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MONTHLY PERFORMANCE REPORT OF CAATS:

AUDITOR-CONTROLLER, TREASURER-TAX COLLECTOR, HUMAN RESOURCES, & COUNTY PROCUREMENT OFFICE

AUDIT FOR DUPLICATE VENDOR PAYMENTS AND OTHER PERIODIC ROUTINES

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

For the Month: February 2010

We analyzed 12,983 vendor invoices paid in January 2010 amounting to about \$175 million and found 99.95% of the invoices were only paid once.

Of the \$175 million vendor invoices, we identified 6 potential duplicate payments made to vendors totaling \$42,827.

To date we have identified \$939,653 in duplicate vendor payments, of which \$845,560 has been recovered.

AUDIT NO: 2941-H REPORT DATE: February 26, 2010

Director: Dr. Peter Hughes, MBA, CPA, CIA Deputy Director: Eli Littner, CPA, CIA, CISA Senior Audit Manager: Autumn McKinney, CPA, CIA, CISA Audit Manager: Carol Swe, CPA, CIA, CISA IT Audit Manager: Wilson Crider, CPA, CISA

Corange county board of supervisors' Internal Audit Department

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach Independence

Objectivity



GAO & IIA Peer Review Compliant - 2001, 2004, 2007

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes





Transmittal Letter

Audit No. 2941-H February 26, 2010

- TO: David Sundstrom, Auditor-Controller Chriss Street, Treasurer-Tax Collector Carl Crown, Director, Human Resources Department Ronald C. Vienna, County Purchasing Agent, County Procurement Office
- SUBJECT: Monthly Performance Report of CAATS: Auditor-Controller, Treasurer-Tax Collector, Human Resources, & CEO/Purchasing -Duplicate Vendor

We have completed the February 2010 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 **\$845,560**.

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, Treasurer-Tax Collector'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:

Members, Board of Supervisors Members, Audit Oversight Committee Thomas G. Mauk, County Executive Officer Jan Grimes, Director, Auditor-Controller/Central Accounting Operations Victoria Ross, Senior Manager, Auditor-Controller/Claims & Disbursing Section Bill Malohn, A-C/Information Technology/CAPS G/L System Support Paul Gorman, Chief Assistant Treasurer-Tax Collector Jennifer Burkhart, Assistant Treasurer-Tax Collector 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-H

February 26, 2010

TO: David Sundstrom, Auditor-Controller Chriss Street, Treasurer-Tax Collector 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, Treasurer-Tax Collector, 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 currently performed quarterly.
- 3. **OC Working Retiree/Extra Help Hours:** County retirees working as extra help in excess of mandated hour limits of 960 or 720 hours for FY 09-10. The mandated limits required by Government Code Sections 31680.6 and 31641.04 are per fiscal year and this CAAT is performed monthly and annually.
- 4. **Payroll 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.
- 5. **Employee Delinquent Receivables (NEW):** Delinquent amounts owed by employees to determine whether opportunities exist to improve the timely collection of amounts owed. This is a new routine and its ongoing merits will be evaluated upon completion.

Audit Highlight

We analyzed 12,983 vendor invoices paid in January 2010 amounting to about \$175 million and found 99.95% of the invoices were only paid once.

Of the \$175 million vendor invoices, we identified 6 potential duplicate payments made to vendors totaling \$42,827.

To date we have identified **\$939,653** in duplicate vendor payments, of which **\$845,560** has been recovered.



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 February 2010. Our analysis included a review of the following data:

- 1. **Duplicate Payments:** 12,983 vendor invoices totaling \$175,358,864 for potential duplicate payments.
- 2. **Employee Vendor Match:** Employee and vendor addresses at 6/30/09, 9/30/09 and 12/31/09 and employee and vendor phone numbers at 9/30/09 and 12/31/09 for potential conflicts of interest.
- 3. OC Working Retiree/Extra Help Hours: County working retiree/extra help hours worked as of 2/18/10 for individuals exceeding annual limits of 960 or 720 hours for FY 09-10, as mandated by Government Code Sections 31680.6 and 31641.04.
- Payroll Direct Deposits: 37,216 payroll direct deposit transactions processed for pay periods 1 (12/18/09 - 12/31/09) and 2 (1/1/10 - 1/14/10) for suspicious direct deposit activity.
- 5. Employee Delinquent Receivables:
 - <u>Secured Property Taxes</u>: 34,558 delinquent secured property tax bills amounting to \$246,632,001 as of 8/12/09.
 - <u>Unsecured Property Taxes</u>: 24,702 delinquent unsecured property tax bills amounting to \$29,950,754 as of 9/11/09.



RESULTS

For the month of February 2010, we found the following:

Objective #1 - Duplicate Payments:

We identified six (6) duplicate payments made to vendors totaling **\$42,827** or **.024%** of the **\$175 million** of vendor invoices processed during January 2010.

Value-added Information

Based on the to-date recoveries of **\$845,560** 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 93 monthly performance reports for the CAATs.

Objective #2 – Employee Vendor Match:

In November 2009, we identified **7** potential employee/vendor matches. In January 2010, we identified an additional **5** potential employee/vendor matches. We have submitted them to Human Resources for further evaluation. Their review is in process.

Objective #3 – OC Working Retiree/Extra Help Hours:

As of 2/18/10, no working retirees have exceeded the annual limits of 960 or 720 hours for FY 09/10, as mandated by Government Code Sections 31680.6 and 31641.04.

Objective #4 – Payroll Direct Deposits:

Analysis performed with no findings noted.

Objective #5 – Employee Delinquent Receivables:

- <u>Secured Property Taxes</u>: In February 2010, we identified a net remaining **30** delinquent secured property tax bills to employees totaling **\$95,683 or .04%** of the \$247 million total at 8/12/09.
- <u>Unsecured Property Taxes</u>: In February 2010, we identified a net remaining **5** delinquent unsecured property tax bills to employees totaling **\$1,152** or **.004%** of the \$30 million total at 9/11/09.

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 January 2010.

A. Results

We identified six (6) duplicate payments totaling \$42,827 or .024% of the \$175 million of vendor invoices processed during January 2010. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about 94% on these duplicate payments that have been identified since the inception of the CAAT routines.

The table below summarizes the duplicate payment activity to date:

			Not					
CAAT Report	Total		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	2	\$23,672	4	\$3,860	4	\$1,909
September 2009	29	\$23,033	1	\$1,391	18	\$12,103	10	\$9,539
October 2009	6	\$7,770	0	\$0	1	\$4,079	5	\$3,691
November 2009	6	\$12,944	1	\$70	0	\$0	5	\$12,874
December 2009	6	\$7,693	0	\$0	0	\$0	6	\$7,693
January 2010	0	\$0	0	\$0	0	\$0	0	\$0
February 2010	6	\$42,827	0	\$0	0	\$0	6	\$42,827
TOTAL	597	\$1,042,302	82	\$102,649	453	\$845,560	62	\$94,093

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.).

Detailed Results



During the month of February 2010, 12,983 invoices for \$175,358,864 were added to this data sub-set representing January 2010 transactions. Currently, the data sub-set includes 991,830 invoices totaling \$10,221,455,985.

The total data file from which the sub-set is derived includes 2,966,858 records totaling \$20,875,108,956. For FY 08-09, established vendor payments were about \$1.1 billion.

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 or phone number as a vendor. This may identify employees buying goods or issuing contracts to themselves or a related vendor. This routine is performed quarterly.

Status:

In November 2009, we performed an analysis of employee and vendor addresses at 6/30/09 and 9/30/09, as well as an analysis of employee and vendor phone numbers at 9/30/09. In November 2009, we identified **7** potential employee-vendor matches.

In January 2010, we performed an analysis of employee and vendor addresses and phone numbers as of 12/31/09. In January 2010, we identified **5** 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. HR's review is currently in process.

			HR Disposition				
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	
November 2009	7	7	0	0	0	0	
January 2010	5	5	0	0	0	0	
TOTAL	12	12	0	0	0	0	

3. OC Working Retiree/Extra Help Hours (Objective #3)

We performed an analysis of working retiree hours to identify retirees working as extra help in excess of Government Code Sections 31680.6 and 31641.04 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 Government Code Section 31680.6 and 31641.04 mandated limits are per fiscal year and we perform this review monthly. To date in FY 09-10, there have been approximately 106 OC working retirees; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of February 18, 2010, no individuals have exceeded the annual limits for FY 09-10.

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	76	19,268
Assessor	17	7,863
Health Care Agency	7	3,346
County Executive Office	2	1,103
OC Public Works	1	730
County Counsel	1	575
District Attorney	1	175
Treasurer-Tax Collector	1	174
Total	106	33,234

For FY 09-10, OC working retiree/extra-help data as of February 18, 2010 is:

4. Payroll Direct Deposits (Objective #4)

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. For FY 08-09, direct deposits for payroll were about \$1.3 billion.

Results:

This CAAT was applied in February 2010 with no significant findings.

5. Employee Delinquent Receivables (Objective #5)

Prompted by a suggestion from a member of the Board of Supervisors, we performed an analysis of county employees owing monies to the County for delinquent or outstanding receivables.

The goal of the analysis is to identify delinquent amounts owed by employees and determine whether opportunities exist to improve the timely collection of amounts owed to the County.

As a starting point, we determined that a centralized source of delinquent or outstanding receivables would be the Treasurer-Tax Collector (T-TC). The T-TC has three primary types of receivables that it collects:

- Secured property taxes (real property)
- Unsecured property taxes (businesses, boats, etc.)
- Centralized collections recorded in the CUBS system.



CUBS is used by the T-TC to record and collect delinquent receivables submitted by the various County departments. Certain departments utilize the T-TC's collection services rather than perform their own collections in-house. Examples of receivables managed using CUBS includes: Non-sufficient funds checks, health inspection fees, hazardous waste fees, court ordered child investigation and mediation fees, Auditor-Controller invoices for County services to individuals and businesses, etc.

<u>Note</u>: CUBS does not include decentralized receivables data for County departments that perform their own collections in-house such as SSA, Probation, and Public Defender. At this time, the scope of our CAAT analysis does <u>not</u> include delinquent receivables for which collections are decentralized.

Status:

- <u>Centralized collections recorded in the CUBS</u>: We are awaiting the data files from CUBS in order to perform our analysis.
- <u>Delinquent Secured Property Taxes</u>: In February 2010, we analyzed 34,558 delinquent secured property tax bills amounting to about \$247 million as of August 12, 2009. We found that 83 of the delinquent tax bills amounting to \$390,854 appeared to be County employees.
- <u>Delinquent Unsecured Property Taxes</u>: In February 2010, we analyzed 24,702 delinquent unsecured property tax bills amounting to about \$30 million as of September 11, 2009. We found that 21 of the delinquent tax bills amounting to \$4,132 appeared to be County employees.

We provided the results to the T-TC on February 24, 2010. After further research was performed, the T-TC determined that many of the amounts owed were subsequently paid, ownership had changed, or payment plans were established. Therefore, the amounts owed were reduced as shown in the table below:

Delinquent Property Tax Bills	As of Date	Total Amount	Amounts Potentially Owed by County Employees	Less: Amounts No Longer Owed or Payment Plans Have Been Established	Remaining Amounts Potentially Owed by County Employees	Number of Employees
Secured	8/12/09	\$247 million	\$390,854	(\$295,171)	\$95,683	30
Unsecured	9/11/09	\$30 million	\$4,132	(\$2,980)	\$1,152	5

For the remaining, \$95,683 secured delinquent tax bills, the T-TC plans to mail out letters offering payment plans to the individuals (payment plans are available to all property owners with delinquencies). Because the remaining amount of the unsecured delinquent property taxes for County employees is immaterial, additional collection efforts beyond those already in place are not warranted.

After our analysis is completed including the CUBS data, we will evaluate the merits of whether to continue analyzing delinquent employee receivables.



Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 2/23/10.

Details of Employee Delinquent Receivables provided to the Treasurer-Tax Collector, dated 2/24/10.