



CITY AUDITOR
CONTINUOUS AUDIT TESTING INITIATIVE:
STATUS REPORT – BETA TEST DEVELOPMENT & RESULTS
July 2, 2021

INTRODUCTION

One of the Olathe City Auditor's initiatives is to develop a continuous audit testing plan. Continuous audit tests differ from audit projects; rather than relying on an audit project to review activity, continuous tests are performed on a regular ongoing basis with the goal of identifying potential control exceptions or errors in the data and transactions of key business processes.

Continuous testing targets higher risk and/or higher volume transactions, and offers several advantages vs. project-oriented audit work:

- Provides more proactive monitoring vs. occasional review
- Reduces loss exposure by identifying potential exceptions/issues more timely
- Identifies more potential exceptions/issues by executing tests on whole segments of data, rather than sampled items
- Provides more accurate information on the risk levels in key City processes

PROJECT SCOPE – BETA TEST DEVELOPMENT

A trial 'beta' continuous audit plan was developed in 2020. The Council Audit Committee selected **Accounts Payable** as the key process area for initial 'beta' continuous audit test efforts. In 2021, after surveying the population of E1 financial system data available for testing, beta tests were developed. The tests' feasibility and optimal timing was discussed and confirmed with Economy Focus Area and Finance/Accounting management. For optimal efficiency, these beta continuous monitoring tests were executed in the first quarter of 2021, in conjunction with a project-driven audit of Accounts Payable Internal Controls (**this report was issued June 4, 2021**).

Beta tests selected for initial Accounts Payable continuous testing were:

- Transactions > \$25,000 without Purchase Orders (indicating potential Purchase Order approval control exceptions)
- Duplicate vendor invoice numbers for further review (indicating potential duplicate vendor billings)
- POs with \$0 gross amounts (indicating potential for data errors and/or control exceptions)
- Irregular or missing invoice numbers (indicating potential for incorrect or counterfeit vendor invoices)
- Reductions/debit adjustments to payable amounts owed to suppliers/vendors (which should occur infrequently and have supporting vendor documentation, *or* they may be a potential indicator of erroneous or fraudulent activity)

BETA ACCOUNTS PAYABLE CONTINUOUS MONITORING TEST RESULTS

No exceptions were noted in beta Accounts Payable continuous tests performed:

- Review of all **1,771 vendor invoices over \$25,000** in the 1/1/19 to 1/31/21 initial beta test period noted that all were associated with E1 Purchase Orders, as required by the Procurement Authority Table
- **Duplicate vendor invoice numbers detected** in the 1/1/19 to 1/31/21 beta test period had reasonable Purchase Order and/or vendor documentation, and were determined **not** to be duplicate invoices/billings
- **Purchase Orders with \$0 gross amounts** in the 1/1/19 to 1/31/21 beta test period were noted to be legitimate, and caused by situations such as \$0 line items/options in large purchase orders, reversal of student loan paycheck deductions cancelled by the Federal COVID-19 relief package, or cancelled purchase orders
 - **A small number of duplicate PCard payments were noted, which were identified by Finance personnel and reversed.** A potential enhancement to Accounts Payable internal controls which could help detect these items is establishing system reporting of potential duplicate payments; this was detailed in the separate June 4, 2021 Accounts Payable Internal Controls report.
- **Vendor invoice numbers** in the 1/1/19 through 1/31/21 beta test period were reviewed; available vendor invoice numbers were consistently used/included with E1 supplier payment ledger transactions
- **2,444 Accounts Payable reductions/debit adjustments** in the 1/1/19 to 1/31/21 period were reviewed
 - All 52 debits over \$2,000 had reasonable supporting documentation available
 - A 90% confidence level sample of 35 debits under \$2,000 had reasonable supporting documentation available

CONTINUOUS AUDIT TESTING NEXT STEPS

The Council Audit Committee has requested expansion of continuous monitoring to include additional Accounts Payable tests; these additional tests will be developed in 2021 with Economy Focus Area and Finance/Accounting management's input. **These additional tests will complement the 5 initial beta tests to expand continuous testing. Additional status reports will be provided to the Council as the continuous testing initiative develops.**