Department Internal Audit

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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: August 2009

We analyzed 6,708 vendor invoices paid in July 2009 amounting to about \$317 million and found 99.85% of the invoices were only paid once.

Of the \$317 million vendor invoices, we identified 10 potential duplicate payments made to vendors totaling \$29,441.

To date we have identified \$870,519 in duplicate vendor payments, of which \$825,518 has been recovered.

Audit No: 2941-B Report Date: August 31, 2009

County Internal Auditor: Dr. Peter Hughes, CPA Deputy Director: Eli Littner, CPA, CIA, CISA Sr. Audit Manager: Autumn McKinney, CPA, CIA, CISA Audit Manager: Carol Swe, CPA, CIA, CISA

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RISK BASED AUDITING

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2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

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RISK BASED AUDITING

Dr. Peter Hughes	Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
County Internal Auditor	Certified Compliance & Ethics Professional (CCEP)
	Certified Information Technology Professional (CITP)
	Certified Internal Auditor (CIA)
	Certified Fraud Examiner (CFE)
E-mail:	peter.hughes@iad.ocgov.com

Eli Littner	ner CPA, CIA, CFE, CFS, CISA			
Deputy Director Certified Fraud Specialist (CFS)				
	Certified Information Systems Auditor (CISA)			

Michael J. Goodwin Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

CPA, CIA

Senior Audit Manager

Autumn McKinneyCPA, CIA, CISA, CGFMSenior Audit ManagerCertified Government Financial Manager (CGFM)

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: <u>www.ocgov.com/audit</u>



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Transmittal Letter

Audit No. 2941-B August 31, 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 August 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 **\$825,518**.

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 County Internal Auditor

Attachment

Letter from Dr. Peter Hughes, CPA



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors Members, Audit Oversight Committee Thomas G. Mauk, County Executive Officer Jan Grimes, Director, Auditor-Controller/Central Accounting Operations Robert Leblow, Senior Manager, Auditor-Controller/Claims & Disbursing Section Bill Malohn, A-C/Information Technology/CAPS G/L System Support Shelley Carlucci, Assistant Director, Human Resources/Administration Bob Leys, Assistant Director, Human Resources/Services and Support Rosie Santiesteban, Admin. Manager II, Human Resources/Administration Laurence McCabe, Admin. Manager II, Human Resources Foreperson, Grand Jury Darlene J. Bloom, Clerk of the Board of Supervisors

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Audit No. 2941-B

August 31, 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

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. The mandated limits are per fiscal year and this CAAT is performed on an annual basis.
- Active vendors deleted from the Vendor 4. Deleted Vendors: 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 gueries 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.

We analyzed 6,708 vendor

Audit Highlight

invoices paid in July 2009 amounting to about \$317 million and found 99.85% of the invoices were only paid once.

Of the \$317 million vendor invoices, we identified 10 potential duplicate payments made to vendors totaling \$29,441.

To date we have identified \$870,519 in duplicate vendor payments, of which **\$825,518** 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 August 2009. Our analysis included a review of the following data:

- 1. **Duplicate Payments:** 6,708 vendor invoices totaling \$316,681,227 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 8/25/09 for individuals exceeding annual limits.
- 4. **Deleted Vendors:** As part of the recent CAPS+ upgrade, the vendor code structure was converted effective 7/1/09. This CAAT requires two consecutive months of vendor code activity for analysis; therefore, this CAAT will be resumed next month.
- 5. **Direct Deposits:** 37,891 payroll direct deposit transactions processed for pay periods 14 (6/19/09 7/2/09) and 14 (7/3/09 7/16/09) for suspicious direct deposit activity.

RESULTS

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

Objective #1 - Duplicate Payments:

We identified ten (10) duplicate payments made to vendors totaling **\$29,441** or **.009%** of the **\$317 million** of vendor invoices processed during July 2009.

Value-added Information

Based on the to-date recoveries of **\$825,518** 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 87 monthly performance reports for the CAATs.

County Internal Auditor's Report



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. HR determined that 1 was not a valid match and 22 were not a conflict. This closes out our work for the 23 potential matches.

Objective #3 – Retiree/Extra Help Hours:

As of 8/25/09, no working retirees have exceeded the annual limits for FY 09/10.

- Objective #4 Deleted Vendors: Analysis will resume next month.
- 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 July 2009.

A. Results

We identified ten (10) duplicate payments totaling \$29,441 or .009% of the \$317 million of vendor invoices processed during July 2009. 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	Duplicates			covered	In F #'s	Process
	#'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	1	\$2,500	1	\$2,000
January 2009	2	\$1,293	0	\$0	2	\$1,293	0	\$0
February 2009	2	\$3,991	1	\$3,799	1	\$192	0	\$0
March 2009	8	\$33,843	3	\$625	5	\$33,218	0	\$0
April 2009	3	\$5,861	0	\$0	3	\$5,861	0	\$0
May 2009	0	\$0	0	\$0	0	\$0	0	\$0
June 2009	0	\$0	0	\$0	0	\$0	0	\$0
July 2009	28	\$29,660	0	\$0	28	\$29,660	0	\$0
August 2009	10	\$29,441	0	\$0	0	\$0	10	\$29,441
TOTAL	544	\$948,035	78	\$77,516	430	\$825,518	36	\$45,001



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 August 2009, 6,708 invoices for \$316,681,227 were added to this data sub-set representing July 2009 transactions. Currently, the data sub-set includes 918,094 invoices totaling \$9,226,979,107.

The total data file from which the sub-set is derived includes 2,740,009 records totaling \$18,217,901,403.

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 were been provided to the Human Resources Department (HR) for their evaluation as to whether any employee vendor conflicts exist in the matches identified. As of July 28, 2009, HR's review is complete and they determined no conflicts existed. The table below contains HR's disposition of the 23 potential matches. This closes out our work for the 23 potential matches.

CAAT Report Month	Matches Submitted to HR	In Progress	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	0	1	22	0	0
TOTAL	23	0	1	22	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:

The mandated limit is per fiscal year and we perform this routine on an annual basis. As of 8/25/09, no individuals have exceeded the annual limits for FY 09-10.

4. Deleted Vendors (Objective #4)

We use 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:

As part of the recent CAPS+ upgrade, the vendor code structure was converted effective 7/1/09. This CAAT requires two consecutive months of vendor code activity for analysis; therefore, this CAAT will be resumed next month.

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 August 2009 with no significant findings.

Attachments:

Provided to the Auditor-Controller: dated 8/31/09 – A-C/Claims & Disbursing Section.