⋖

2

0

RESULTS OF CONTINUOUS AUDITING USING CAATS:

AUDITOR-CONTROLLER, HUMAN RESOURCE SERVICES, & 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: April 2013

<u>Duplicate Vendor Payments</u>: We analyzed 36,913 vendor invoices paid in March 2013 amounting to about \$188 million and found 100% of the invoices were paid only once. Of the \$188 million vendor invoices, we identified no (0) potential duplicate payments made to vendors.

To date we have identified \$1,020,917 in duplicate vendor payments, of which \$1,011,706 or 99% has been recovered.

AUDIT NO: 1238-J REPORT DATE: MAY 22, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA Senior Audit Manager: Michael Goodwin, CPA, CIA 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

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





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, CGMA

Director Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

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

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

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

Michael J. Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

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



Transmittal Letter



Audit No. 1238-J May 22, 2013

TO: Jan Grimes, Auditor-Controller
Steve Danley, Director
Human Resource Services
Ronald Vienna, County Purchasing Agent
County Procurement Office

SUBJECT: Results of Continuous Auditing Using CAATS:

Auditor-Controller, Human Resource Services, & County Procurement Office – Audit for Duplicate Vendor Payments & Other Periodic

Routines

We have completed the April 2013 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 \$1,011,706.

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 directly at (714) 834-5475 or Michael Goodwin, Senior Audit Manager at (714) 834-6066.

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
Michael B. Giancola, County Executive Officer
Frank Kim, Chief Financial Officer
Victoria Ross, Director, Central Accounting Operations, Auditor-Controller
Paul Villanueva, Senior Manager, A-C/Claims and Disbursing
Bill Malohn, Manager, A-C/Information Technology/CAPS G/L System Support
Terri Bruner, Assistant Director, Human Resource Services/Operations Division
Kim Evans, Administrative Manager, Human Resource Services/Administration
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Vavrinek, Trine, Day & Co., LLP, County External Auditor

Table of Contents



Results of Continuous Auditing Using CAATS: Auditor-Controller, Human Resource Services, & County Procurement Office – Audit for Duplicate Vendor Payments and Other Periodic Routines Audit No. 1238-J

For the Month: April 2013

Tra	Insmittal Letter	i
oc	Internal Auditor's Report	1
	OBJECTIVES	1
	BACKGROUND	2
	SCOPE	2
	RESULTS	3
DE	TAILED RESULTS	
1.	Duplicate Vendor 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. 1238-J

May 22, 2013

TO: Jan Grimes, Auditor-Controller

Steve Danley, Director, Human Resource Services

Ronald 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 Resource Services, & County Procurement Office – Audit for Duplicate Vendor Payments

and Other Periodic Routines

Audit Highlight

We analyzed 36,913 vendor invoices paid in March 2013 amounting to about \$188 million and found 100% of the invoices were only paid once.

Of the \$188 million vendor invoices, we identified no (0) potential duplicate payments made to vendors.

To date we have identified \$1,020,917 in duplicate vendor payments, of which \$1,011,706 or 99% 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 CAATs). Our objectives are to analyze selected vendor payment and payroll data to identify:

- 1. **Duplicate Vendor Payments:** Duplicate payments made to vendors. This CAAT is performed monthly.
- 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 12-13. 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% 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 payments 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 April 2013. Our analysis included a review of the following data:

- 1. **Duplicate Vendor Payments:** 36,913 vendor invoices totaling \$188,169,975 for potential duplicate payments.
- 2. **Employee Vendor Match:** This routine is performed on a quarterly basis and is in process for the quarter ended March 31, 2013.
- OC Working Retiree/Extra Help Hours: County working retiree/extra help hours worked during FY 12-13 for individuals exceeding annual fiscal year limits of 960 or 720 hours, as mandated by Government Code Sections 31680.6 and 31641.04.
- 4. **Payroll Direct Deposits:** 54,103 payroll direct deposit transactions processed for pay periods #05 (2/8/13 2/21/13), #6 (2/22/13 2/28/13), and #07 (3/1/13 3/14/13) for suspicious direct deposit activity.

OC Internal Auditor's Report



RESULTS

For the month of April 2013, we found the following:

■ Objective #1 – Duplicate Vendor Payments:

We identified no (0) potential duplicate payments made to vendors of the **\$188 million** of vendor invoices processed during March 2013.

Value-added Information

Based on the to-date recoveries of **\$1,011,706** 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 131 monthly performance reports for the CAATs.

■ Objective #2 – Employee Vendor Match:

This routine is performed on a quarterly basis. All employee-vendor matches identified to date have been resolved to Human Resource Services (HRS) satisfaction. The analysis for the quarter ended March 31, 2013 is currently in progress. Results of our analysis will be included in next month's report.

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

As of April 4, 2013, **one (1)** OC working retiree exceeded the annual fiscal year 2012-2013 limits of 960 or 720 hours mandated by Government Code Sections 31680.6 and 31641.04. The annual limit was exceeded by **22.5 hours**.

■ Objective #4 – Payroll Direct Deposits:

Analysis performed with no findings noted.

See the Detailed Results section for further information.

Detailed Results



1. Duplicate Vendor Payments (Objective #1)

We used a CAAT routine to identify potential duplicate payments made to vendors during March 2013.

A. Results

We identified no (0) potential duplicate payments made to vendors of the \$188 million in vendor invoices processed during March 2013. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **99%** 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:

		Total	Not	Duplicates	Recovered		In Process	
CAAT Report	#'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	56	\$311,421	3	\$1,867
2007	93	\$99,999	12	\$8,411	78	\$90,920	3	\$668
2008	70	\$77,712	11	\$6,794	58	\$70,718	1	\$200
2009	100	\$155,529	10	\$30,173	90	\$125,356	0	\$0
2010	40	\$84,059	7	\$8,050	31	\$75,980	2	\$29
2011	22	\$9,351	0	\$0	22	\$9,351	0	\$0
2012	18	\$38,843	0	\$0	18	\$38,843	0	\$0
January 2013	1	\$65	1	\$65	0	\$0	0	\$0
February 2013	1	\$120	0	\$0	1	\$120	0	\$0
March 2013	3	\$384	0	\$0	1	\$237	2	\$147
April 2013	0	\$0	0	\$0	0	\$0	0	\$0
TOTAL	676	\$1,132,297	92	\$111,380	562	\$1,011,706	22	\$9,211

B. Background

This CAAT routine concentrates on a sub-set of vendor invoices paid by the County that possess 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 April 2013, 36,913 invoices for \$188,169,975 were added to this data sub-set representing March 2013 transactions. Currently, the data sub-set includes 1,238,372 invoices totaling \$13,258,198,495. The total data file from which the sub-set is derived includes 2,736,578 records totaling \$29,232,017,292. For FY 11-12, established vendor payments were about \$2.7 billion.

Our prior research has indicated that the duplicate payments are typically caused by 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:

This routine is performed on a quarterly basis. The analysis for quarter ended March 31, 2013 is currently in process. The results of this analysis will be reported in next month's report.

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 FY 12-13.

Status:

The Government Code Sections 31680.6 and 31641.04 mandated limits are per fiscal year and we perform this review monthly. The County's timekeeping system (VTI) automatically alerts the working retiree and their supervisor when the working retiree is approaching the mandated limit. As of April 4, 2013, there were 166 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of April 4, 2013, **one (1)** OC working retiree exceeded the FY 12-13 annual limits by 22.5 hours.

As of April 4, 2013, FY 12-13 OC working retiree/extra-help hours were:

Department	No. of OC Working Retirees	FY 12-13 Hours
Sheriff-Coroner	89	50,146
District Attorney	28	21,559
Probation	9	5,921
Assessor	13	5,427
Health Care Agency	10	4,413
OC Public Works	5	2,685
Social Services Agency	3	1,032
Child Support Services	3	887
Treasurer-Tax Collector	1	640
CEO Data Center	1	309
Auditor-Controller	1	255
Human Resource Services	1	246
Clerk of the Board	1	118
County Counsel	1	7
Total	166	93,645

Detailed Results



4. Payroll Direct Deposits (Objective #4)

We used a CAAT routine to identify multiple employee paychecks directly deposited to the same bank account in the same pay period. We review results to determine whether there has been any irregular direct deposit activity. For FY 11-12, direct deposits for regular payroll were about \$1.3 billion.

Results:

This CAAT was applied in April 2013 with no findings noted.