

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:
September 2009**

We analyzed 8,261 vendor invoices paid in August 2009 amounting to about \$206 million and found 99.65% of the invoices were only paid once.

Of the \$206 million vendor invoices, we identified 29 potential duplicate payments made to vendors totaling \$23,033.

To date we have identified \$893,552 in duplicate vendor payments, of which \$825,518 has been recovered.

AUDIT NO: 2941-C
REPORT DATE: SEPTEMBER 30, 2009

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Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Letter from Director Peter Hughes



Transmittal Letter



Audit No. 2941-C September 30, 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 September 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,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Attachment

Letter from Director Peter Hughes



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Auditor-Controller, Human Resources, & CEO/Purchasing
Duplicate Vendor Payments and Other Periodic Routines
Audit No. 2941-C***

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September 2009***

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OC Internal Auditor's Report



Audit No. 2941-C

September 30, 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, Director
Internal Audit Department

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

Audit Highlight

We analyzed 8,261 vendor invoices paid in August 2009 amounting to about \$206 million and found 99.65% of the invoices were only paid once.

Of the \$206 million vendor invoices, we identified 29 potential duplicate payments made to vendors totaling \$23,033.

To date we have identified \$893,552 in duplicate vendor payments, of which **\$825,518** 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. The mandated limits are per fiscal year and this CAAT is performed on an annual basis.
4. **Deleted Vendors:** This routine will no longer be performed. See details on page 5.
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 September 2009. Our analysis included a review of the following data:

1. **Duplicate Payments:** 8,261 vendor invoices totaling \$206,352,133 for potential duplicate payments.
2. **Employee Vendor Match:** Employee and vendor addresses from 7/1/08 – 6/30/09 for potential conflicts of interest.
3. **Retiree/Extra Help Hours:** Retiree/extra help hours worked as of 9/21/09 for individuals exceeding annual limits for FY 09-10.
4. **Deleted Vendors:** This routine will no longer be performed. See details on page 5.
5. **Direct Deposits:** 37,658 payroll direct deposit transactions processed for pay periods 16 (7/17/09 – 7/30/09) and 17 (7/31/09 – 8/13/09) for suspicious direct deposit activity.

RESULTS

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

■ Objective #1 - Duplicate Payments:

We identified twenty-nine (29) duplicate payments made to vendors totaling **\$23,033** or **.011%** of the **\$206 million** of vendor invoices processed during August 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 88 monthly performance reports for the CAATs.

OC Internal Auditor's Report



- **Objective #2 – Employee Vendor Match:**
Our analysis of employee-vendor activity for FY 08-09 is in process; results will be reported at a later date.
- **Objective #3 – Retiree/Extra Help Hours:**
As of 9/21/09, no working retirees have exceeded the annual limits for FY 09/10.
- **Objective #4 - Deleted Vendors:**
This routine will no longer be performed. See details on page 5.
- **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 August 2009.

A. Results

We identified twenty-nine (29) duplicate payments totaling \$23,033 or .011% of the \$206 million of vendor invoices processed during August 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 95% 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
2008	70	\$77,712	11	\$6,794	54	\$67,780	5	\$3,138
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
September 2009	29	\$23,033	0	\$0	0	\$0	29	\$23,033
TOTAL	573	\$971,068	78	\$77,516	430	\$825,518	65	\$68,034

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 September 2009, 8,261 invoices for \$206,352,133 were added to this data sub-set representing August 2009 transactions. Currently, the data sub-set includes 926,355 invoices totaling \$9,433,331,240.

The total data file from which the sub-set is derived includes 2,768,788 records totaling \$18,549,448,061.

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 are currently in the process of analyzing employee-vendor activity for FY 08-09. Our results will be reported 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:

The mandated limit is per fiscal year and we perform this routine on an annual basis. To date in FY 09-10, there have been approximately 119 working retirees. As of 9/21/09, 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.

Status:

As part of the new CAPS+ system implemented on July 1, 2009, a new process was developed for deleting vendors and recording the history of vendor table actions (including deletions). As such, we have determined this CAAT routine to be less important and the cost of performing the routine does not exceed the benefit. We will no longer perform this routine and will remove from future reports.



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 September 2009 with no significant findings.

Attachments:

Provided to the Auditor-Controller: dated 9/14/09 – A-C/Claims & Disbursing Section.