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Ex-Officio: Mayor Kasim Reed

TO: Honorable Major, Kasim Reed and Members of City Conucil

FROM: Leslie Ward, City Auditor

DATE: April 24, 2012

SUBJECT: Continuous audit program - duplicate payments

We are providing this memo to communicate the initial results of our analysis of potential duplicate payments and the Department of Finance's actions to date to resolve identified problems. The analysis is one of several periodic tests of controls we are conducting as part our continuous audit project. We are continuing to work with the ERP Steering Committee to develop protocols for department responses and reporting.

We identified 47 potential duplicate payments totaling $21,995 made over 16 months, from July 1, 2010, through October 14, 2011. We provided the results of analysis to the assistant controller in November 2011 for review and resolution. To date, the Department of Finance has resolved $13,599 (62%) of the duplicate payments we identified by voiding un-cashed checks and seeking refunds or credits from vendors (see Exhibit 1). The department determined that two of the payments totaling $65 were not duplicates and told us that it is working to recover the remaining $8,331 in duplicate payments processed by the city.

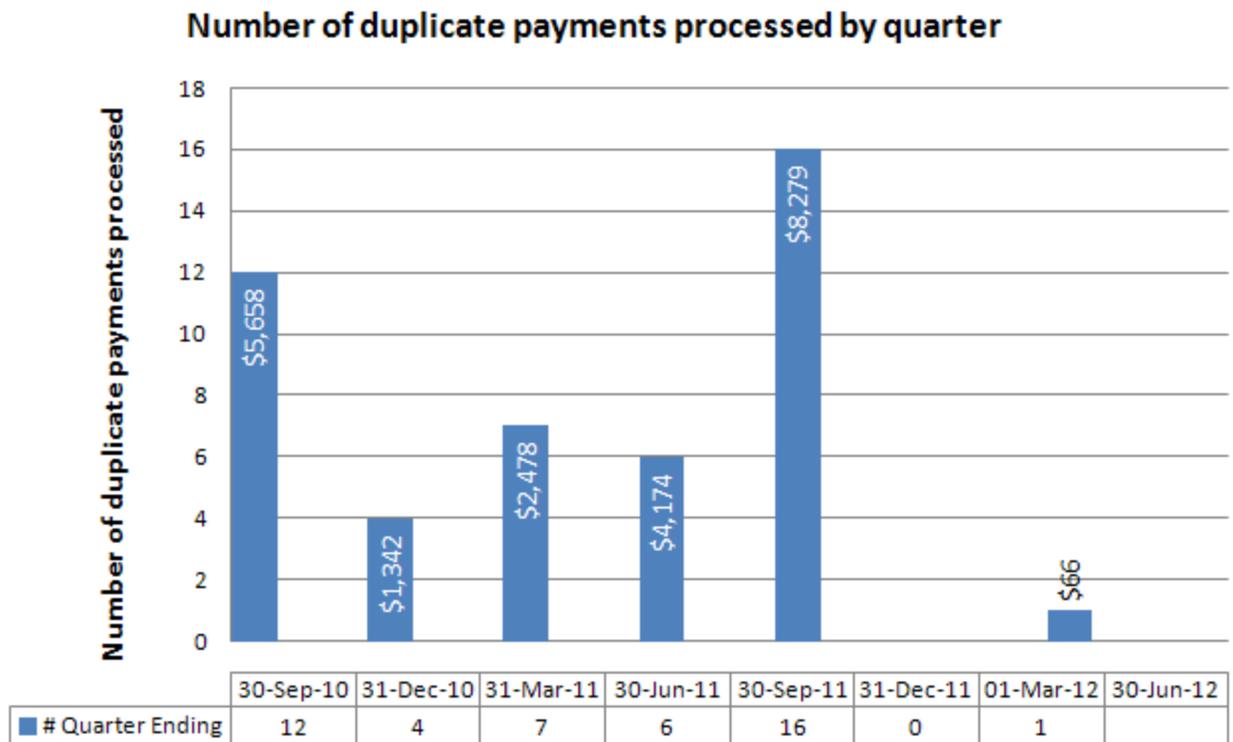**Exhibit 1 Resolution of Identified Duplicate Payments**
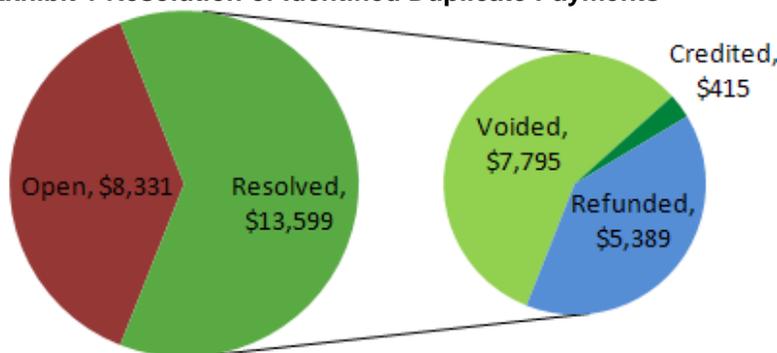
Source: Response by the Department of Finance on action taken to correct duplicate payments

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Our test extracts payment records from Oracle that have the same invoice numbers and invoice amounts where a payment has been processed and the invoice amount is greater than zero. We manually review results to identify similar vendor names. The duplicates we identified had slight differences in vendor name, such as a leading space, an extra space between words, and different spellings or uses of punctuation. We noted multiple entries for the same vendor within the Oracle vendor table. In addition to duplicate payments, multiple entries for the same vendor pose risk of fraud. The chief procurement officer told us his department is working to clean up the vendor master file.

We also noted that 43% of the duplicate payments were for refund of Municipal Court bond payments. The assistant controller told us the department has worked with court staff to implement controls intended to reduce duplicate bond refunds.

The Department of Finance has reduced the occurrence of duplicate payments since we first provided test results (see Exhibit 2). We identified no duplicate payments during the quarter in which we notified the department of the occurrence of duplicate payments. We identified one duplicate payment of $66 from January 1 through February 24, 2012, and will continue to test for duplicate payments.

Exhibit 2 Occurrence of Duplicate Payments by Quarter

Number of duplicate payments processed by quarter

	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	01-Mar-12	30-Jun-12
# Quarter Ending	12	4	7	6	16	0	1	

Bar values: 30-Sep-10: $5,658; 31-Dec-10: $1,342; 31-Mar-11: $2,478; 30-Jun-11: $4,174; 30-Sep-11: $8,279; 01-Mar-12: $66

Source: Duplicate payments data extracted from Oracle by the City Auditor's Office

To initiate our continuous audit project, we met with the Chief Operating Officer, chair of the City Council's Finance/Executive Committee and senior managers from the Departments of Finance, Human Resources, Procurement and Information Technology and the Mayor's

Office to get input on areas of concern regarding controls. Based on input received and our internal assessment of risk and resources required, we developed five tests to run periodically:

- **duplicate invoices:** identifies multiple payments made to the same vendor for the same product or service
- **segregation of duties:** identifies assignment of incompatible functions to a an employee within the Oracle Financials application
- **inactive vendors:** identifies dormant vendor codes that could provide opportunity for fraud or error
- **weekend journal entries:** identifies manual journal entries entered in the Oracle Financials application over the weekend, which could indicate management override or collusion
- **ACH payments to the same bank account:** identifies multiple ACH payments made to the same bank account during a payroll period to flag potential fraud or error

We also worked with the Department of Information Technology to develop an alert to notify us when an Oracle setting that allows employees to approve their own purchase orders is enabled. We will continue to work with departments to refine and develop tests to identify potential breakdown of internal controls.

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

If you have questions about the continuous audit project you may call Damien Berahzer at 404/330-6806, or you may reach me at 404/330-6804. We appreciate staff's courtesy and cooperation throughout the audit project.

cc: Duriya Farooqui, Interim Chief Operating Officer
        J. Anthony Beard, Chief Financial Officer
        Stefan Jaskulak, Deputy Chief Financial Officer
        John Gaffney, Controller
        Bryan Benefiel, Assistant Controller
        Michael Dogan, Interim Chief Information Officer
        Adam Smith, Chief Procurement Officer
        Rhonda Johnson, Municipal Clerk