ACL Solutions for Continuous Auditing and Monitoring

Dustin Lewis  CISA
ACL Services Ltd.
What we will cover today

- How ACL Facilitates Continuous Auditing and Continuous Monitoring
- Continuous Monitoring with ACL
- Continuous Auditing with ACL
- Options for Getting Started
21 Years of Business Assurance Solutions

Clients include 215,000+ licensed users, 11,000+ organizations in 150 countries

Commercial

Global 500 70%
Fortune 500 85%
Fortune 100 95%

Public Sector

200+ departments in 37 national governments
500+ regional, state and local governments

Public Accounting / Business Services

External Audit: Big 4 Audit firms 100%
Time for audit to step up…again

“…I challenge [CEOs and Board Chairmen] to empower their internal auditors and to listen to their concerns, to consider their recommendations, and to address their warnings.”

Dave Richards, President, The Institute of Internal Auditors
Why Continuous Auditing and Monitoring with ACL?

- Market leadership in audit analytic software
- Visibility across all systems and processes, regardless of data source
- Power in the hands of the customer to develop and maintain specific tests
  - Not dependent on software provider or consulting firm for customizations
- Flexible implementation model
  - Start small and use hard $ savings to fund future phases, or
  - “Go big” and blanket all relevant processes quickly
- Unrivaled Time-to-Value
  - Implementation in days
  - Test development within initial weeks
  - Results and ROI in first few months
Continuous Auditing and Monitoring: Where are we? Where are we going?

- ACL has 11,000+ user organizations globally (85% of Fortune 500)
- 33-40% of organizations consider they perform some form of Continuous Auditing
- Chief Audit Executive surveys indicate Continuous Auditing and Monitoring usage will more than double by 2012
Continuous Auditing – ACL’s Experience

- Wide variation in CA approach and techniques
- Numerous industries
- Deep experience with complex system environments
Why Continuous?

- Provide management with ability to investigate and resolve problems before they escalate
  - minimizing losses and containing costs
- Improve ability to quantify risk (both likelihood and impact)
- Establish a strong tone-at-the-top
- Leverage automation power required for CA/CM to:
  - Increase assurance through 100% testing of all transactions
  - Reduce time spent on control testing, allowing resources to focus on control improvement
  - Enhance monitoring consistency across the enterprise, reducing dependency on people
An Integrated Approach

Continuous Assurance

Results of Continuous Auditing and Continuous Monitoring Process

Audit Testing of CM

Continuous Auditing

Continuous Monitoring

Activities, Transactions and Events

Business Systems and Processes
ACL Clients

Financial Services

- Leading global investment banking, securities and investment management firm
  - Travel & Entertainment and Purchase to Payment
  - Identification of 244 occurrences of abuse in corporate late night expenses in a single month
  - Identification of system segregation of duties conflicts among Accounts Payable personnel
  - Immediate identification of a single expense fraud worth a total value of US$30,000

- US-based Money Services Business providing money remittance services in the US, Canada, and Haitian markets
  - Compliance with US regulatory (FINCEN) requirements regarding Currency Transaction Reporting (CTR) and Suspicious Activity Reporting (SAR)
  - Monitor daily money transfer transactions to identify large cash transactions and suspicious activity
ACL Clients

Engineering & Construction firm: San Francisco, CA
- Purchase to Payment, Travel & Entertainment
- Six Sigma focus
- Savings of $140K/year in labor hours
- Control/process errors especially in T&E

Manufacturing: Becton, Dickinson & Company
- Purchase to Payment, Order to Cash and Payroll
- First nine months – identified 4K duplicates worth $1.2M
- Pre-CCM 5000 control tests – reduced SoX compliance costs
- Provided management assurance every procurement transaction subjected to 44 control tests

Biopharmaceutical: Talecris Biotherapeutics
- P2P, T&E, Pcard, G/L, Payroll, Order to Cash
- Manual processes, weak controls over cash mgmt
- Found fraud rampant in troubled economy
- 5 out of 60 centers = ~ $2M in fraud found
2008 Alexander Hamilton Awards Winner

“Our program has achieved over $20 million in efficiency savings in each of the past 3 years thanks to full data coverage and an effective risk-based sampling strategy. Results also include increased stakeholder confidence, strengthened internal controls, streamlined business processes, and improved data integrity for reporting.”

Shyrl Kennedy, Executive Director
Corporate Compliance & Controls Monitoring
British Columbia Ministry of Finance
and 2008 Alexander Hamilton Award Winner
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ACL Continuous Controls Monitoring Technology Framework

ACL CCM Solution

Browser-based User Interface

Results View
Administration View

Analytics

Data Access and Normalization

Data Sources

General Ledger
Accounts Receivable
Accounts Payable
Inventory Management
Payroll
Other
<table>
<thead>
<tr>
<th>ACL CCM Product Suite</th>
</tr>
</thead>
<tbody>
<tr>
<td>✍ Continuous testing of transactions in core business process areas against sets of internal control rules</td>
</tr>
<tr>
<td>Purchase to Pay</td>
</tr>
<tr>
<td>Travel &amp; Entertainment</td>
</tr>
<tr>
<td>Order To Cash</td>
</tr>
</tbody>
</table>
ACL CCM Product Suite

Browser-based interface:
- Manage Continuous Monitoring process
- Security and Administration
- Manage test parameters
- View, report and manage exceptions

One of several ways to implement ACL technologies for monitoring
Users only need a standard web browser and a connection to the CCM server.
Organized by business units that share similar control policies

Organized by business process and sub-process
The table below summarizes the results of the Business Assurance Analytic process. To drill down, either use the hyperlinks in the Details Panel below or use the Navigation Panel.

<table>
<thead>
<tr>
<th>Assurance Summary</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Process Level Monitored</td>
<td>5</td>
</tr>
<tr>
<td>Number of CCM Analytics Performed</td>
<td>38</td>
</tr>
<tr>
<td>Number of CCM Analytics with Identified Exceptions</td>
<td>38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Process Summaries</th>
<th>Transactions</th>
<th>Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Value</td>
</tr>
<tr>
<td>Single Requisition</td>
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<td>$1,150,948.12</td>
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<tr>
<td>Split Requisitions</td>
<td>691</td>
<td>$1,150,948.12</td>
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<tr>
<td>State Requisitions</td>
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<td>$1,673,980.22</td>
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<tr>
<td>Unauthorized Requisition</td>
<td>527</td>
<td>$1,673,980.22</td>
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<tr>
<td>Proc Critical Data Fields</td>
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<tr>
<td>Proc Creator vs. Approver</td>
<td>527</td>
<td>$1,673,980.22</td>
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<tr>
<td>Single Purchase Orders</td>
<td>938</td>
<td>$876,254.35</td>
</tr>
<tr>
<td>Split Purchase Orders</td>
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<td>$876,254.35</td>
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<tr>
<td>Unauthorized Purchaser</td>
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<td>$1,723,598.62</td>
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<tr>
<td>Same Vendor and Same Amount</td>
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<td>$4,663,882.58</td>
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<tr>
<td>State Purchase Order</td>
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<td>PO Creator vs. Approver</td>
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<tr>
<td>PO Creator vs. Vendor Name</td>
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<td>PO Critical Data Fields</td>
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<td>Revolv. Received vs. Posted</td>
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<td>Revolv. Critical Data Fields</td>
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<td>Revolv. Purchaser vs. Receiver</td>
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<tr>
<td>Modified Purchase Order</td>
<td>932</td>
<td>$404,456.02</td>
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<tr>
<td>PO Oly vs GR Oly</td>
<td>966</td>
<td>$425,539.11</td>
</tr>
</tbody>
</table>
Identical invoice received by two separate business units.
Results can be easily exported into Excel or CSV format for additional review by department managers.
Can open multiple browser windows to drill down on analytic results or filter to find specific information.
Parameters can be changed to include or exclude new values into the analytics for future CCM tests.

All changes are logged and restricted to only authorized users.
Customized user menu access and restricted views are easy to create.
Key Control Objectives and Analytic Coverage: Travel & Entertainment

Following the COSO internal controls framework, ACL CCM analytics perform complex transactional analyses and identify control failures.
Travel & Entertainment Expenses

Charging Expenses
- Data Validity
- Unauthorized TNE Cards
- Duplicate TNE Cards – Name Match
- Duplicate TNE Cards – Address Match
- Validate Card Limit Changes
- Blocked Merchant Category Codes
- Prohibited GSA Merchants – Name Match
- Prohibited OFAC Merchants
- Invalid Employees
- Terminated Employee Expenses
- Merchant Employee Name Match

Expense Claim Processing
- Split Transactions
- Exceed Transaction Limit – Single Transactions
- Exceed Transaction Limit – Monthly Transactions
- Invalid Transactions – Restricted Items
- Transaction Validity – Declined Transactions
- Transaction Validity – Disputed Transactions
- Excessive Number of Claims by Type
- Segregation of Duties – Submitter Vs. Approver

Reimbursement
- Duplicates – Same Merchant Same Amount
- Duplicates – Same Merchant Similar Amount
- Duplicates – Card Expense & Cash
- Duplicate Attendee Claim
- Consecutive Voucher Analysis
- Gas Claim vs. Mileage Reimbursement
- Unauthorized Weekend and Holiday Transactions
- Unusual Transactions– Even Dollar Transactions
Enterprise Controls Monitoring at Siemens

Scale

- All corporate entities (currently 900+)
- All Purchase to Pay transactions
- Daily with 90 days running history
- 27 control tests
- 275 different data sources & applications
- Average 5GB of source data analyzed per entity
- Primary integration environment: analysis of 200GB data for ~400 entities
Siemens selects ACL technology to support worldwide governance and compliance initiatives

*Largest Purchase-to-Pay Monitoring Project Ever Undertaken*

“ACL technology, with its continuous auditing and monitoring capabilities, supports these goals by flagging exceptions within our purchase-to-pay process for immediate remediation action.”

Michael Brauer,
Head of Siemens CIT CA and Program Manager for P2P Data Assurance
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Continuous Auditing: Issues to Address

- Data access and management
- Quality and control
- Sustainability and productivity
- People and process
Continuum of Audit Analytics

- One-off analysis and testing
- Automated analyses and tests
- Managed and deployed from a central environment
- Continual execution of automated audit and monitoring tests to identify errors, fraud and anomalies on a timely basis

**ad hoc**  
**repetitive**  
**continuous**
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Continuous Auditing and Monitoring: Implementation Options

- Option 1: Buy a pre-packaged CCM application
- Option 2: Kick-start an ACL’s AuditExchange continuous program with a comprehensive program of training, consulting and coaching
  - Focus on high-risk business cycles
  - Use ACL consulting to build initial analytics, while coaching internal employees to build and maintain subsequent improvements
  - Emphasis on getting up-and-running quickly
Continuous Monitoring: Option 1

**Pros**
- Quickly leverage analytics common to all businesses
- Minimize internal resource requirements
- Up-and-running within same year of purchase

**Cons**
- Most expensive option
- Most reliant on vendor
- Customizations and ongoing improvements can increase cost
- Initial tests tend to be generic to all businesses, rather than specific to customer
- Generally less flexible
Continuous Monitoring: Option 2

Pros

ฤษ Good balance of cost with speed-to-value
ฤษ Completely customized to client
ฤษ Leverage ACL experience creating high-value analytics in key business processes
ฤษ Implementation plan focuses first on areas of highest return
ฤษ Results in ongoing self-sufficiency and sustainability

Cons

ฤษ Requires internal resource commitment
ฤษ Longer implementation cycle than pre-packaged CCM (although shorter than Option 2)
What our Customers are Saying

“…what this type of result [from AuditExchange] provides us is the ability to become a change agent rather than a policy cop.”

Rick G.
Chief Audit Executive
A Regional Financial Institution

- 30 days after the implementation of AuditExchange
Build vs. Buy

Can you afford to wait?
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