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RESULTS OF CONTINUOUS AUDITING USING CAATS:

AUDITOR-CONTROLLER, 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: June 2010

We analyzed 14,703 vendor invoices paid in May 2010 amounting to about \$209 million and found 99.95% of the invoices were paid only once.

Of the \$209 million vendor invoices, we identified 8 potential duplicate payments made to vendors for \$11,746.

To date we have identified \$954,874 in duplicate vendor payments, of which \$893,962 has been recovered.

AUDIT NO: 2941-L REPORT DATE: JUNE 23, 2010

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA, CISA
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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





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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes





Transmittal Letter

Audit No. 2941-L June 23, 2010

TO: David Sundstrom, Auditor-Controller Carl Crown, Director, Human Resources Department

> Ronald C. Vienna, County Purchasing Agent County Procurement Office

SUBJECT: Results of Continuous Auditing Using CAATS:

Auditor-Controller, Human Resources, & County Procurement Office – Duplicate Vendor Payments & Other Routines

We have completed the June 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:

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
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Bob Leys, Assistant Director, Human Resources/Services and Support
Rosie Santiesteban, Admin. Manager II, Human Resources/Administration
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Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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OC Internal Auditor's Report



Audit No. 2941-L

June 23, 2010

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: Results of Continuous Auditing Using CAATS:

Auditor-Controller, Human Resources, & County Procurement Office – Duplicate Vendor Payments and Other Routines

Audit Highlight

We analyzed 14,703 vendor invoices paid in May 2010 amounting to about \$209 million and found 99.95% of the invoices were only paid once.

Of the \$209 million vendor invoices, we identified eight (8) potential duplicate payments made to vendors for \$11,746.

To date we have identified \$954,874 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.

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

- 1. **Duplicate Payments:** 14,703 vendor invoices totaling \$208,915,485 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 5/27/10 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:** 37,015 payroll direct deposit transactions processed for pay periods #10 (4/23/10 5/6/10) and #11 (5/7/10 5/20/10) for suspicious direct deposit activity.

OC Internal Auditor's Report



RESULTS

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

Objective #1 - Duplicate Payments:

We identified eight (8) duplicate payment made to vendors for \$11,746 or .006% of the **\$209 million** of vendor invoices processed during May 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 97 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 **1** additional potential employee/vendor match. We have submitted them to Human Resources Department (HRD) for further evaluation. As of June 10, 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 5/27/10, 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.

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 May 2010.

A. Results

We identified eight (8) duplicate payments for \$11,746 or .006% of the \$209 million of vendor invoices processed during May 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:

			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
2009	100	\$155,529	9	\$29,887	67	\$97,412	24	\$28,230
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
June 2010	8	\$11,746	0	\$0	0	\$0	8	\$11,746
TOTAL	615	\$1,057,853	83	\$102,979	459	\$893,962	73	\$60,912

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 June 2010, 14,703 invoices for \$208,915,485 were added to this data sub-set representing May 2010 transactions. Currently, the data subset includes 1,047,273 invoices totaling \$10,950,254,806.

The total data file from which the sub-set is derived includes 3,112,945 records totaling \$22,815,439,212. 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.

Detailed Results



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 employeevendor 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 employeevendor 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 June 11, 2010:

			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	_	4	0			
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 114 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of May 27, 2010, no individuals have exceeded the annual limits for FY 09-10.

Detailed Results



For FY 09-10, OC working retiree/extra-help data as of May 27, 2010 is:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	77	27,822
Assessor	18	11,453
Health Care Agency	8	4,706
County Executive Office	2	1,491
OC Public Works	1	922
County Counsel	1	798
District Attorney	4	227
Treasurer-Tax Collector	1	294
Human Resources	1	352
Auditor-Controller	1	112
Total	114	48,177

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 June 2010 with no significant findings.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 6/10/10.