

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:
January 2012

Duplicate Vendor Payments: We analyzed 18,511 vendor invoices paid in December 2011 amounting to about \$311 million and found 99.99% of the invoices were paid only once. Of the \$311 million vendor invoices, we identified two (2) potential duplicate payments made to vendors totaling \$1,200. To date we have identified \$982,770 in duplicate vendor payments, of which \$967,863 or 99% has been recovered.

Multiple IHSS Providers Sharing Same Address: We identified 33 instances of IHSS providers who are sharing the same address with three or more providers. SSA reviewed those instances where there are four and five providers with the same address and determined there were "no improprieties." As SSA has completed their review, this item will be removed from next month's CAAT report. This closes out our work on this analysis.

AUDIT NO: 1139-G
REPORT DATE: JANUARY 30, 2012

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

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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Director

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OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes

Transmittal Letter



Audit No. 1139-G January 30, 2012

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

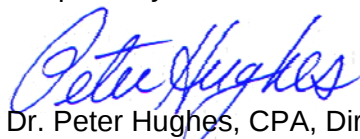
We have completed the January 2012 report of Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques). The final report is attached for your information. Recoveries to date from duplicate vendor payments are **\$967,863**.

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". The signature is fluid and cursive.

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
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Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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Audit No. 1139-G*

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January 2012*

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OC Internal Auditor's Report

Audit No. 1139-G

January 30, 2012

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 18,511 vendor invoices paid in December 2011 amounting to about \$311 million and found 99.99% of the invoices were only paid once.

Of the \$311 million vendor invoices, we identified two (2) potential duplicate payments made to vendors totaling \$1,200.

To date we have identified **\$982,770** in duplicate vendor payments, of which **\$967,863** or **99%** 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:** Multiple IHSS Providers with the same address which could be an indicator of inappropriate activity or abuse of the IHSS program.

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

1. **Duplicate Payments:** 18,511 vendor invoices totaling \$311,266,493 for potential duplicate payments.
2. **Employee Vendor Match:** 39,213 employee and 15,341 vendor addresses and phone numbers at 12/31/11 for potential matches.
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:** 35,992 payroll direct deposit transactions processed for pay periods #25 (11/18/11 – 12/1/11) and #26 (12/2/11 – 12/15/11) for suspicious direct deposit activity.
5. **In-Home Supportive Services:** As of 5/31/11, 15,850 unique IHSS providers for multiple IHSS providers sharing the same address.

OC Internal Auditor's Report

RESULTS

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

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

We identified two (2) duplicate payments totaling \$1,200 made to vendors of the **\$311 million** of vendor invoices processed during December 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 116 monthly performance reports for the CAATs.

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

This routine is performed on a quarterly basis. At 12/31/11, 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 12/29/11, 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 33 instances of IHSS providers who are sharing the same address with three or more providers. SSA reviewed those instances where there are four and five providers with the same address and determined there were “no improprieties.”

As SSA has completed their review, this item will be removed from next month's CAAT report. 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 December 2011.

A. Results

We identified two (2) potential duplicate payment made to vendors totaling \$1,200 or .0004% of the \$311 million of vendor invoices processed during December 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
January 2012	2	\$1,200	0	\$0	0	\$0	2	\$1,200
TOTAL	655	\$1,094,085	91	\$111,315	536	\$967,863	28	\$14,907

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 January 2012, 18,511 invoices for \$311,266,493 were added to this data sub-set representing December 2011 transactions. Currently, the data sub-set includes 950,232 invoices totaling \$10,056,339,920. The total data file from which the sub-set is derived includes 2,212,886 records totaling \$22,714,383,288. 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:

We performed an analysis of employee and vendor addresses and phone numbers at quarter-end December 31, 2011. Two (2) 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. Our next analysis will be performed at quarter-end March 31, 2012.

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 12/29/11, there were 100 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of 12/29/11, no OC working retiree exceeded the annual limits.

For FY 11-12, as of 12/29/11, OC working retiree/extra-help data is:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	63	25,224
District Attorney	13	5,239
Health Care Agency	11	4,555
Assessor	8	2,372
OC Public Works	2	1,105
County Counsel	1	540
Treasurer-Tax Collector	1	341
Human Resources	1	112
Total	100	39,488

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 December 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 was to identify active County employees who also provided IHSS services in Orange County as of June 30, 2011. We completed our analysis and the results were submitted to SSA and HRD in August 2011 for further evaluation. SSA and HRD then performed further research to determine whether the IHSS work conflicted with County employment. From September through December 2011, SSA and HRD performed and completed their further research. See the December 2011 CAAT Report (No. 1139-F) for further details, results, and the close-out of this analysis.

Additionally, while performing the Board requested analysis and using the IHSS provided data, we noted some additional *potential* conflicts or anomalies that SAA should review further. SSA completed their review of these additional items in December 2011, except for the below item (Multiple IHSS Providers with the Same Address).

Results:

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 received, 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 reviewed those instances where there are four and five providers with the same address and informed us in January 2012 that there were "no improprieties" as noted below.

Detailed Results



# of Providers at Same Address	# of Instances	<i>Potential Range of Clients (Records) per Provider</i>	SSA Disposition	
			No Conflict/ Impropriety Exists	Conflict/ Impropriety Resolved to SSA's Satisfaction
5	1	2 to 6 each	1	
4	3	1 to 2 each	3	
Subtotal	4			
3	29	1 to 2 each	No Follow-Up Planned	
Total	33			

As SSA has completed their review, this item will be removed from next month's CAAT report. This closes out our work on this analysis.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 1/9/12.