective Actions

A. Exception Report Results

Some data analytics generated invalid results due to incomplete or inaccurate data fields. In addition, some exceptions were not being reviewed, or review results may not be formally documented.

Based on our validation testing, we noted minor deficiencies in some of the Audit Exchange Procurement Card exception reports and follow-up procedures, as follows:

1. Segregation of Duties (Y4A) – The Segregation of Duties analytic is used to identify instances in which the cardholders is also the ECDA or Transaction Reviewer. We noted that some of the exceptions identified by this analytic continued to report some of the same exceptions on a month-to-month basis. Therefore, it did not appear that these exceptions were being addressed so that they would not appear in subsequent month exception reports.
2. Express Card Department Administrator Data (ECDA) Validity Check (X2A) – The “employee status” field of an employee’s record was not always populated correctly. In some cases, active employees were listed as inactive when the employee had a prior leave of absence, or if they had previously been separated and have since been re-hired. These errors negatively impacted the results of the data analytic. In April 2014, the ECDA Validity Check analytic exception report incorrectly included 211 records in which the ECDA was reported to be an inactive employee.
3. Transaction Reviewer (TR) Validity Check (X4A) – This analytic is used to ensure that required fields are included in the TR record of the ECManager data. The April 2014 exception report included approximately 16,000 missing fields, including department number, phone number, unmatched campus ID and employee ID, mail drop, and card expiration month. One of the most frequent errors was employees erroneously listed as inactive.
4. Debarred Merchants (Y1A) – The Debarred Merchants analytic is used to identify any Express Card transaction with a debarred merchant. The analytic works by comparing the transaction description to a debarred merchant list maintained by BFS-Disbursements. During our review, the link to the debarred merchant list was broken and inaccessible. Therefore, the Debarred Merchant analytic did not return any results.

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During our review, we became aware that ECPT had already identified deficiencies 1-3, as listed above, and were actively working with ACT to resolve those issues.

Management Corrective Action:

ECPT will address the ongoing issue relating to the functionality of the ECDA Debarred Merchants data analytic.

B. Express Card Exception Report Review Processes

The ECPT did not have documented procedures for how to review and resolve exceptions identified by the Audit Exchange Procurement Card analytics, and to consistently document the results of the review within the Audit Exchange system.

A best practice for any continuous monitoring program is to develop a well defined and documented process for reviewing and resolving exceptions or errors that the continuous monitoring tool identifies. Ideally, this documented procedure would provide monitoring objectives, detailed descriptions for each analytic used, follow-up processes and corrective actions, and review documentation requirements.

As of the date of our review, the ECPT had not yet documented their sample selection, review and resolution procedures. As a result, some exceptions were either not evaluated, or the results of the review were not consistently documented in a single location.

Management Corrective Actions:

The ECPT has drafted three procedure documents: *Express Card ACL Process Overview*, *Express Card Employee Fraud*, and *Express Card Misuse - Policy and Procedure Violations/Non-Approved Purchases*. In addition, ECPT is in a process of developing a standard desk procedure that will include detail descriptions for each data analytic, follow-up procedures and corrective actions, and review documentation requirements.