4 2 0

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: May 2011

We analyzed 21,656 vendor invoices paid in April 2011 amounting to about \$317 million and found 99.99% of the invoices were paid only once.

Of the \$317 million vendor invoices, we identified two (2) potential duplicate payments made to vendors for \$399.

To date we have identified \$979,823 in duplicate vendor payments, of which \$918,138 has been recovered.

AUDIT NO: 1041-L REPORT DATE: MAY 18, 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

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

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

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays

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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF

Director Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael J. Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM

Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes







Audit No. 1041-L May 18, 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 May 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

Letter from Director Peter Hughes



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

Table of Contents



Results of Continuous Auditing Using CAATS: Auditor-Controller, Human Resources, & County Procurement Office Duplicate Vendor Payments and Other Routines Audit No. 1041-L

For the Month: May 2011

Transmittal Letter	i
OC Internal Auditor's Report	1
OBJECTIVES	1
BACKGROUND	2
SCOPE	2
RESULTS	3
DETAILED RESULTS	
1. Duplicate Payments (Objective #1)	4
2. Employee Vendor Match (Objective #2)	5
3. OC Working Retiree/Extra Help Hours (Objective #3)	5
4. Payroll Direct Deposits (Objective #4)	6

OC Internal Auditor's Report



Audit No. 1041-L

May 18, 2011

TO: David Sundstrom, Auditor-Controller

Carl Crown, Director, Human Resources Department

Ronald C. Vienna, County Purchasing Agent

County Procurement Office

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

Audit Highlight

We analyzed 21,656 vendor invoices paid in April 2011 amounting to about \$317 million and found 99.99% of the invoices were only paid once.

Of the \$317 million vendor invoices, we identified two (2) potential duplicate payments made to vendors totaling \$399.

To date we have identified \$979,823 in duplicate vendor payments, of which \$918,138 has been recovered.

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.
- 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.

OC Internal Auditor's Report



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 May 2011. Our analysis included a review of the following data:

- 1. **Duplicate Payments:** 21,656 vendor invoices totaling \$316,657,789 for potential duplicate payments.
- 2. **Employee Vendor Match:** 34,678 employee and 14,071 vendor addresses and phone numbers at 5/5/11 for potential matches.
- 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.
- 4. **Payroll Direct Deposits:** 54,770 payroll direct deposit transactions processed for pay periods #07 (3/11/11 3/24/11), #08 (3/25/11 4/7/11), and #09 (4/8/11 4/21/11) for suspicious direct deposit activity.

OC Internal Auditor's Report



RESULTS

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

Objective #1 - Duplicate Payments:

We identified two (2) duplicate payments made to vendors totaling \$399 or .0001% of the **\$317 million** of vendor invoices processed during April 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 108 monthly performance reports for the CAATs.

■ Objective #2 – Employee Vendor Match:

This routine is performed on a quarterly basis. At 5/5/11, no potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed.

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

As of 4/28/11, 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.

Detailed Results



1. Duplicate Payments (Objective #1)

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

A. Results

We identified two (2) potential duplicate payments for \$399 or .0001% of the \$317 million of vendor invoices processed during April 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
2010	40	\$84,058	6	\$8,030	18	\$49,542	16	\$26,486
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
April 2011	4	\$2,435	0	\$0	0	\$0	4	\$2,435
May 2011	2	\$399	0	\$0	0	\$0	2	\$399
TOTAL	648	\$1,091,118	90	\$111,295	503	\$918,138	55	\$61,685

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 one-time 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.).

During the month of May 2011, 21,656 invoices for \$316,657,789 were added to this data sub-set representing April 2011 transactions. Currently, the data subset includes 1,236,423 invoices totaling \$13,167,047,133.

The total data file from which the sub-set is derived includes 3,488,665 records totaling \$27,794,025,151. 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.

Detailed Results



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:

We performed an analysis of employee and vendor addresses and phone numbers at May 5, 2011. No potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed. Our next analysis will be performed at quarter-end June 30, 2011.

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 108 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of April 28, 2011, no individuals have exceeded the annual limits for FY 10-11.

For FY 10-11, OC working retiree/extra-help data as of April 28, 2011 is noted in the following table:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	66	33,231
District Attorney	17	8,439
Health Care Agency	10	6,190
Assessor	10	6,155
OC Public Works	2	1,480
County Counsel	1	739
Auditor-Controller	1	289
Treasurer-Tax Collector	1	120
Total	108	56,643

Detailed Results



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 May 2011 with no significant findings.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 5/9/11.