

Internal Audit Department

O R A N G E C O U N T Y
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:
December 2011

Duplicate Vendor Payments: We analyzed 12,215 vendor invoices paid in November 2011 amounting to about \$177 million and found 99.99% of the invoices were paid only once. Of the \$177 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$895. To date we have identified \$981,570 in duplicate vendor payments, of which \$967,863 or 99% has been recovered.

In-Home Supportive Services (IHSS): Per BOS requested analysis, we identified 92 active County employees who are also IHSS providers. SSA and HRD reviewed the 92 employees and the final status is: 21 were resolved in prior SSA analysis; 58 were found to have no conflict with County employment; and 13 have been referred to the District Attorney's Fraud Unit for further review to determine any potential fraud. This closes out our work on this analysis.

AUDIT NO: 1139-F
REPORT DATE: DECEMBER 22, 2011

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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

RISK BASED AUDITING

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



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



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



2008 Association of Local Government Auditors' Bronze Website Award



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



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

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. 1139-F December 22, 2011

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 December 2011 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 **\$967,863**.

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,

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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Darlene J. Bloom, Clerk of the Board of Supervisors

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Auditor-Controller, Human Resources, & County Procurement Office
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Audit No. 1139-F***

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December 2011***

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Audit No. 1139-F

December 22, 2011

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 12,215 vendor invoices paid in November 2011 amounting to about \$177 million and found 99.99% of the invoices were only paid once.

Of the \$177 million vendor invoices, we identified one (1) potential duplicate payment made to vendors for \$895.

To date we have identified **\$981,570** in duplicate vendor payments, of which **\$967,863** 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 11-12. 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. **In-Home Supportive Services:** Active County employees providing In-Home Supportive Services (IHSS) to determine whether conflicts of interest exist. This CAAT routine is being performed as a special request from the Board of Supervisors via HRD.



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 December 2011. Our analysis included a review of the following data:

1. **Duplicate Payments:** 12,215 vendor invoices totaling \$176,512,172 for potential duplicate payments.
2. **Employee Vendor Match:** This routine is performed on a quarterly basis; therefore, it was not performed in November 2011. The next analysis will be performed at 12/31/11.
3. **OC Working Retiree/Extra Help Hours:** County working retiree/extra help hours worked during FY 11/12 for individuals exceeding annual limits of 960 or 720 hours, as mandated by Government Code Sections 31680.6 and 31641.04.
4. **Payroll Direct Deposits:** 35,936 payroll direct deposit transactions processed for pay periods #23 (10/21/11 – 11/3/11) and #24 (11/4/11 – 11/17/11) for suspicious direct deposit activity.
5. **In-Home Supportive Services:** As of 5/31/11, 15,850 unique IHSS providers and, as of 6/30/11, 38,772 employee records (active and inactive) for potential matches with County employees.



RESULTS

For the month of December 2011, we found the following:

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

We identified one (1) duplicate payment of \$895 made to vendors of the **\$177 million** of vendor invoices processed during November 2011.

Value-added Information

Based on the to-date recoveries of **\$967,863** 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 115 monthly performance reports for the CAATs.

■ **Objective #2 – Employee Vendor Match:**

This routine is performed on a quarterly basis. All potential employee-vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 12/31/11.

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

As of 12/1/11, no working retirees exceeded the annual limits of 960 or 720 hours for FY 11/12, as mandated by Government Code Sections 31680.6 and 31641.04.

■ **Objective #4 – Payroll Direct Deposits:**

Analysis performed with no findings noted.

■ **Objective #5 – In Home Supportive Services:**

As reported in our August 2011 CAAT report (1139-B), we identified 92 active County employees who are also IHSS providers. SSA and HRD reviewed the 92 employees and the final status is:

- 21 were resolved in a prior analysis performed by SSA.
- 58 were determined to have no conflict with County employment by HRD.
- 13 have been referred to the DA's Fraud Unit for further review as more research is needed to determine any *potential* fraud.

As SSA and HRD have completed their review of the 92 matches, this closes out our work on this analysis.

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 November 2011.

A. Results

We identified one (1) potential duplicate payment made to vendors totaling \$895 or .0005% of the \$177 million of vendor invoices processed during November 2011. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **99%** 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 | 55 | \$311,279 | 4 | \$2,009 |
| 2007 | 93 | \$99,999 | 12 | \$8,411 | 78 | \$90,920 | 3 | \$668 |
| 2008 | 70 | \$77,712 | 11 | \$6,794 | 56 | \$68,575 | 3 | \$2,343 |
| 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 |
| January 2011 | 10 | \$2,049 | 0 | \$0 | 10 | \$2,049 | 0 | \$0 |
| February 2011 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| March 2011 | 1 | \$2,702 | 0 | \$0 | 1 | \$2,702 | 0 | \$0 |
| April 2011 | 4 | \$2,435 | 0 | \$0 | 4 | \$2,435 | 0 | \$0 |
| May 2011 | 2 | \$399 | 0 | \$0 | 2 | \$399 | 0 | \$0 |
| June 2011 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| July 2011 | 1 | \$428 | 0 | \$0 | 1 | \$428 | 0 | \$0 |
| August 2011 | 3 | \$443 | 0 | \$0 | 3 | \$443 | 0 | \$0 |
| September 2011 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| October 2011 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| November 2011 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| December 2011 | 1 | \$895 | 0 | \$0 | 0 | \$0 | 1 | \$895 |
| TOTAL | 653 | \$1,092,885 | 91 | \$111,315 | 536 | \$967,863 | 26 | \$13,707 |

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 December 2011, 12,215 invoices for \$176,512,172 were added to this data sub-set representing November 2011 transactions. Currently, the data sub-set includes 931,721 invoices totaling \$9,745,073,427. The total data file from which the sub-set is derived includes 2,186,241 records totaling \$21,689,219,988.

For FY 10-11, established vendor payments were about \$2.4 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:

All potential employee-vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 12/31/11.

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) 2011-2012.

Status:

The Government Code Section 31680.6 and 31641.04 mandated limits are per fiscal year and we perform this review monthly. As of 12/1/11, there were 98 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of 12/1/11, no OC working retiree exceeded the annual limits.

For FY 11-12, as of 12/1/11, OC working retiree/extra-help data is:

| Department | No. of OC Working Retirees | Total FY Hours to Date |
|-------------------------|----------------------------|------------------------|
| Sheriff-Coroner | 63 | 21,713 |
| District Attorney | 12 | 4,459 |
| Health Care Agency | 11 | 3,809 |
| Assessor | 7 | 1,828 |
| OC Public Works | 2 | 897 |
| County Counsel | 1 | 445 |
| Treasurer-Tax Collector | 1 | 258 |
| Human Resources | 1 | 112 |
| Total | 98 | 33,521 |

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 10-11, direct deposits for regular payroll were about \$1.3 billion.

Results:

This CAAT was applied in November 2011 with no significant findings.



5. In-Home Supportive Services (Objective #5)

IHSS Program Background:

In-Home Supportive Services (IHSS) is a program administered by Social Services Agency (SSA) that provides domestic and personal care services to allow disabled and elderly individuals to live safely at home. Eligibility requirements include income and asset limits. For FY 10-11, the approximate number of clients served monthly was 20,000+: 1,600+ (age 1-18), 5,100+ (age 19-64) and 13,300+ (age 65+). IHSS program costs for provider wages (the largest portion of program expenses) are about \$135 million annually for Orange County clients. In general, the funding formula for the program (i.e. provider wages and administrative costs) is approximately 50% Federal, 35% State and 15% County. This is a mandated program. Providers are hired directly by the eligible clients and are compensated a flat \$9.30 per hour.

Data Analysis Background:

The Board of Supervisors (BOS) requested the Human Resources Department (HRD) and SSA to obtain information of County employees also providing IHSS services and review for potential conflicts of interest or abuse. To assist them, HRD requested Internal Audit's assistance to perform data analysis.

The goal of our analysis is to identify active County employees who are also providing IHSS services in Orange County as of June 30, 2011. Our results will be provided to SSA who will further research the IHSS services provided (nature of work performed and hours worked) by County employees. SSA will then provide the service information to HRD for their review to determine whether the IHSS work conflicts with County employment.

Unless there is a conflict of interest, nothing in County or IHSS program policy prohibits a County employee from also serving as an IHSS provider. An example of a conflict is performing IHSS services while on County time or using their County position to improperly influence eligibility or payment of IHSS services. There are appropriate reasons or instances when a County employee will be a provider of IHSS services, such as caring for an eligible disabled or elderly person during non-County work hours.

We received the IHSS data from SSA on June 22, 2011 and the employee data from Auditor-Controller/CAPS+ on June 30, 2011 and July 18, 2011. There are **15,850** unique IHSS providers (as of about 5/31/11) and **38,772** employee records (active and inactive employees as of 6/30/11).

It is important to note that the 15,850 IHSS providers have been "authorized" to provide services, but may not be currently providing services (i.e. they are inactive).

Status:

Our results were submitted to SSA in August 2011 for further evaluation. SSA's review for item 5.1 below is complete and item 5.2 below is currently in progress. See current summary of the review in progress and results below.

Detailed Results



Results:

Below is a summary of the results currently being reviewed by SSA. (Full results were reported in the August 2011 Monthly Continuous Auditing Using CAATS Report #1139-B.)

1. County Employees - IHSS Providers:

We identified 92 active County employees who are IHSS providers. Of the County employee providers, 31 are SSA employees. We also identified that the highest number of clients (recipients of services) an individual employee has is two (2). In most instances, each County employee has one (1) client. See tables below.

| | Active Employees (including on leave) |
|----------------------------|---------------------------------------|
| County – Other Departments | 61 |
| SSA | 31 |
| Total County | 92 |

| Potential Number of Clients | Active Employees (including on leave) |
|-----------------------------|---------------------------------------|
| 2 | 11 |
| 1 | 81 |
| Total | 92 |

Our results were provided to SSA on August 8, 2011 for their further research to determine the nature of IHSS services provided and hours worked by County employees. SSA will then provide this service information to HRD for their review and determination of whether the IHSS work conflicts with County employment. SSA's and HRD's review have been completed. Final status is presented below:

| Description | Matches Submitted to SSA | Matches Resolved in a Prior Analysis Performed by SSA | SSA Review In Progress | HRD Review In Progress | HRD Disposition | | | |
|---|--------------------------|---|------------------------|------------------------|--------------------|---|---|---|
| | | | | | No Conflict Exists | No Conflict – Potential Policy Issue Resolved to HRD's Satisfaction | Conflict – Issue Resolved to HRD's Satisfaction | Potential Fraud – Referred to DA's Fraud Unit |
| Active County Employees Also IHSS Providers | 92 | 21 | 0 | 0 | 58 | 0 | 0 | 13 |

As SSA and HRD have completed their review of the above 92 matches, this item 5.1 will be removed from next month's CAAT report. This closes out our work on this analysis.

2. Additional Potential Conflicts or Anomalies that SSA Should Research Further:

When reviewing the IHSS provider data, we performed some additional data analysis (beyond the Board of Supervisors' original request) using the original IHSS data provided by SSA. This information should be reviewed by SSA to determine whether any of the below "potential" conflicts or anomalies should be investigated further by SSA. Our results were provided to SSA on August 8, 2011 for their further review. SSA's review is currently in progress.



- a. Multiple IHSS Providers with the Same Address: We identified the following instances of IHSS providers who are sharing the same address with three or more providers. Because of the nature of the provider data as described above, some providers listed may be “inactive” (not currently providing services). It may be appropriate for multiple providers to share the same address (such as multiple family members providing services to a relative). SSA to review those instances where there are four and five providers with the same address to determine whether any potential inappropriate activity or abuse of the IHSS program exists. Due to limited resources and the need to prioritize, these items have not yet been worked on by SSA.

| # of Providers at Same Address | # of Instances | Potential Range of Clients (Records) per Provider | SSA Disposition | |
|--------------------------------|----------------|---|----------------------|---|
| | | | No Conflict Exists | Conflict – Issue Resolved to SSA’s Satisfaction |
| 5 | 1 | 2 to 6 each | | |
| 4 | 3 | 1 to 2 each | | |
| Subtotal | 4 | | | |
| 3 | 29 | 1 to 2 each | No Follow-Up Planned | |
| Total | 33 | | | |

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 12/2/11.