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### **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: October 2013

<u>Duplicate Vendor Payments</u>: We analyzed 15,834 vendor invoices paid in September 2013 amounting to about \$128 million and found 99% of the invoices were paid only once. Of the \$128 million vendor invoices, we identified one (1) potential duplicate payment made to a vendor totaling \$107.

To date we have identified \$1,025,809 in duplicate vendor payments, of which \$1,013,713 or 99% has been recovered.

AUDIT NO: 1349-D REPORT DATE: OCTOBER 29, 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**

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Certified Information Technology Professional (CITP)

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OC Fraud Hotline (714) 834-3608

### **Letter from Director Peter Hughes**



#### **Transmittal Letter**



Audit No. 1349-D October 29, 2013

TO: Jan Grimes, Auditor-Controller

Steve Danley, Chief Human Resources Officer

**Human Resource Services** 

Rob Richardson, 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 October 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 **\$1.013.713**.

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
Mark Denny, Chief Operating 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
Macias Gini & O'Connell LLP, County External Auditor

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### **OC Internal Auditor's Report**



Audit No. 1349-D

October 29, 2013

TO: Jan Grimes, Auditor-Controller

Steve Danley, Chief Human Resources Officer

**Human Resource Services** 

Rob Richardson, 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 15,834 vendor invoices paid in September 2013 amounting to about \$128 million and found 99% of the invoices were only paid once.

Of the \$128 million vendor invoices, we identified one (1) potential duplicate payment made to a vendor totaling \$107.

To date we have identified \$1,025,809 in duplicate vendor payments, of which \$1,013,713 or 99% has been recovered.

#### **OBJECTIVES**

Each month, the Internal Audit Department conducts a variety of continuous auditing of vendor payments and payroll activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAATs). Our objectives are to analyze selected vendor payments 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 13-14. 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.
- 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 October 2013. Our analysis included a review of the following data:

- 1. **Duplicate Vendor Payments:** 15,834 vendor invoices totaling \$127,667,415 for potential duplicate payments.
- 2. **Employee Vendor Match:** 41,733 employee addresses/phone numbers and 18,657 vendor addresses/phone numbers at September 30, 2013 for potential conflicts.
- OC Working Retiree/Extra Help Hours: County working retiree/extra help hours worked during FY 13-14 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:** 36,126 payroll direct deposit transactions processed for pay periods #19 (8/23/13 9/05/13) and #20 (9/06/13 9/19/13) for suspicious direct deposit activity.

### **OC Internal Auditor's Report**



#### **RESULTS**

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

#### ■ Objective #1 – Duplicate Vendor Payments:

We identified **one (1) potential duplicate payment** made to a vendor totaling \$107 of the **\$128 million** of vendor invoices processed during September 2013.

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

Based on the to-date recoveries of **\$1,013,713** 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 137 monthly performance reports for the CAATs.

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

This routine is performed on a quarterly basis. At September 30, 2013, **one (1) potential conflict** was identified in the employee-vendor matches we reviewed. We are in the process of further evaluating the match to determine whether there is a conflict. Results of our evaluation will be included in a future report.

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

As of September 19, 2013, **no OC working retirees exceeded the annual fiscal year 2013-2014 limits** of 960 or 720 hours mandated by Government Code Sections 31680.6 and 31641.04.

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

Analysis performed on 36,126 direct deposit transactions 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 September 2013.

#### A. Results

We identified one (1) potential duplicate payment made to a vendor totaling \$107 of the \$128 million in vendor invoices processed during September 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	3	\$384	0	\$0
April 2013	0	\$0	0	\$0	0	\$0	0	\$0
May 2013	1	\$237	0	\$0	1	\$237	0	\$0
June 2013	1	\$29	1	\$29	0	\$0	0	\$0
July 2013	2	\$4,548	0	\$0	1	\$1,623	1	\$2,925
August 2013	0	\$0	0	\$0	0	\$0	0	\$0
September 2013	0	\$0	0	\$0	0	\$0	0	\$0
October 2013	1	\$107	0	\$0	0	\$0	1	\$107
TOTAL	681	\$1,137,218	93	\$111,409	566	\$1,013,713	22	\$12,096

#### **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 October 2013, 15,834 invoices for \$127,667,415 were added to this data sub-set representing September 2013 transactions. Currently, the data sub-set includes 1,355,043 invoices totaling \$14,612,326,993. The total data file from which the sub-set is derived includes 2,926,945 records totaling \$31,932,392,195. For FY 12-13, established vendor payments were about \$2.6 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:

We performed an analysis of employee and vendor addresses and phone numbers at quarter-end September 30, 2013. We identified **one (1) potential conflict** in the employee-vendor matches we reviewed.

We are evaluating the match further to determine whether there was a conflict or noncompliance with County policy. The results of our evaluation will be included in a future 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 13-14.

#### 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 September 19, 2013, there were 150 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of September 19, 2013, no OC working retiree exceeded the annual fiscal year limits.

As of September 19, 2013, OC working retiree/extra-help hours were as follows:

Department	No. of OC Working Retirees	FY 13-14 Hours
Sheriff-Coroner	86	15,045
District Attorney	22	4,576
Probation	11	1,719
Assessor	9	1,351
Health Care Agency	10	1,223
Social Services Agency	3	860
OC Public Works	4	621
Human Resource Services	2	397
Treasurer-Tax Collector	1	207
BOS 2 <sup>nd</sup> District	1	41
Child Support Services	1	17
Total	150	26,057

### **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. For the month of September 2013, there were 36,126 regular payroll direct deposit transactions as shown below:

Pay Period	Pay Period Dates	# of Direct Deposit Transactions
PP19	8/23/13 - 9/05/13	18,061
PP20	9/06/13 - 9/19/13	18,065
	TOTAL	36,126

#### **Results:**

We reviewed results to determine whether there has been any irregular direct deposit activity. No unusual direct deposit activity was identified. For FY 12-13, direct deposits for regular payroll were about \$1.3 billion.