

Internal Audit Department

O R A N G E C O U N T Y
 5th Largest County in the USA

RESULTS OF CONTINUOUS AUDITING USING 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:
 May 2010

We analyzed 15,740 vendor invoices paid in April 2010 amounting to about \$165 million and found 99.94% of the invoices were paid only once.

Of the \$165 million vendor invoices, we identified 9 potential duplicate payments made to vendors for \$2,665.

To date we have identified \$943,128 in duplicate vendor payments, of which \$893,962 has been recovered.

AUDIT NO: 2941-K
 REPORT DATE: MAY 27, 2010

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RISK BASED AUDITING

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



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Hughes for the Most Outstanding Article of the Year



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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Letter from Director Peter Hughes



Transmittal Letter



Audit No. 2941-K May 27, 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: Results of Continuous Auditing Using CAATS:
Auditor-Controller, Treasurer-Tax Collector,
Human Resources, & CEO/Purchasing –
Duplicate Vendor Payments & Other Routines

We have completed the May 2010 report of Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques). The final report is attached for your information. Recoveries to date from duplicate vendor payments are **\$893,962**.

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 your offices. 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

Letter from Director Peter Hughes



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Auditor-Controller, Treasurer-Tax Collector,
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Audit No. 2941-K***

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May 2010***

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OC Internal Auditor's Report



Audit No. 2941-K

May 27, 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: Results of Continuous Auditing Using CAATS:
Auditor-Controller, Treasurer-Tax Collector,
Human Resources, & CEO/Purchasing –
Duplicate Vendor Payments and Other Routines

Audit Highlight

We analyzed 15,740 vendor invoices paid in April 2010 amounting to about \$165 million and found 99.94% of the invoices were only paid once.

Of the \$165 million vendor invoices, we identified nine potential duplicate payments made to vendors for \$2,665.

To date we have identified **\$943,128** in duplicate vendor payments, of which **\$893,962** has been recovered.

OBJECTIVES

Each month, the Internal Audit Department conducts a variety of continuous auditing of vendor payment and payroll activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAAT). Our objectives are to analyze 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:** Delinquent amounts owed by employees to determine whether opportunities exist to improve the timely collection of amounts owed.

OC Internal Auditor's Report



BACKGROUND

Continuous auditing is a change to the traditional audit approach of periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions. Continuous auditing provides efficient and timely testing of transactions and/or controls to allow immediate notification and remediation by management. An important component of continuous auditing is the development of models for the ongoing (continuous) review of transactions at, or close to, the point at which they occur.

As a supplement to traditional audits performed, Internal Audit performs continuous auditing of selected vendor payment and payroll activities utilizing Computer Assisted Audit Techniques (CAATs).

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

1. **Duplicate Payments:** 15,740 vendor invoices totaling \$165,432,725 for potential duplicate payments.
2. **Employee Vendor Match:** Employee and vendor addresses at 6/30/09, 9/30/09, 12/31/09 & 3/31/10 and employee and vendor phone numbers at 9/30/09, 12/31/09 & 3/31/10 for potential conflicts of interest.
3. **OC Working Retiree/Extra Help Hours:** County working retiree/extra help hours worked as of 4/29/10 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.
4. **Payroll Direct Deposits:** 55,493 payroll direct deposit transactions processed for pay periods #7 (3/12/10 – 3/25/10), #8 (3/26/10 – 4/08/10) and #9 (4/09/10 – 4/22/10) for suspicious direct deposit activity.
5. **Employee Delinquent Receivables:** As of 4/21/10, 17,303 CUBS invoices totaling \$36,564,113 for potential matches with active county employees.

OC Internal Auditor's Report



RESULTS

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

■ **Objective #1 - Duplicate Payments:**

We identified nine (9) duplicate payment made to vendors for \$2,665 or .001% of the **\$165 million** of vendor invoices processed during April 2010.

Value-added Information

Based on the to-date recoveries of **\$893,962** 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 96 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. In May 2010, we identified an additional **1** potential employee/vendor match. We have submitted them to Human Resources Department (HRD) for further evaluation. As of May 17, 2010, HRD determined that 11 were not a conflict. Their review is in process for the remaining 2 matches.

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

As of 4/29/10, 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:**

As of April 21, 2010, we identified 17 invoices totaling \$4,104 from the CUBS system potentially owed by active county employees and an additional 22 invoices totaling \$4,749 potentially associated (such as spouse or business) with active county employees. Due to the immateriality of delinquent receivables identified as potentially owed by a County employee, we do not plan to continue this routine on an on-going basis; therefore, this category will be removed from future reports.

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 2010.

A. Results

We identified nine (9) duplicate payment for \$2,665 or .001% of the \$165 million of vendor invoices processed during April 2010. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **95%** 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:

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	2	\$23,672	7	\$5,469	1	\$300
September 2009	29	\$23,033	1	\$1,391	18	\$12,103	10	\$9,539
October 2009	6	\$7,770	0	\$0	2	\$6,366	4	\$1,404
November 2009	6	\$12,944	1	\$70	0	\$0	5	\$12,874
December 2009	6	\$7,693	1	\$330	1	\$3,250	4	\$4,113
January 2010	0	\$0	0	\$0	0	\$0	0	\$0
February 2010	6	\$42,827	0	\$0	1	\$41,256	5	\$1,571
March 2010	0	\$0	0	\$0	0	\$0	0	\$0
April 2010	1	\$1,140	0	\$0	0	\$0	1	\$1,140
May 2010	9	\$2,665	0	\$0	0	\$0	9	\$2,665
TOTAL	607	\$1,046,107	83	\$102,979	459	\$893,962	65	\$49,166

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 May 2010, 15,740 invoices for \$165,432,725 were added to this data sub-set representing April 2010 transactions. Currently, the data sub-set includes 1,032,570 invoices totaling \$10,741,339,321.

The total data file from which the sub-set is derived includes 3,076,271 records totaling \$22,315,043,213. 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.

In May 2010, we performed an analysis of employee and vendor addresses and phone numbers as of 3/31/10. In May 2010, we identified **1** potential employee-vendor match.

Our results have been provided to the Human Resources Department (HRD) for their evaluation as to whether any employee vendor conflicts exist in the matches identified. HRD's review is currently in process. Status as of May 17, 2010:

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
November 2009	7	1	0	6	0	0
January 2010	5	0	0	5	0	0
May 2010	1	1	0	0	0	0
TOTAL	13	2	0	11	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 110 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of April 29, 2010, no individuals have exceeded the annual limits for FY 09-10.

For FY 09-10, OC working retiree/extra-help data as of April 29, 2010 is:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	77	25,406
Assessor	18	10,364
Health Care Agency	7	4,265
County Executive Office	2	1,416
OC Public Works	1	922
County Counsel	1	728
District Attorney	1	175
Treasurer-Tax Collector	1	294
Human Resources	1	352
Auditor-Controller	1	24
Total	110	43,946

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 May 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.

Detailed Results



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.

Note: 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 not include delinquent receivables for which collections are decentralized.

Status:

- Centralized collections recorded in the CUBS: As of 4/21/2010, we identified 17 outstanding invoices totaling \$4,104 potentially matching active county employees and an additional 22 outstanding invoices totaling \$4,749 potentially associated with active county employees (such as spouse or business).
- Delinquent Secured Property Taxes: See results reported in the February 2010 CAAT report (Audit No. 2941-H).
- Delinquent Unsecured Property Taxes: See results reported in the February 2010 CAAT report (Audit No. 2941-H).

Due to the immateriality of delinquent receivables identified as potentially owed by a County employee, we do not plan to continue this routine on an on-going basis; therefore, this category will be removed from future reports. The need for this analysis may be revisited in the future.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 5/21/10.