



# Content Analysis of Databases

## Performance Series vs. Human Resources

### INTERNAL AUDIT REPORT

January 29, 2019

**MCHENRY COUNTY AUDITOR'S OFFICE**

**Internal auditing** is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

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## EXECUTIVE SUMMARY

Finance and Audit Committee Members,

An internal audit was performed on the County's vendor database maintained in Performance Series (which has a listing of approximately 38,000 vendors), in the County's accounting system prior to 12/1/2018, as compared to similar data within the employee database obtained from the Human Resources Department. The review was performed using vendor data in Performance Series to capture a more comprehensive review, including potential fraud "Red Flag" situations, of vendors paid historically.

The Purchasing Department also performed a detail review of the County's vendor database during the implementation of the County's new accounting system (Microsoft D365), which went live on 12/1/2018. D365 had 2,100 listed vendors imported (clean-up and purging of outdated information in Performance Series occurred before importing the remainder of current vendors into D365). Staff in the Purchasing Department currently reviews vendors prior to adding them to the list, which adds further integrity of the County's vendor list.

Our scope was limited to current employees and the most current vendor list from Performance Series at the time the review was performed.

The purpose of comparing the two databases mentioned above are to highlight any "red flag" areas that may pose a concern for additional analysis. An example would be potential risk exposure to fraud within the vendor and accounts payable processes. "Red Flag" scenarios that were reviewed included examining/comparing data elements noted below in items 1 through 8.

The objectives/procedures of the vendor database review were to:

1. Compare employee names and their phone numbers (HR data) to those of vendors (Performance Series data) and investigate matches for appropriateness. This comparison helped determine if unauthorized employees could set up fictitious vendors for the purpose of having fraudulent payments mailed to them if proper segregation of duties are not in place within new vendor boarding and vendor payments. The current D365 system automated controls over disbursement approvals and having proper segregation of duties are currently strong controls that guard against these exposures. No exceptions were noted during our review.
2. Review data in the vendor name and phone number fields within Performance Series (vendor database) for reasonableness in order to determine if any unusual data is included, or data is excluded or isn't rational. For example, the phone number field containing all "8"s or including no phone number at all. A vendor with no proper phone number could indicate the vendor doesn't exist, thus perhaps indication a fictitious vendor in the system for executing fraudulent transactions. Situations that were identified during our review that required further analysis were examined to determine the existence of the vendor. No exceptions were noted during our review.
3. List vendors who have a post office box for an address as noted in Performance Series This could be a "red flag" that might indicate a fictitious vendor set up for fraudulent purposes. We validated the existence of a sample of such vendors identified. No exceptions were noted during our review.

4. Compare the mailing addresses for vendors against the mailing addresses for employees. Any overlap required examination of vendor validity. See item (1) above for similar risks that face this item. No exceptions were noted during our review.
5. Review the reasonableness of employees having the same phone number on the HR system and Performance Series system. Same as item (4). No exceptions were noted during our review.
6. Same as (5) above, but having the same addresses on each of the two systems. No exceptions were noted during our review.
7. Review Performance Series vendor files for incomplete addresses or no addresses at all (which could indicate a fictitious vendor). This would warrant analysis to prove the vendor exists. A sample of discrepancies were reviewed, noting satisfactory explanations for each. No exceptions were noted during our review.
8. Verify that each vendor has an assigned tax ID number within Performance Series. Based on our review and procedures performed, all vendors have tax IDs. If a vendor did not have a tax ID, this would be a “red flag” for further investigation to ensure the existence of this vendor (fraud risk: initially, having no tax ID number could indicate that a fictitious vendor was set up on the accounts payable system). No exceptions were noted during our review.

We did not note any exceptions or instances of fraud during our testing. However, if our scope had been expanded (including performance of additional procedures and/or increased sample sizes in the time period under review); further exceptions may have been noted that require additional review. Since our procedures were applied to samples of transactions and processes, it is possible that issues related to the areas tested may not have been identified.

As a result of our review, no exceptions were noted during our review. Any internal control recommendations will be incorporated into a complete vendor on-boarding review planned for FY19 after the County's new system implementation on 12/1/2018.

Sincerely,

Shannon Teresi, MAS, CPA, CIA, CFE, CRMA  
County Auditor

Don Anderson, CPA, CFE  
Chief Deputy Internal Auditor