

Internal Audit Department

MONTHLY PERFORMANCE REPORT OF COMPUTER-ASSISTED AUDIT TECHNIQUES (CAAT) FOR DUPLICATE VENDOR PAYMENTS AND OTHER PERIODIC ROUTINES

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

For the Month of October 2008

We analyzed 15,768 vendor invoices paid in September 2008 amounting to about \$89 million and found 99.99% of the invoices were only paid once.

Of the \$89 million vendor invoices, we identified 15 potential duplicate payments made to vendors totaling \$10,386.

To date we have identified \$766,354 in duplicate vendor payments, of which \$736,800 has been recovered.

Additionally, we identified 18 working retirees who exceeded annual hour limits during FY 07-08.

AUDIT NO: 2844-D

REPORT DATE: OCTOBER 29, 2008

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Letter from Director Peter Hughes



Transmittal Letter



Audit No. 2844-D October 29, 2008

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

SUBJECT: Monthly Performance Report of Computer-Assisted Audit Techniques (CAAT) for Duplicate Vendor Payments and Other Periodic Routines

We have completed the October 2008 report of the results of our Computer-Assisted Audit Techniques (CAAT). The final report is attached for your information. Recoveries to date from duplicate vendor payments are \$736,800.

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 the Auditor-Controller's Office and the Human Resources Department. 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



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Table of Contents



Monthly Performance Report of Computer-Assisted Audit Techniques (CAAT) for Duplicate Vendor Payments and Other Periodic Routines Month of October 2008

Audit No. 2844-D

Transmittal Letter	i
CAAT SUMMARY	1
CAAT Program	2
1. CAAT Performed: Duplicate Payments	3
2. CAAT Performed: Employee Vendor Match	4
3. CAAT Performed: Retiree/Extra Help Hours	4
4. CAAT Performed: Deleted Vendors	4
Appendix A: Report Item Classifications	5



CAAT SUMMARY

Description of CAAT Program:

The CAAT Routines (Computer Assisted Audit Techniques) are automated queries applied to large amounts of electronic data searching for specified characteristics. 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. These CAAT routines are not an audit because we have not audited the underlying business processes or internal controls.

Results (for the Month of October 2008):

No material weaknesses or significant issues identified. See Appendix A for a description of report item classifications.

Control Findings:

➤ Duplicate Payments to Vendors:

We identified **15** duplicate payments made to vendors, totaling **\$10,386** or **.012%** of the **\$89 million** of vendor invoices processed during September 2008. Our prior research indicates that the duplicate payments are typically caused by compounded human clerical error.

We have communicated the duplicate payments to the Auditor-Controller. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the Auditor-Controller has a recovery rate of about **97%** on these duplicate payments that we have brought to their attention since the inception of the CAAT routines.

➤ Retiree/Extra Help Hours:

We identified **18** working retirees who exceeded annual hour limits during FY 07-08. The excess hours ranged from **1** hour to **96** hours. **Six** of the **18** working retirees also exceeded hour limits in the prior FY 06-07. As a comparison, **31** retirees exceeded annual limits in FY 06-07.

➤ Deleted Vendors:

No findings.

Value-Added Information:

Based on the to-date recoveries of \$736,800 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 77 performance reports for the computer assisted routines.



MONTHLY PERFORMANCE REPORT OF COMPUTER-ASSISTED AUDITING TECHNIQUES (CAAT) FOR DUPLICATE VENDOR PAYMENTS AND OTHER PERIODIC ROUTINES MONTH OF OCTOBER 2008

Audit Highlight

We analyzed 15,768 vendor invoices paid in September 2008 amounting to about \$89 million and found 99.99% of the invoices were only paid once.

Of the \$89 million vendor invoices, we identified 15 potential duplicate payments made to vendors totaling \$10,386.

To date we have identified \$766,354 in duplicate vendor payments, of which \$736,800 has been recovered.

Additionally, we identified 18 working retirees who exceeded annual hour limits during FY 07-08.

CAAT Program:

This report details the monthly activity from the Computer-Assisted Auditing Techniques (known by the acronym CAAT). We use a proprietary, best practices and industry recognized software product to help us in this process. 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.

The CAATs are automated queries applied to large amounts of electronic data searching for specified characteristics. The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.

For example, each month we download the monthly disbursement activity from the County's data warehouse into a cumulative vendor payment database that we have created. Then, we query 100% of the database looking for payments with the same invoice number and the same amount. We then subject the resulting matches to further review and analysis (such as obtaining and reviewing copies of the paid invoices) to determine if a duplicate payment was made. We then forward resulting findings to the Auditor-Controller for validation and recovery.

We also work 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 currently perform five CAAT routines described below utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or periodically as needed.



1. CAAT Performed: Duplicate Payments

We used a CAAT routine to identify potential duplicate payments made to vendors during September 2008.

A. Results

We identified fifteen (15) duplicate payments totaling \$10,386 or .012% of the \$89 million of vendor invoices processed during September 2008. We have communicated the duplicate payments to the Auditor-Controller. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the Auditor-Controller has a recovery rate of about 97% on these duplicate payments that we have brought to their attention 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	73	\$85,615	8	\$5,973
January 2008	7	\$2,410	3	\$1,303	4	\$1,107	0	\$0
February 2008	5	\$3,594	2	\$2,126	3	\$1,468	0	\$0
March 2008	6	\$2,812	3	\$2,343	2	\$269	1	\$200
April 2008	6	\$24,188	0	\$0	6	\$24,188	0	\$0
May 2008	10	\$1,850	1	\$144	9	\$1,706	0	\$0
June 2008	3	\$788	0	\$0	2	\$518	1	\$270
July 2008	5	\$21,448	0	\$0	3	\$20,005	2	\$1,443
August 2008	8	\$2,691	1	\$325	5	\$1,084	2	\$1,282
September 2008	2	\$2,492	0	\$0	1	\$2,061	1	\$431
October 2008	15	\$10,386	0	\$0	0	\$0	15	\$10,386
TOTAL	488	\$838,893	73	\$72,539	369	\$736,800	46	\$29,554

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 October 2008, 15,768 invoices for \$88,550,457 were added to this data sub-set representing September 2008 transactions. Currently, the data sub-set includes 778,067 invoices totaling \$8,062,880,865.

The total data file from which the sub-set is derived includes 2,349,401 records totaling \$15,338,826,607.

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

2. CAAT Performed: Employee Vendor Match

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

Status:

This routine is performed periodically as necessary. We are currently gathering data to perform this routine in future months.

3. CAAT Performed: Retiree/Extra Help Hours

We performed an analysis of working retiree hours to identify retirees working as extra help in excess of 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:

We identified eighteen (18) working retirees who exceeded annual hour limits during FY 07-08. The excess hours ranged from 1 hour to 96 hours. For all but two, the excess was less than 80 hours (one pay period). Six of the 18 working retirees also exceeded hour limits in the prior FY 06-07. As a comparison, 31 retirees exceeded annual limits in FY 06-07.

Human Resources informed us that during FY 07-08 they sent reminder emails to departments/agencies when a working retiree's hours approached annual limits at 900 hours. For FY 08-09, Human Resources worked with the Auditor-Controller to implement a modification to the Virtual Timekeeping Interface (VTI) system which will automatically issue warnings to working retirees and their supervisors when a retiree is within 60 hours of approaching the mandated limits. This warning message went into effect June 10, 2008 and should aid in the monitoring of working retiree hours and help minimize future overages.



4. CAAT Performed: Deleted Vendors

We used a CAAT to identify vendors that have been deleted or removed from the Vendor Master List. For deleted vendors, we verify that there has been no recent activity for that vendor.

Results:

This CAAT was applied in October 2008 with no significant findings.

Attachments:

Provided to the Auditor-Controller: dated 10/14/08 – A-C/Claims & Disbursing Section.



Appendix A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

▶ **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address "Material Weaknesses" brought to their attention.

▶ **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

▶ **Control Findings and/or Efficiency/Effectiveness Issues:**

Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.