

Lessons From The Street: How D&B Strengthened Controls

By Hal Laughlin, CISA, Leader of IT Audit, Dun & Bradstreet

Implementing solid internal controls has always been a non-negotiable part of conducting business. However, as international regulations intensify, the need to develop reliable, repeatable controls monitoring processes becomes increasingly critical.

Every organization sets out with the best intentions, but controls are never foolproof. With normal growth and change, internal controls can get lost and fail to perform as expected. They can even become obsolete – leaving the business in a highly vulnerable position.

A strategic monitoring program supported by data analytics will quickly alert management of potential problems and can limit the company's exposure to errors, loss and fraud. Although continuous

monitoring efforts ultimately reside with the business, Internal Audit (IA) is best positioned to equip business stakeholders with the skills and technical resources to work on the front lines analyzing transactions as they happen.

Deploying a continuous monitoring solution

Dun & Bradstreet recently implemented a complete continuous monitoring program to evaluate Accounts Payable (AP), Travel & Entertainment (T&E), fixed assets and Procurement card (P-card) transactions. The program is also being extended to test Accounts Receivable (AR) and General Ledger (GL) data, and to automate Sarbanes-Oxley controls. The solution is driven by data analytics and includes built-in methods for reporting and tracking exceptions. Stakeholders and managers can view and address anomalies in real time, while communicating seamlessly with business units.

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ACL Announces 2010 Impact Award Winners

Fidelity National Financial receives Grand Prize

Fidelity National Financial (FNF), the largest title insurance company in the U.S., is the Grand Prize recipient of the 2010 ACL Impact Award for their success using ACL to reduce real estate fraud. The Impact Awards, now in their thirteenth year, recognize individuals and organizations for innovative use of ACL technology to deliver outstanding business value.

Providing title insurance coverage for over 40% of real estate transactions in America, FNF uses ACL technology to monitor title and escrow files to identify and reduce fraud schemes and support compliance with federal regulations.

There are many fraud schemes at work today in the real estate industry. "ACL technology is transforming the way the Audit Services Department is performing risk assessment in our organization," said David Riddell, Automated Audit Solutions Manager at FNF. "As a result, our internal audit team has now become a collaborating partner to line of business managers, helping to spot trends, prevent fraud loss, create greater operational efficiency, and identify and resolve potential risks for consumers, lenders and our company."

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For example, the T&E division is now using continuous monitoring to prevent anomalies on the front end, while data analytics mine the back end to find stray anomalies. It's a powerful combination.

It's also a great example of what I call "controls activism" – a movement that occurs when people who evaluate risk and controls join forces to share ideas and learn from each other's experiences.

Expect the unexpected

Identification, tracking, communication and resolution of transactional anomalies are the core goals of a perpetual assessment plan. The reality, however, can be surprising. It's important to prepare for the unexpected. Speak with others who have already rolled out an end-to-end routine and learn from their process. Think through the possibilities.

Getting business partners on board early is another vital step in any continuous monitoring implementation. Early in the process, D&B auditors outlined plans to run initial sets of test data and share the results with stakeholders. Using ACL solutions, the teams applied the analytics to monitor a single month of both T&E and AP data. Auditors explained the results, partners knew what to expect, and by the time the deployment was complete, everyone was eager to move forward.

Keep it fresh

Once the program is in place, it's time to sit back and let the results roll in, right? Not exactly. Business users will always find shortcuts to complete their tasks with less time and effort. It's human nature, but it's also extremely risky. Businesses have operational procedures for a reason, and a strong monitoring program with flexible data analytics can ensure transactions follow the rules.

Fraudsters, too, are always looking for new ways to circumvent procedures. Keeping analytics fresh provides a solid offense. Even if an analytic is working perfectly, it's important to perform periodic reviews and work with stakeholders to look for potential improvements.

Unfortunately, every company will experience fraud – even at relatively minor levels – but no one wants to endure catastrophic fraud on the scale committed at Lehman Brothers, Enron or WorldCom. The mission of controls monitoring is to find fraud patterns and uncover suspicious activities that might otherwise go unnoticed. Over time, the aim is to significantly cut the incidence of fraud, both through vigilant testing and by developing an atmosphere where people understand that all transactions will be scrutinized. Without the tools to examine 100% of corporate transactions, you could be missing something. Automation is an essential approach to truly tackling fraud.

Build the business case

When it's time to make a case to management, I've found that simple value explanations often are most effective. Focus on cost-saving calculations that are company-specific and easy to understand. For example, D&B paid 75,000 invoices in FY08, worth a total of \$250 million. The Association of Certified Fraud Examiners estimates that average duplicate payment, error and fraud rates are between 1.5 and 3.5%. Applying this average means that even a low-end cost recovery estimate for D&B's \$250 million of invoices that year is in the \$3.75 million range.

Although cost recovery is not typically recognized as an IA function, it fosters strong partnerships between Audit and senior management, as well as strengthening ties with business stakeholders. And it gets their interest and attention.

Become a controls activist

Tightening laws and international compliance regulations are just one, albeit powerful, reason to step up controls monitoring. All organizations need to use today's challenging business environment as a call to action. Become a controls activist and launch a movement in your company. Now is the time to deploy a continuous monitoring program that provides real-time assurance and a front-line defense against risks of every shape and size.



Hal Laughlin, CISA
Leader of IT Audit, Dun & Bradstreet

Hal leads a team of IT audit professionals in the analysis of corporate IT risks and compliance to corporate policies and practices. He provides strategic direction and reports risk findings to upper management.

The truth about continuous controls monitoring

Every company has fraud – the question is how much?

Hal Laughlin from Dun & Bradstreet shares key insights into why continuous controls monitoring works for D&B and key lessons learned during its deployment. Find out more in this short interview as Hal discusses:

- Why it doesn't make sense to leave analytics within the audit department
- What a complete monitoring toolbox is and why you need it
- Becoming a 'controls activist' in your organization

» Listen to Hal's podcast at: www.acl.com/Hal

PODCAST



Decide with Confidence

Protect Your Purchasing Cards with Audit Analytics

Practical advice to help organizations tackle fraud, waste and abuse

By Steve Biskie, CPA, CITP, CISA, Customer Solutions Director, ACL Services



Corporate purchasing cards have been steadily gaining popularity over the past several years – and with good reason. Purchasing cards (P-cards) can automate supplier payments, eliminate unnecessary paperwork and trim costs. But, P-cards also come with inherent risks for organizations large and small. Employees can be tempted to abuse P-card program controls and in extreme cases, commit sophisticated, high-level fraud.

Whether you have 50 employees with P-card privileges or 5,000, audit analytics offer a powerful way to minimize your organization's risk exposure and validate internal controls. Analytics really hit their sweet spot when Audit and business process owners work together to coordinate their efforts – achieving compliance, recovering costs, preventing loss, mitigating critical risk areas and providing assurance.

Analytics for P-card programs are typically designed to cover each of the four major components of the P-card process: managing cards, managing merchants, managing transactions and conducting review and analysis.

The case for customization

The nature and type of tests used for P-card analytics can be endless, but the following three issues are common targets during the early stages of program rollout:

- 1) Transactions made with restricted (or unexpected) merchants
- 2) Duplicate payments
- 3) Suspicious transaction timing or purchase amounts

While each of these issues may initially seem straightforward, the reality is that a one-size-fits-all approach can lead to a false sense of security. This is where the weaknesses faced by packaged solutions with a standard set of "plug-and-play" tests quickly become apparent. In fact, the notion of "plug-and-play" with analytics is truly misleading, and can come with serious consequences.

In some cases, the generic nature of these tests leads to so many false-positives that follow-up becomes a chore and legitimate findings become lost in the forest of information. In other cases,

the tests are designed in such a specific manner that "false-negatives," where problems that should have been detected are not, becomes a concern. In fact, when recently reviewing the tests conducted by three large organizations, we found that in all three cases the test logic being used was so basic that some of the most common scenarios resulting in duplicate payments were being missed.

P-card data analytics should be detailed, robust and highly specific. Customization is key. Focusing on quick, easy tests is a great way to grab that low-hanging fruit, but some of the most valuable tests you can perform are also the most creative.

Take a simple duplicate test, for example. The idea of finding matching totals can be extended to a full range of possibilities, including:

- same vendor, same amount, same day
- same vendor, same amount, within a range of days
- same vendor, similar amount
- different vendor, same amount
- same vendor, same reference number
- different vendor, same reference number

The goal is to continuously refine and expand the scope of your transaction testing. Let's take splitting transactions as another example. If employees are trying to circumvent a single purchase limit of \$1,500, they might make two \$1,000 transactions on the same day to purchase a \$2,000 item. Or, they might split the \$2,000 into one purchase for \$1,195 and a second purchase for \$805. They could also split the total into two or more transactions with varying amounts over several days – and do it often.

Start small and keep sharpening your analytics

If you're eyeing your P-card program and looking for a concrete plan, the key is to start with simple tests that you can continue optimizing for long-term value. Identify just a handful of areas and launch simple, specific analytics – based on pain points, risk areas and top opportunities for improving processes.

Effective analytics might test for invalid employees and duplicate purchase cards using name and address matches, for example. Other key analyses include validating card limit changes, pinpointing blocked merchant categories and key words (such as alcohol, clothing and casinos), and looking for unusual behavior patterns (such as using cards during weekends and holidays for employees not known to travel).

Next, be sure to leverage other people's expertise to get your plan up and running. There are terrific industry associations and user groups out there that can offer a helping hand. ACL Services also has standardized analytics and thousands of tests that can jump-start your efforts (with the expertise and know-how to customize them to your specific situation to maximize value).

Finally, it's critical to benchmark your work against past experiences. Look at the time it takes to audit transactions, the number and quality of issues you identify, and the risks mitigated. I've found that detailed anecdotes will also make it easier to get buy-in from senior management.

What story will you tell?



FNF's Elizabeth Dantin, Director of Audit Services, and David Riddell, Automated Audit Solutions Manager, accepting Grand Prize from ACL President & CEO, Harald Will

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» ACL Announces 2010 Impact Award Winners

FNF uses ACL AuditExchange, a data analytics and exceptions management platform, to continuously monitor escrow and title transactions. In addition, the technology has been rolled out to continuously monitor Payroll and Accounts Payable applications, sending out exceptions and enabling issues to be brought to light as they occur so they can be acted upon immediately.

"Every year, we receive entries from our customers around the world who are using ACL technology to overcome business challenges ranging from operational risk to reporting transparency and revenue leakage," said Harald Will, President and CEO, ACL Services. "This year's winners represent the new class of internal auditors, embracing audit analytic technology and continuous monitoring capabilities to manage a wide range of business risks."



Recognizing
Organizational
Excellence Through
ACL Technology

The 2010 regional and category Impact Award winners are:

Regional Award, Asia:

Shri A.K. Mahajan, Bank of India (India)

Regional Award, Europe, Middle East and Africa:

Bennie Smit, Auditor General of SA (South Africa)

Regional Award, Latin America and Caribbean:

Cyntia Hernandez Rosas, ABA Seguros, S.A. de C.V. (Mexico)

Regional Award, North America:

Seth Davis, RLI Insurance Company (US)

Most Innovative Use:

Christopher Nyamkondiwa, Mopani Copper Mines, Corporate Security (Zambia)

Audit Productivity Team:

Mark Burr and Renee Underhill, State Farm Mutual Automobile Insurance Co (US)

Most Promising Novice:

Henriette Hamer, Eneco (The Netherlands)

Best Application of Continuous Auditing/ Monitoring:

FATIS Project Team and Gerrit Buitendag, Lafarge North America (US)



Are You Relying on Spreadsheets for Data Analysis?

This eBook will help you determine what analysis can be performed safely using spreadsheets, and when you should rely on specialized audit analytic technology.

Peter Millar, director of technology application at ACL, shares some "Do's" and "Don'ts" to help you navigate the minefield of using spreadsheets for auditing.

» Read the eBook at www.acl.com/Spreadsheets

eBook

ACL Solutions Deliver Transparency & Accountability for the Audit Office of New South Wales

“ We have been eager for a sophisticated, leading-edge data analysis solution. Now that we’ve implemented ACL AuditExchange with their consulting services, I don’t see any limits. ”

Henry Szus, Head of Information Systems Audit

The Audit Office of New South Wales assists the Auditor-General in fulfilling its Parliamentary duty to hold the government accountable to its constituents. The Audit Office’s core services include financial and performance audits, compliance reviews, and protected disclosures. The Audit Office generates over AU\$35 million in annual revenues and has nearly 500 clients ranging from large statutory authorities and departments to small subsidiary companies.

Objective: Deliver greater value to clients and internal financial auditors

The Audit Office of New South Wales performs an external auditing function for all state government agencies. The Information Systems Audit team wanted to develop a program to deliver greater value to agency clients and their internal financial auditors. The team was already using data analysis in an ad-hoc manner but wanted to advance to the Managed Analytics level on ACL’s Audit Analytic Capability Model (see sidebar).

With a managed analytics solution, the Audit Office saw an opportunity to develop stronger data management practices and more organized audit techniques. Staff members often ran data analytics on laptops loaded with different software, data sets and altered analytics. While Information Systems Audit could set the rules, they simply couldn’t guarantee procedural consistency.

Keys to success: Keep skills and processes advancing alongside technology

Given the size and complexity of its operations, the Audit Office expected to spend up to three years establishing a managed analytics program. Thanks to a well-planned implementation with hands-on support from Australian ACL partner Satori Group, the team achieved its initial goals in less than 12 months. Satori consultants supervised the deployment, developed custom analytics, and conducted staff training sessions.

The majority of the Audit Office’s testing targets General Ledger journals. The analytics scrutinize complete data files to pinpoint high-value transactions, journals approved and posted by the same person, journals containing unusual words, or transactions posted on evenings, weekends and public holidays.

Audit Office clients are justifiably sensitive about confidential data exposure. Before the deployment, auditors had to run analytics on a laptop. Now, auditors can quickly

run analytics on a secure server (in minutes rather than hours) – even when working remotely. This commitment to data privacy has strengthened professional relationships and even enabled field auditors to pass on security best practices to their clients.

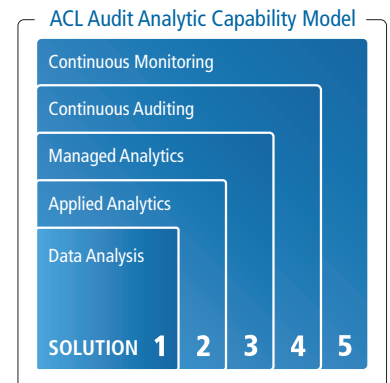
Results: Secure data interface, less duplication of effort

The solution enables the Audit Office to provide multi-level access to repeatable analytics. The team currently has 10 auditors who develop analytics, while another 30 simply access and run tests stored in the central repository. This flexible model ensures auditors can focus their time on the financial statements, rather than the technical details of data mining.

With data stored and analyzed on the server, sensitive client files are fully protected. The central repository promotes stronger data management and creates an environment of greater efficiency. The Office serves 500 clients that require similar analytics (such as standard AP and payroll tests), so ACL users can simply point, click, choose parameters, and get quick results through the browser-based interface. The solution ensures a standard approach with a full audit trail.

Before the deployment, the Audit Office applied approximately 33 ad-hoc analytics to its everyday activities. After the implementation, the total quickly reached 140, and the team expects to run at least 300 unique tests in another 12 months.

Going forward, they plan to highlight unusual business trends and data patterns that equip auditors to ask better questions, and use analytics to track anomalies between public reports and internal data. It’s an exciting new direction for the team. “There are simply no restrictions on the use of ACL and AuditExchange,” says Henry Szus, Head of Information Systems Audit. “It’s simply a matter of our own imagination and initiative.”



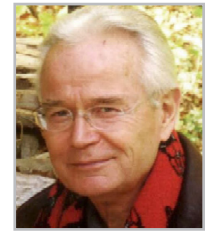
Based on ACL’s extensive experience working with companies for more than 20 years, we have come to realize that using audit analytics is more of a journey than a destination. This journey has several distinct steps or levels – which we have captured in a new Audit Analytic Capability Model. Each of these capability levels presents a unique set of benefits. Companies, and their internal auditors, need to address each set of challenges as their organizations advance in the capability model in order to successfully maximize the benefits and efficiency gains possible.



THE AUDIT OFFICE
OF NEW SOUTH WALES

Dr. Hart Will Recognized by The IIA Canada with Lifetime Achievement Award

Will's software recognized as global gold standard for audit and compliance



“Dr. Will’s ongoing contribution to the profession includes pioneering data analysis technology that provides an appropriate balance between under or over-controlled businesses. Meaningful analyses that address business risk and enhance operational efficiency both support and contribute to strong, successful organizations.”

Richard Chambers, President and CEO,
The Institute of Internal Auditors



Dr. Hartmut (Hart) Will, inventor of ACL software, was recognized with The Institute of Internal Auditors Canada’s Lifetime Achievement award at the 2010 Canadian National Conference in Vancouver.

Brian Brown, Chairman, IIA Canadian Council, announced the Lifetime Achievement award honoring Dr. Will’s extraordinary leadership and dedication over a lifetime of service to the global audit profession in Canada.

Will designed the technology that he called ‘audit command language (ACL).’ In 1973, he demonstrated the first version at the Conference of the Canadian Information Processing Society and continued to develop and refine the technology. It soon became ACL software, as it is known today.

In 1987, almost 15 years after Will developed the original concept, the commercial operation for ACL was launched. Since then, Will’s programming and query language has become the ubiquitous standard for audit analytics technology around the world. Throughout this time, Will served as architect, confidante, fundraiser, innovator, missionary, and promoter for his vision across Asia, Australia, Europe, and North America.

Dr. Will is honored to be recognized, commenting, “Much has changed with internal audit’s mandate since the early days of ACL technology. Tremendous credit goes to the innovative members of the internal audit profession who have strategically applied ACL solutions to achieve diverse business objectives and positively impact their organizations – driving ACL technology to evolve with changing business needs for 23 years.”

Taking Business Assurance on the Road

Auditors gather to discuss best practices in the use of audit technology

ACL has kicked off its 2010-2011 Business Assurance series, gathering audit, finance and risk management specialists at workshops around the world.

Taking the power of audit analytics on the road, the sessions show how ACL can deliver a solution to immediate business challenges, and provide a clear path for expanding the use of audit analytics in the future. The events educate on how to take the first steps towards analyzing transactions, gain greater insight with increased audit automation and understand the value of moving towards a secure, managed audit environment. Now in its second year, the series has drawn more than 3,000 attendees at 45 events across 30 countries.

“Many organizations see the benefits of continuous auditing and monitoring and want to move there immediately. However, without critical building blocks in place – people, processes and technology, they often

struggle to achieve the anticipated results,” said Harald Will, president and CEO of ACL Services. “The Business Assurance Series is designed to provide attendees with practical guidance and resources to build those essential components for continuous monitoring success, beginning with a more comprehensive use of audit analytics for insight and foresight into risks and controls.”

Business assurance insights from peers and experts

Speakers from leading organizations share case study examples of how they worked with the ACL solution to tackle increasingly complex audit challenges. Attendees learn how these organizations overcame obstacles and avoided potential setbacks to achieve powerful results through the use of data analytics.

Attesting to the value of the workshops, Tom Boyle, district audit officer, Palomar Pomerado Health, said, “It is nice to see the innovative ways others are using the solutions and to hear

from presenters in other industries. The reality in audit is that we are often facing similar challenges. As an experienced user, I still find a lot of value in attending and I think these events are also a great learning opportunity if you are new to analytics and audit technology.”

Attendees qualify for two continuing professional education (CPE) credits for each workshop. Registration is now open for workshops throughout North America and EMEA.

“The events are incredibly valuable for aspiring audit analytic users and expert users alike. The presentations provided me with insight on how to integrate ACL solutions into any environment, centrally located or spread around the world. And the connections I’ve made have added to my ACL knowledge base and given me a network that is always willing to help with projects or share new ideas.”

Mark Curnow, Manager of Corporate Audit
Hawaiian Airlines

» To find an event near you, visit www.acl.com/businessassuranceseries

Innovative Auditing Project Recovers \$30,000 in Monthly Overcharges

By Shelley Reimann, MPA, ACDA, Internal Auditor, City of Phoenix

Now the fifth largest city in the United States, Phoenix has blossomed from just 107,000 people in 1950 to over 1.6 million in 2010. Every year, the City outlines economic impact goals for the City auditor department – typically a total of approximately \$2 million. Therefore, all audit activities are driven by the mandate to identify waste and inefficiencies, promote fiscal responsibility and recover lost revenues. Like many cities nationwide, Phoenix is currently receiving far less sales tax revenue than in previous years, which has led to budget reductions.

The City auditor department recently completed a successful data analysis project which has become an invaluable continuous auditing initiative – saving time, promoting fiscal transparency and recovering significant taxpayer dollars during a time of widespread economic crisis. The project focused on a long-term jail billing agreement between the City of Phoenix and the surrounding Maricopa County.

Project background

Phoenix does not own a jail, so it maintains a contract with the Maricopa County Sheriff's Office (MCSO) for the safekeeping and maintenance of persons committed by the City to the county jail. The county then charges the city a variety of contracted booking and housing fees. The contract is long and complex, but includes: per diem rates set each year by the Maricopa County Board of Supervisors; 50% reduced housing fees for all inmates sentenced to a second offense Driving Under the Influence (DUI) charge; and no billing for inmates incarcerated and/or sentenced on certain Class 6 felonies where the County retains jurisdiction.

Previously, this contract was audited by the City auditor department every 2-4 years using interviews, observations and sample-based testing with simple spreadsheets. The last manual audit identified \$19,000 in incorrect charges. It also recommended that the MCSO update its billing system and the Phoenix police department implement an ongoing bill review process.

As city auditors, we needed a creative solution to develop a jail billing audit with 100% population testing capabilities. After working with the technology on a variety of routine audit activities, we used ACL technology to develop analytics that could test all MCSO invoices for contractual accuracy.

Process and challenges

The county jail provides monthly billing data from a system that produces a PDF-type report between 200-400 pages, rather than an electronically readable list of charges. This format prevented us from downloading the data into a spreadsheet for further analysis.

We worked closely with the city prosecutor's office and the municipal court to develop data extraction routines that used filters and pulled data files from internal systems to create a report listing all second-offense DUIs. We then developed a similar process for the Class 6 felonies and worked to join the MCSO tables in ACL.

Due to the complexity of the contractual fee schedule, we then created over 100 analysis routines, including conditional formulas to perform detailed recalculations, extractions, summarizations and classifications to test the accuracy of individual MCSO billing records. Throughout this process, it was essential that such sensitive (and legally protected) criminal history data was kept completely private and secure.

Project results

The analytics immediately revealed that the City had been overcharged by approximately \$120,000 for second-offense DUIs in a single year, and \$212,000 for Class 6 felonies during a two-year period. The same technical complexities we encountered had also prevented police from reviewing these bills in the past, so we arranged numerous meetings with representatives from police, municipal court and the prosecutor's office to brainstorm an independent monthly analysis solution. It was a significant collaboration between separate departments – all working in the public interest to save money, enhance services and eliminate the waste of valuable tax dollars.



Shelley Reimann, MPA, ACDA

Shelley has worked as an Internal Auditor for the City of Phoenix for nine years. In 2003, she received the Association of Local Government Auditors Special Project Award. Shelley enjoys mentoring other auditors and has developed and provided training for coworkers, other City employees, local professional organizations, and at national conferences.

Ongoing benefits

The ACL-based automated review runs in less than eight hours and continues to uncover an average of \$30,434 per month in overcharges – more than the entire overbilling total identified in a prior audit (using sample testing) covering a two-and-a-half-year period. We expect the police department will continue to recover this level of overbilling each month.

“ The ACL-based automated review runs in less than eight hours and continues to uncover an average of \$30,434 per month in overcharges... ”

The funds we save for the police department will help to preserve jobs and allow the police to provide better services for taxpayers. Recovering overcharges also frees up more money to ensure public safety, such as hiring additional officers and other efforts to deliver effective services.

Finally, in a far-smaller neighboring city, one full-time employee currently reviews that city's jail invoices using manual data sampling. This same process would require several additional full-time staff in Phoenix, whereas our automated process takes less than eight hours to run.

With the jail billing project, we are returning an average of \$30,000 in overcharges to the police department each and every month. This one project alone puts our department well on its way to the annual \$2 million in economic impact we are mandated to deliver.

Don't Get Bitten

by the FCPA

FCPA Enforcement is picking up and penalties are growing. Is your organization protected?

This eBook provides an overview of the critical role that audit analytics play in an effective compliance program. It's packed with tips, case studies, and resources for getting started, including an FCPA assessment questionnaire, plus a tip sheet on finding FCPA needles in your compliance haystack.

» Download free eBook at www.acl.com/FCPA

