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MONTHLY PERFORMANCE REPORT OF CAATS:

AUDITOR-CONTROLLER, HUMAN RESOURCES, & COUNTY EXECUTIVE OFFICE/PURCHASING

DUPLICATE VENDOR PAYMENTS AND OTHER PERIODIC ROUTINES

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

For the Month: December 2008

We analyzed 12,716 vendor invoices paid in November 2008 amounting to about \$87 million and found 99.99% of the invoices were only paid once.

Of the \$87 million vendor invoices, we identified 3 potential duplicate payments made to vendors totaling \$5,053.

To date we have identified \$771,407 in duplicate vendor payments, of which \$750,269 has been recovered.

AUDIT NO: 2844-F REPORT DATE: DECEMBER 16, 2008

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Cinternal Audit Department



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OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes





Transmittal Letter

Audit No. 2844-F December 16, 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 CAATS: Auditor-Controller, Human Resources, & CEO/Purchasing - Duplicate Vendor Payments and Other Periodic Routines

We have completed the December 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 **\$750,269**.

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,

Dr. Peter Hughes, CPA, Director Internal Audit Department

Attachment



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Audit No. 2844-F

December 16, 2008

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:	Monthly Performance Report of CAATS: Auditor-Controller, Human Resources, & CEO/Purchasing - Duplicate Vendor Payments and Other Periodic Routines

OBJECTIVES

Each month, the Internal Audit Department conducts a variety of performance reviews of vendor payment and payroll activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAAT). Our objectives are to analyze the 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 periodically as needed.
- 3. **Retiree/Extra Help Hours:** Retirees working as extra help in excess of mandated hour limits. This CAAT is performed annually.
- 4. **Deleted Vendors:** Active vendors deleted from the Vendor Master Table which could be an indicator of inappropriate payments. This CAAT is performed monthly.
- 5. **Direct Deposits:** Multiple employee paychecks directly deposited to the same bank account which could be an indicator of inappropriate payments. This CAAT is being reintroduced this month and will continue to be performed monthly in the future.

BACKGROUND

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.

Monthly Performance Report of CAATS – December 2008: Auditor-Controller, Human Resources, & CEO/Purchasing Duplicate Vendor Payments and Other Periodic Routines Audit No. 2844-F

Audit Highlight

We analyzed 12,716 vendor invoices paid in November 2008 amounting to about \$87 million and found 99.99% of the invoices were only paid once.

Of the \$87 million vendor invoices, we identified 3 potential duplicate payments made to vendors totaling \$5,053.

To date we have identified \$771,407 in duplicate vendor payments, of which \$**750,269** has been recovered.



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 December 2008. Our analysis included a review of the following data:

- 12,716 vendor invoices totaling \$86,681,544 for potential duplicate payments.
- 103,077 vendors in the Vendor Master Table as of 12/3/08.
- 39,826 payroll direct deposit transactions processed for pay periods 23 (10/24/08 11/6/08) and 24 (11/7/08 11/20/08).

RESULTS

For the month of December 2008, we found the following:

Objective #1 - Duplicate Payments:

We identified **3** duplicate payments made to vendors, totaling **\$5,053** or **.006%** of the **\$87 million** of vendor invoices processed during November 2008.

Value-added Information

Based on the to-date recoveries of **\$750,269** 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 79 monthly performance reports for the CAATs.

Objective #2 – Employee Vendor Match:

Our analysis of employee-vendor activity is in process; results will be reported at a later date.



Objective #3 – Retiree/Extra Help Hours:

Our review of working retiree activity is performed annually; analysis will commence next calendar year.

- Objective #4 Deleted Vendors: Analysis performed with no findings noted.
- Objective #5 Direct Deposits: Analysis performed with no findings noted.

See the Detailed Results section for further information.



1. Duplicate Payments (Objective #1)

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

A. Results

We identified three (3) duplicate payments totaling \$5,053 or .006% of the \$87 million of vendor invoices processed during November 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 98% 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:

		Not							
CAAT Report		Total D		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	
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	6	\$1,190	1	\$1,176	
September 2008	2	\$2,492	0	\$0	1	\$2,061	1	\$431	
October 2008	15	\$10,386	0	\$0	14	\$10,243	1	\$143	
November 2008	0	\$0	0	\$0	0	\$0	0	\$0	
December 2008	3	\$5,053	0	\$0	0	\$0	3	\$5,053	
TOTAL	491	\$843,946	73	\$72,539	387	\$750,269	31	\$21,138	

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 December 2008, 12,716 invoices for \$86,681,544 were added to this data sub-set representing November 2008 transactions. Currently, the data sub-set includes 805,356 invoices totaling \$8,255,838,261.

The total data file from which the sub-set is derived includes 2,418,277 records totaling \$15,918,526,827.

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 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. Retiree/Extra Help Hours (Objective #3)

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:

This routine is performed annually. There is no current work in progress for FY 08-09. Our analysis will commence next calendar year.

4. Deleted Vendors (Objective #4)

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 December 2008 with no significant findings.

5. Direct Deposits (Objective #5)

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.

Results:

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



<u>Attachments</u>: Provided to the Auditor-Controller: dated 12/2/08 – A-C/Claims & Disbursing Section.