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RESULTS OF CONTINUOUS AUDITING USING CAATS:

AUDITOR-CONTROLLER, HUMAN RESOURCES, & COUNTY PROCUREMENT OFFICE

AUDIT FOR DUPLICATE VENDOR PAYMENTS AND OTHER PERIODIC ROUTINES

(Cited as a Best Practice by the Institute of Internal Auditors)

For the Month: March 2011

We analyzed 15,007 vendor invoices paid in February 2011 amounting to about \$190 million and found 99.99% of the invoices were paid only once.

Of the \$190 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$2,702.

To date we have identified \$976,989 in duplicate vendor payments, of which \$918,138 has been recovered.

AUDIT NO: 1041-J REPORT DATE: MARCH 17, 2011

Director: Dr. Peter Hughes, MBA, CPA, CIA Deputy Director: Eli Littner, CPA, CIA, CISA Senior Audit Manager: Autumn McKinney, CPA, CIA, CISA Audit Manager: Carol Swe, CPA, CIA, CISA

RISK BASED AUDITING



AICPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach Independence

Objectivity

CInternal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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	Certified Information Technology Professional (CITP)
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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: <u>www.ocgov.com/audit</u>



OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes





Transmittal Letter

Audit No. 1041-J March 17, 2011

- TO: David Sundstrom, Auditor-Controller Carl Crown, Director, Human Resources Department Ronald C. Vienna, County Purchasing Agent County Procurement Office
- **SUBJECT:** Results of Continuous Auditing Using CAATS: Auditor-Controller, Human Resources, & County Procurement Office – Duplicate Vendor Payments & Other Routines

We have completed the March 2011 report of Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques). The final report is attached for your information. Recoveries to date from duplicate vendor payments are **\$918,138**.

Each month I submit an Audit Status Report to the Board of Supervisors (BOS) where I detail any material and significant audit issues released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report.

We appreciate the courtesy and cooperation extended to us by the personnel of your offices. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Respectfully Submitted,

Dr. Peter Hughes, CPA, Director Internal Audit Department

Attachment



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors Members, Audit Oversight Committee Thomas G. Mauk, County Executive Officer Jan Grimes, Director, Auditor-Controller/Central Accounting Operations Victoria Ross, Senior Manager, Auditor-Controller/Claims & Disbursing Section Bill Malohn, A-C/Information Technology/CAPS G/L System Support Shelley Carlucci, Assistant Director, Human Resources/Administration Bob Leys, Assistant Director, Human Resources/Services and Support Rosie Santiesteban, Admin. Manager II, Human Resources/Administration Laurence McCabe, Admin. Manager II, Human Resources Foreperson, Grand Jury Darlene J. Bloom, Clerk of the Board of Supervisors

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Audit No. 1041-J

March 17, 2011

TO:

David Sundstrom, Auditor-Controller Carl Crown, Director, Human Resources Department Ronald C. Vienna, County Purchasing Agent County Procurement Office

Audit Highlight

We analyzed 15,007 vendor invoices paid in February 2011 amounting to about \$190 million and found 99.99% of the invoices were only paid once.

Of the \$190 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$2,702.

To date we have identified **\$976,989** in duplicate vendor payments, of which **\$918,138** has been recovered.

- FROM: Dr. Peter Hughes, CPA, Director Internal Audit Department
- SUBJECT: Results of Continuous Auditing Using CAATS: Auditor-Controller, Human Resources, & County Procurement Office – Duplicate Vendor Payments and Other Routines

OBJECTIVES

Each month, the Internal Audit Department conducts a variety of continuous auditing of vendor payment and payroll activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAAT). Our objectives are to analyze selected vendor payment and payroll data to identify:

- 1. **Duplicate Payments:** Duplicate payments made to vendors. This CAAT is performed monthly.
- 2. **Employee Vendor Match:** Employees that bought goods or issued contracts to themselves or a related vendor. This CAAT is performed quarterly.
- 3. **OC Working Retiree/Extra Help Hours:** County retirees working as extra help in excess of mandated hour limits of 960 or 720 hours for FY 10-11. The mandated limits required by Government Code Sections 31680.6 and 31641.04 are per fiscal year and this CAAT is performed monthly and annually.
- 4. **Payroll Direct Deposits:** Multiple employee paychecks directly deposited to the same bank account which could be an indicator of inappropriate payments. This CAAT is performed monthly.



BACKGROUND

Continuous auditing is a change to the traditional audit approach of periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions. Continuous auditing provides efficient and timely testing of transactions and/or controls to allow immediate notification and remediation by management. An important component of continuous auditing is the development of models for the ongoing (continuous) review of transactions at, or close to, the point at which they occur.

As a supplement to traditional audits performed, Internal Audit performs continuous auditing of selected vendor payment and payroll activities utilizing Computer Assisted Audit Techniques (CAATs).

CAATs are automated queries applied to large amounts of electronic data searching for specified characteristics. We use a proprietary, best practices and industry recognized software product to help us in this process.

CAATs differ from our traditional audits in that CAATs can query **100%** of a data universe whereas the traditional audits typically test but a **sample** of transactions from the population.

Resulting exceptions or findings are forwarded to the appropriate department for validation and/or resolution. Depending on the department's review, the exceptions may or may not be a finding.

Often there is additional data needed to validate the exception that is only known at the department level. We also partner with the departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs.

We are keeping the details of our process and the vulnerabilities identified to a general discussion because of the risks associated with disclosing specific details of our financial and accounting processes.

SCOPE

This report details the CAAT work we performed in March 2011. Our analysis included a review of the following data:

- 1. **Duplicate Payments:** 15,007 vendor invoices totaling \$190,430,653 for potential duplicate payments.
- 2. **Employee Vendor Match:** This routine is performed on a quarterly basis; therefore, it was not performed in February 2011. The next analysis will be performed at 3/31/11.
- 3. OC Working Retiree/Extra Help Hours: County working retiree/extra help hours worked during FY 10/11 for individuals exceeding annual limits of 960 or 720 hours, as mandated by Government Code Sections 31680.6 and 31641.04.
- Payroll Direct Deposits: 36,716 payroll direct deposit transactions processed for pay periods #03 (1/14/11 – 1/27/11) and #04 (1/28/11 – 2/10/11) for suspicious direct deposit activity.



RESULTS

For the month of March 2011, we found the following:

Objective #1 - Duplicate Payments:

We identified one (1) duplicate payment made to a vendor for \$2,702 or .001% of the **\$190** million of vendor invoices processed during February 2011.

Value-added Information

Based on the to-date recoveries of **\$918,138** from the duplicate vendor payment routine, these computer assisted routines have paid for themselves and are returning monies to the County that may otherwise be lost. To date, we have issued 106 monthly performance reports for the CAATs.

Objective #2 – Employee Vendor Match:

This routine is performed on a quarterly basis. All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction.

Objective #3 – OC Working Retiree/Extra Help Hours:

As of 2/17/11, no working retirees exceeded the annual limits of 960 or 720 hours for FY 10/11, as mandated by Government Code Sections 31680.6 and 31641.04.

Objective #4 – Payroll Direct Deposits:

Analysis performed with no findings noted.

See the Detailed Results section for further information.



1. Duplicate Payments (Objective #1)

We used a CAAT routine to identify potential duplicate payments made to vendors during February 2011.

A. Results

We identified one (1) potential duplicate payment for \$2,702 or .001% of the \$190 million of vendor invoices processed during February 2011. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **94%** on these duplicate payments that have been identified since the inception of the CAAT routines.

The table below summarizes the duplicate payment activity to date:

			Not					
CAAT Report		Total	Duplicates Recovered		In Process			
	#'s	\$'s	#'s	\$'s	#'s	\$'s	#'s	\$'s
2002	103	\$99,980	19	\$10,334	80	\$87,808	4	\$1,838
2003	50	\$33,306	7	\$10,175	39	\$21,020	4	\$2,111
2004	33	\$105,779	7	\$2,990	24	\$101,460	2	\$1,329
2005	67	\$80,162	2	\$668	64	\$78,472	1	\$1,022
2006	75	\$347,008	16	\$33,720	54	\$310,019	5	\$3,269
2007	93	\$99,999	12	\$8,411	76	\$88,735	5	\$2,853
2008	70	\$77,712	11	\$6,794	55	\$68,050	4	\$2,868
2009	100	\$155,529	10	\$30,173	83	\$110,983	7	\$14,373
January 2010	0	\$0	0	\$0	0	\$0	0	\$0
February 2010	6	\$42,827	0	\$0	3	\$41,306	3	\$1,520
March 2010	0	\$0	0	\$0	0	\$0	0	\$0
April 2010	1	\$1,140	0	\$0	1	\$1,140	0	\$0
May 2010	9	\$2,665	0	\$0	0	\$0	3	\$267
June 2010	8	\$11,746	3	\$6,660	3	\$3,786	2	\$1,300
July 2010	6	\$954	0	\$0	0	\$0	1	\$42
August 2010	1	\$786	0	\$0	0	\$0	1	\$786
September 2010	3	\$1,090	2	\$1,070	0	\$0	1	\$20
October 2010	1	\$300	1	\$300	0	\$0	0	\$0
November 2010	4	\$11,677	0	\$0	0	\$0	4	\$11,677
December 2010	1	\$10,874	0	\$0	0	\$0	1	\$10,874
January 2011	10	\$2,049	0	\$0	10	\$2,049	0	\$0
February 2011	0	\$0	0	\$0	0	\$0	0	\$0
March 2011	1	\$2,702	0	\$0	0	\$0	1	\$2,702
TOTAL	642	\$1,088,284	90	\$111,295	503	\$918,138	49	\$58,851

B. Background

This CAAT routine concentrates on a sub-set of vendor invoices paid by the County that possesses certain common attributes. The sub-set excludes onetime payments (such as election worker pay, jury duty pay, etc.) as well as recurring payments (periodic payments to the same payee for the same amount such as welfare, family support, etc.).

Detailed Results



During the month of March 2011, 15,007 invoices for \$190,430,653 were added to this data sub-set representing February 2011 transactions. Currently, the data sub-set includes 1,199,262 invoices totaling \$12,679,263,577.

The total data file from which the sub-set is derived includes 3,421,619 records totaling \$26,543,129,153. For FY 09-10, established vendor payments were about \$2.2 billion.

Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.

2. Employee Vendor Match (Objective #2)

We used a CAAT routine to identify employees that share a similar address or phone number as a vendor. This may identify employees buying goods or issuing contracts to themselves or a related vendor. This routine is performed quarterly.

Status:

All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 3/31/11.

3. OC Working Retiree/Extra Help Hours (Objective #3)

We performed an analysis of working retiree hours to identify retirees working as extra help in excess of Government Code Sections 31680.6 and 31641.04 mandated limits.

Our criteria are 960 hours (maximum allowed for regular retirees) or 720 hours (maximum for early retirees) during the fiscal year (FY).

Status:

The Government Code Section 31680.6 and 31641.04 mandated limits are per fiscal year and we perform this review monthly. To date in FY 10-11, there have been approximately 102 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of February 17, 2011, no individuals have exceeded the annual limits for FY 10-11.

For FY 10-11, OC working retiree/extra-help data as of February 17, 2011 is:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	64	25,120
District Attorney	13	5,963
Health Care Agency	10	4,869
Assessor	10	3,990
OC Public Works	2	1,182
County Counsel	1	593
Auditor-Controller	1	289
Treasurer-Tax Collector	1	120
Total	102	42,126



4. Payroll Direct Deposits (Objective #4)

We used a CAAT to identify multiple employee paychecks directly deposited to the same bank account in the same pay period. We review results to determine there has been no irregular direct deposit activity. For FY 09-10, direct deposits for regular payroll were about \$1.3 billion.

Results:

This CAAT was applied in March 2011 with no significant findings.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 3/7/11.