

# Internal Audit Department

O R A N G E County in the USA

## 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:  
July 2011

We analyzed 19,376 vendor invoices paid in June 2011 amounting to about \$201 million and found 99.99% of the invoices were paid only once.

Of the \$201 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$428.

To date we have identified \$980,232 in duplicate vendor payments, of which \$954,858 has been recovered.

AUDIT NO: 1139-A  
REPORT DATE: JULY 28, 2011

Director: [Dr. Peter Hughes, MBA, CPA, CIA](#)  
Deputy Director: [Eli Littner, CPA, CIA, CISA](#)  
Senior Audit Manager: [Autumn McKinney, CPA, CIA, CISA](#)  
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#### 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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



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**

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**OC Fraud Hotline (714) 834-3608**

# Letter from Director Peter Hughes



## Transmittal Letter



**Audit No. 1139-A July 28, 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 July 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 **\$954,858**.

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,

A handwritten signature in blue ink that reads "Peter Hughes".

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  
Michael Riley, Director, Social Services Agency  
Wendy Aquin, Division Director, SSA, Adult Services and Assistance Programs  
Division  
Julie Loats, Administrative Manager II, SSA, Adult Services Program Support  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors

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# OC Internal Auditor's Report



Audit No. 1139-A

July 28, 2011

## Audit Highlight

We analyzed 19,376 vendor invoices paid in June 2011 amounting to about \$201 million and found 99.99% of the invoices were only paid once.

Of the \$201 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$428.

To date we have identified **\$980,232** in duplicate vendor payments, of which **\$954,858** has been recovered.

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

## 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.
5. **In-Home Supportive Services (New):** Active County employees providing In-Home Supportive Services (IHSS) to determine whether conflicts of interest exist. This CAAT is a new routine and is being performed as a special request.



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

1. **Duplicate Payments:** 19,376 vendor invoices totaling \$200,983,317 for potential duplicate payments.
2. **Employee Vendor Match:** 39,954 employee and 14,497 vendor addresses and phone numbers at 6/30/11 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:** 36,439 payroll direct deposit transactions processed for pay periods #12 (5/20/11 – 6/2/11) and #13 (6/3/11 – 6/16/11) for suspicious direct deposit activity.
5. **In-Home Supportive Services (New):** As of 5/31/11, 15,850 unique IHSS providers and, as of 6/30/11, 38,772 employee records (active and inactive) for potential matches with County employees.



## RESULTS

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

### ■ **Objective #1 - Duplicate Payments:**

We identified one (1) duplicate payment made to vendors for \$428 of the **\$201 million** of vendor invoices processed during June 2011.

#### **Value-added Information**

Based on the to-date recoveries of **\$954,858** 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 110 monthly performance reports for the CAATs.

### ■ **Objective #2 – Employee Vendor Match:**

This routine is performed on a quarterly basis. At 6/30/11, no potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed.

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

During FY 10/11, one OC working retiree exceeded the annual limits of 960 or 720 hours by 9.5 hours (less than one pay period), as mandated by Government Code Sections 31680.6 and 31641.04.

### ■ **Objective #4 – Payroll Direct Deposits:**

Analysis performed with no findings noted.

### ■ **Objective #5 – In Home Supportive Services:**

We received the IHSS data from Social Services Agency on June 22, 2011, and the employee data from Auditor-Controller/CAPS+ on June 30, 2011, and July 18, 2011. Our analysis is in process.

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 June 2011.

### A. Results

We identified one (1) potential duplicate payment for \$428 or .0002% of the \$201 million of vendor invoices processed during June 2011. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **97%** 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:

| CAAT Report   | Total      |                    | Not 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          | 78         | \$90,920         | 3          | \$668           |
| 2008          | 70         | \$77,712           | 11             | \$6,794          | 56         | \$68,575         | 3          | \$2,343         |
| 2009          | 100        | \$155,529          | 10             | \$30,173         | 90         | \$125,356        | 0          | \$0             |
| 2010          | 40         | \$84,059           | 7              | \$8,050          | 28         | \$63,643         | 5          | \$12,366        |
| 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              | 1          | \$2,702          | 0          | \$0             |
| April 2011    | 4          | \$2,435            | 0              | \$0              | 4          | \$2,435          | 0          | \$0             |
| May 2011      | 2          | \$399              | 0              | \$0              | 2          | \$399            | 0          | \$0             |
| June 2011     | 0          | \$0                | 0              | \$0              | 0          | \$0              | 0          | \$0             |
| July 2011     | 1          | \$428              | 0              | \$0              | 0          | \$0              | 1          | \$428           |
| <b>TOTAL</b>  | <b>649</b> | <b>\$1,091,547</b> | <b>91</b>      | <b>\$111,315</b> | <b>530</b> | <b>\$954,858</b> | <b>28</b>  | <b>\$25,374</b> |

### 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 July 2011, 19,376 invoices for \$200,983,317 were added to this data sub-set representing June 2011 transactions. Currently, the data sub-set includes 1,276,107 invoices totaling \$13,584,127,340.

The total data file from which the sub-set is derived includes 3,562,672 records totaling \$28,605,980,150. For FY 10-11, established vendor payments were about \$2.4 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:

We performed an analysis of employee and vendor addresses and phone numbers at quarter-end June 30, 2011. No potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed. Our next analysis will be performed at quarter-end September 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. In FY 10-11, there were 125 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). During FY 10/11, one OC working retiree exceeded the annual limits by 9.5 hours (less than one pay period).

For FY 10-11, OC working retiree/extra-help data is:

| Department              | No. of OC Working Retirees | Total FY Hours to Date |
|-------------------------|----------------------------|------------------------|
| Sheriff-Coroner         | 70                         | 39,374                 |
| District Attorney       | 27                         | 13,255                 |
| Assessor                | 10                         | 7,713                  |
| Health Care Agency      | 12                         | 7,266                  |
| OC Public Works         | 2                          | 1,671                  |
| County Counsel          | 1                          | 895                    |
| Auditor-Controller      | 1                          | 226                    |
| Treasurer-Tax Collector | 1                          | 120                    |
| Human Resources         | 1                          | 114                    |
| Total                   | 125                        | 70,634                 |



#### 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 10-11, direct deposits for regular payroll were about \$1.3 billion.

##### **Results:**

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

#### 5. In-Home Supportive Services (Objective #5)

In-Home Supportive Services (IHSS) is a program administered by Social Services Agency (SSA) that provides domestic and personal care services to allow disabled and elderly individuals to live safely at home. The Board of Supervisors (BOS) requested the Human Resources Department (HRD) and SSA to obtain information of County employees also providing IHSS services and review for potential conflicts of interest or abuse. To assist them, HRD requested Internal Audit's assistance to perform data analysis.

The goal of our analysis is to identify active County employees who are also providing IHSS services in Orange County as of June 30, 2011. Our results will be provided to SSA who will further research the IHSS services provided (nature of work performed and hours worked) by County employees. SSA will then provide the service information to HRD for their review to determine whether the IHSS work conflicts with County employment.

##### **Status:**

We received the IHSS data from SSA on June 22, 2011 and the employee data from Auditor-Controller/CAPS+ on June 30, 2011 and July 18, 2011. There are 15,850 unique IHSS providers (as of 5/31/11) and 38,772 employee records (active and inactive as of 6/30/11). Our data analysis is in process and we plan to provide our results to SSA in early August 2011.

##### Attachments:

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