

Internal Audit Department

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:
May 2009**

We analyzed 13,604 vendor invoices paid in April 2009 amounting to about \$87 million and found 100% of the invoices were only paid once.

Of the \$87 million vendor invoices, we did not identify any potential duplicate payments made to vendors.

To date we have identified \$812,044 in duplicate vendor payments, of which \$754,036 has been recovered.

**Audit No: 2844-K
Report Date: May 29, 2009**

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Providing Facts and Perspectives Countywide

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Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 2844-K May 29, 2009

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 May 2009 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 **\$754,036**.

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". The signature is stylized and fluid.

Dr. Peter Hughes, CPA
County Internal Auditor

Attachment

Letter from Dr. Peter Hughes, CPA



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Auditor-Controller, Human Resources, & CEO/Purchasing
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Audit No. 2844-K***

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OC Internal Auditor's Executive Report



Audit No. 2844-K

May 29, 2009

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
County Internal Auditor

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

Audit Highlight

We analyzed 13,604 vendor invoices paid in April 2009 amounting to about \$87 million and found 100% of the invoices were only paid once.

Of the \$87 million vendor invoices, we identified no potential duplicate payments made to vendors.

To date we have identified \$812,044 in duplicate vendor payments, of which **\$754,036** has been recovered.

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 performed monthly.

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.



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 May 2009. Our analysis included a review of the following data:

1. **Duplicate Payments:** 13,604 vendor invoices totaling \$86,749,045 for potential duplicate payments.
2. **Employee Vendor Match:** Employee and vendor addresses from 1/1/05 to 6/30/08 for potential conflicts of interest.
3. **Retiree/Extra Help Hours:** Retiree/extra help hours worked as of 5/11/09 for individuals exceeding annual limits.
4. **Deleted Vendors:** 104,877 vendors as of 5/5/09 in the Vendor Master Table for suspicious vendor payment activity.
5. **Direct Deposits:** 38,564 payroll direct deposit transactions processed for pay periods 7 (3/13/09 - 3/26/09) and 8 (3/27/09 - 4/9/09) for suspicious direct deposit activity.

RESULTS

For the month of May 2009, we found the following:

■ Objective #1 - Duplicate Payments:

We identified no duplicate payments made to vendors of the **\$87 million** of vendor invoices processed during April 2009.

Value-added Information

Based on the to-date recoveries of **\$754,036** 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 84 monthly performance reports for the CAATs.



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

In March 2009, we identified **23** potential employee/vendor matches and have submitted them to Human Resources (HR) for further evaluation. As of 5/22/09, HR determined that 1 was not a valid match and 2 were not a conflict. Their review is in process for the remaining 20 matches.

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

As of 5/11/09, no working retirees have exceeded the annual limits.

■ **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.

Detailed Results



1. Duplicate Payments (Objective #1)

We used a CAAT routine to identify potential duplicate payments made to vendors during April 2009.

A. Results

We identified no duplicate payments out of the \$87 million of vendor invoices processed during April 2009. We have communicated the duplicate payment results 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 93% 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	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	4	\$20,923	1	\$525
August 2008	8	\$2,691	1	\$325	7	\$2,366	0	\$0
September 2008	2	\$2,492	0	\$0	2	\$2,492	0	\$0
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	1	\$553	0	\$0	2	\$4,500
January 2009	2	\$1,293	0	\$0	1	\$1,050	1	\$243
February 2009	2	\$3,991	1	\$3,799	1	\$192	0	\$0
March 2009	8	\$33,844	0	\$0	0	\$0	8	\$33,844
April 2009	3	\$5,861	0	\$0	0	\$0	3	\$5,861
May 2009	0	\$0	0	\$0	0	\$0	0	\$0
TOTAL	506	\$888,935	75	\$76,891	392	\$754,036	39	\$58,008



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 May 2009, 13,604 invoices for \$86,749,045 were added to this data sub-set representing April 2009 transactions. Currently, the data sub-set includes 878,780 invoices totaling \$8,713,526,298.

The total data file from which the sub-set is derived includes 2,625,530 records totaling \$17,239,666,110.

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 needed. We performed an analysis of employee and vendor addresses for the period 1/1/05 to 6/30/08. In March 2009, we identified 23 potential employee-vendor matches. Our results have been provided to the Human Resources Department (HR) for their evaluation as to whether any employee vendor conflicts exist in the matches identified. Their review is in process. The table below tracks the status of the potential employee-vendor matches submitted to HR for their review.

CAAT Report Month	Matches Submitted to HR	In Progress	HR Disposition			
			Not a Valid Match	No Conflict Exists	No Conflict – Potential HR Policy Issue Resolved to HR's Satisfaction	Conflict – Issue Resolved to HR's Satisfaction
March 2009	23	20	1	2	0	0
TOTAL	23	20	1	2	0	0

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. We are currently in the process of performing analysis of FY 08-09 working retiree hours. To date in FY 08-09, there have been approximately 210 working retirees. As of 5/11/09, no individuals have exceeded the annual limits.

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 May 2009 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 May 2009 with no significant findings.

Attachments:

Provided to the Auditor-Controller: dated 5/6/09 – A-C/Claims & Disbursing Section.