OC Board of Supervisors'

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Internal Audit Department

ORANGE COUNTY

6th Largest County in the USA

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: October 2012

Duplicate Vendor Payments: We analyzed 13,489 vendor invoices paid in September 2012 amounting to about $151 million and found 99.99% of the invoices were paid only once. Of the $151 million vendor invoices, we identified two (2) potential duplicate payments made to vendors totaling $22,962.

To date we have identified $1,015,400 in duplicate vendor payments, of which $995,084 or 98% has been recovered.

AUDIT NO: 1238-D

REPORT DATE: OCTOBER 25, 2012

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Deputy Director: Eli Littner, CPA, CIA, CISA
Senior Audit Manager: Autumn McKinney, CPA, CIA, CISA
Audit Manager: Carol Swe, CPA, CIA, CISA

Independence   Objectivity   Integrity

ORANGE COUNTY BOARD OF SUPERVISORS'

OC Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes	**Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
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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. 1238-D **October 25, 2012**

TO: Jan Grimes, Chief Deputy Auditor-Controller
Steve Danley, 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 October 2012 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 **$995,084**.

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 directly at (714) 834-5475 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Respectfully Submitted,

Peter Hughes

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
Robert J. Franz, Interim County Executive Officer
Victoria Ross, Interim Director, Central Accounting Operations, Auditor-Controller
Bill Malohn, A-C/Information Technology/CAPS G/L System Support
Bob Leys, Assistant Director, Human Resources/Services and Support
Rosie Santiesteban, Administrative Manager, Human Resources/Administration
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors

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October 2012

OC Internal Auditor's Report

Audit No. 1238-D **October 25, 2012**

TO: Jan Grimes, Chief Deputy Auditor-Controller
Steve Danley, 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 13,489 vendor invoices paid in September 2012 amounting to about $151 million and found 99.99% of the invoices were only paid once.

Of the $151 million vendor invoices, we identified two (2) potential duplicate payments made to vendors totaling $22,962.

To date we have identified **$1,015,400** in duplicate vendor payments, of which **$995,084** or **98%** 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 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 12-13. 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.

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 October 2012. Our analysis included a review of the following data:

1. **Duplicate Payments:** 13,489 vendor invoices totaling $151,206,316 for potential duplicate payments.

2. **Employee Vendor Match:** 40,242 employee and 16,878 vendor addresses and phone numbers at September 30, 2102 for potential matches.

3. **OC Working Retiree/Extra Help Hours:** County working retiree/extra help hours worked during FY 12-13 for individuals exceeding annual fiscal year limits of 960 or 720 hours, as mandated by Government Code Sections 31680.6 and 31641.04.

4. **Payroll Direct Deposits:** 36,114 payroll direct deposit transactions processed for pay periods #19 (8/24/12 – 9/6/12) and #20 (9/7/12 – 9/20/12) for suspicious direct deposit activity.

RESULTS

For the month of October 2012, we found the following:

- **Objective #1 - Duplicate Payments:**
  We identified two (2) potential duplicate payments made to vendors totaling $22,962 or .015% of the **$151 million** of vendor invoices processed during September 2012.

  Value-added Information
  Based on the to-date recoveries of **$995,084** 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 125 monthly performance reports for the CAATs.

- **Objective #2 – Employee Vendor Match:**
  This routine is performed on a quarterly basis. At September 30, 2012, two (2) potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed. These two matches have been submitted to Human Resources Department (HRD) for further evaluation.

- **Objective #3 – OC Working Retiree/Extra Help Hours:**
  As of October 4, 2012, no OC working retirees exceeded the annual fiscal year 2012-2013 limits of 960 or 720 hours 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.

1. Duplicate Payments (Objective #1)

We used a CAAT routine to identify potential duplicate payments made to vendors during September 2012.

A. Results

We identified two (2) potential duplicate payments made to vendors totaling $22,962 or .015% of the $151 million of vendor invoices processed during September 2012. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **98%** 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	56	$311,421	3	$1,867
2007	93	$99,999	12	$8,411	78	$90,920	3	$668
2008	70	$77,712	11	$6,794	58	$70,718	1	$200
2009	100	$155,529	10	$30,173	90	$125,356	0	$0
2010	40	$84,059	7	$8,050	29	$74,517	4	$1,492
2011	22	$9,351	0	$0	22	$9,351	0	$0
January 2012	2	$1,200	0	$0	2	$1,200	0	$0
February 2012	4	$165	0	$0	4	$165	0	$0
March 2012	2	$360	0	$0	2	$360	0	$0
April 2012	1	$300	0	$0	1	$300	0	$0
May 2012	0	$0	0	$0	0	$0	0	$0
June 2012	0	$0	0	$0	0	$0	0	$0
July 2012	2	$315	0	$0	0	$0	2	$315
August 2012	0	$0	0	$0	0	$0	0	$0
September 2012	4	$8,528	0	$0	0	$0	4	$8,528
October 2012	2	$22,962	0	$0	1	$22,016	1	$946
TOTAL	**670**	**$1,126,715**	**91**	**$111,315**	**550**	**$995,084**	**29**	**$20,316**

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 October 2012, 13,489 invoices for $151,206,316 were added to this data sub-set representing September 2012 transactions. Currently, the data sub-set includes 1,116,058 invoices totaling $12,065,738,805. The total data file from which the sub-set is derived includes 2,506,010 records totaling $26,434,706,666. For FY 11-12, established vendor payments were about $2.7 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:

We performed an analysis of employee and vendor addresses and phone numbers at quarter-end September 30, 2012. We identified two (2) potential employee-vendor conflicts in the employee-vendor matches we reviewed. These two (2) matches have been submitted to the Human Resources Department (HRD) for further evaluation. The results of HRD's evaluation will be included in a future report.

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) 2012-2013.

Status:

The Government Code Section 31680.6 and 31641.04 mandated limits are per fiscal year and we perform this review monthly. The County's timekeeping system (VTI) automatically alerts the working retiree and their supervisor when the working retiree is approaching the mandated limit. As of October 4, 2012, there were 149 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of October 4, 2012, no OC working retiree exceeded the annual fiscal year limits.

As of October 4, 2012, FY 12-13 OC working retiree/extra-help hours were:

Department	No. of OC Working Retirees	FY 12-13 Hours
Sheriff-Coroner	86	18,465
District Attorney	26	8,869
Probation	9	2,566
Health Care Agency	8	1,535
Assessor	8	1,049
OC Public Works	4	809
Child Support Services	1	463
Treasurer-Tax Collector	1	265
Auditor-Controller	1	255
Social Services Agency	2	187
CEO Data Center	1	145
Clerk of the Board	1	56
County Counsel	1	7
Total	149	34,671

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 11-12, direct deposits for regular payroll were about $1.3 billion.

Results:

This CAAT was applied in October 2012 with no significant findings.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated October 16, 2012.