



## Internal Audit Department

O R A N G E C O U N T Y

## AUDIT HIGHLIGHT

DECEMBER 16, 2013

**RESULTS OF CONTINUOUS AUDITING USING CAATS – DECEMBER 2013**  
**Auditor-Controller, Human Resource Services, & County Procurement Office**  
**Audit for Duplicate Vendor Payments and Other Periodic Routines**  
**Audit No. 1349-F**

**WHAT WE FOUND?**

Duplicate Vendor Payments: Our review of \$150 million vendor disbursements processed during November 2013 found that 100% of invoices were paid only once. Of the 19,824 invoices processed during November 2013, we identified no (0) potential duplicate payments made to vendors.

Employee-Vendor: This routine is performed on a quarterly basis and was not performed in December. All employee-vendor matches identified to date have been resolved.

Working Retirees: As of November 28, 2013, no OC working retirees exceeded the fiscal year 2013-2014 limits of 960 or 720 hours mandated by Government Code Sections 31680.6 & 31641.04.

Payroll Direct Deposits: No findings resulted from the payroll direct deposit CAAT routine this month.

**WHY IS THIS ANALYSIS IMPORTANT?**

Duplicate Vendor Payments: For FY 12-13, established vendor payments were about \$2.6 billion (this amount is a subset of the total payments and does not include miscellaneous vendor payments; see report for details). To date, we have identified \$1,025,809 in duplicate payments made to vendors of which the County has collected \$1,013,713 or 99%.

Working Retirees: As of November 28, 2013, OC working retiree/extra-help hours were:

Department	No. of Working Retirees	FY 13-14 Hours
Sheriff-Coroner	87	26,349
District Attorney	31	10,428
Probation	11	3,442
Assessor	13	3,413
Health Care Agency	11	2,251
OC Public Works	4	1,489
Social Services Agency	4	1,436
Human Resource Services	2	696
Treasurer-Tax Collector	1	373
BOS 2 <sup>nd</sup> District	1	241
OC Community Resources	1	84
Child Support Services	1	16
Total	167	50,218

Payroll Direct Deposits: For FY 12-13, direct deposits for regular payroll were about \$1.3 billion.

**CAATS - Cited as a Best Practice by the Institute of Internal Auditors**

# RESULTS OF CONTINUOUS AUDITING USING CAATS: AUDITOR-CONTROLLER, HUMAN RESOURCE SERVICES, & 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 2013**

Duplicate Vendor Payments: We analyzed 19,824 vendor invoices paid in November 2013 amounting to about \$150 million and found 100% of the invoices were paid only once. Of the \$150 million vendor invoices, we identified no (0) potential duplicate payments made to vendors.

To date we have identified \$1,025,809 in duplicate vendor payments, of which \$1,013,713 or 99% has been recovered.

**AUDIT NO: 1349-F  
REPORT DATE: DECEMBER 16, 2013**

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Senior Audit Manager: Michael Goodwin, CPA, CIA  
Audit Manager: Carol Swe, CPA, CIA, CISA  
IT Audit Manager: Wilson Crider, CPA, 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

Independence

Objectivity

Integrity



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

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

**Dr. Peter Hughes**

Director

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Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

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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](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**



# Letter from Director Peter Hughes

## Transmittal Letter



**Audit No. 1349-F    December 16, 2013**

**TO:** Jan Grimes, Auditor-Controller

Steve Danley, Chief Human Resources Officer  
Human Resource Services

Rob Richardson, County Purchasing Agent  
County Procurement Office

**SUBJECT:** Results of Continuous Auditing  
Using CAATS – December 2013:  
Auditor-Controller, Human Resource Services,  
& County Procurement Office – Audit for  
Duplicate Vendor Payments & Other Periodic

We have completed the December 2013 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 **\$1,013,713**.

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 Michael Goodwin, Senior Audit Manager at (714) 834-6066.

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  
Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Frank Kim, Chief Financial Officer  
Victoria Ross, Director, Central Accounting Operations, Auditor-Controller  
Paul Villanueva, Senior Manager, A-C/Claims and Disbursing  
Bill Malohn, Manager, A-C/Information Technology/CAPS G/L System Support  
Terri Bruner, Assistant Director, Human Resource Services/Operations Division  
Kim Evans, Administrative Manager, Human Resource Services/Administration  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor



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Auditor-Controller, Human Resource Services, &  
County Procurement Office – Audit for Duplicate Vendor Payments  
and Other Periodic Routines  
Audit No. 1349-F***

***For the Month:  
December 2013***

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# OC Internal Auditor's Report



**Audit No. 1349-F**

**December 16, 2013**

TO: Jan Grimes, Auditor-Controller  
Steve Danley, Chief Human Resources Officer  
Human Resource Services  
Rob Richardson, County Purchasing Agent  
County Procurement Office

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: Results of Continuous Auditing Using CAATS – December 2013:  
Auditor-Controller, Human Resource Services, & County  
Procurement Office – Audit for Duplicate Vendor Payments  
and Other Periodic Routines

## Audit Highlight

We analyzed 19,824 vendor invoices paid in November 2013 amounting to about \$150 million and found 100% of the invoices were only paid once.

Of the \$150 million vendor invoices, we identified no (0) potential duplicate payments made to vendors.

To date we have identified **\$1,025,809** in duplicate vendor payments, of which **\$1,013,713** or **99%** has been recovered.

## OBJECTIVES

Each month, the Internal Audit Department conducts a variety of continuous auditing of vendor payments and payroll activity utilizing Computer-Assisted Audit Techniques (known by the acronym CAATs). Our objectives are to analyze selected vendor payments and payroll data to identify:

1. **Duplicate Vendor 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 13-14. 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% 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 payments 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 2013. Our analysis included a review of the following data:

1. **Duplicate Vendor Payments:** 19,824 vendor invoices paid in November 2013 totaling \$150,397,225 to identify potential duplicate payments.
2. **Employee Vendor Match:** This routine is performed on a quarterly basis and was not performed in December. Our next analysis will be performed at December 31, 2013.
3. **OC Working Retiree/Extra Help Hours:** County working retiree/extra help hours worked during FY 13-14 to identify 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:** 36,333 payroll direct deposit transactions processed for pay periods #23 (10/18/13 – 10/31/13) and #24 (11/01/13 – 11/14/13) to identify suspicious direct deposit activity.



# OC Internal Auditor's Report



## RESULTS

For the month of December 2013, we found the following:

### ■ Objective #1 – Duplicate Vendor Payments:

We identified **no (0) potential duplicate payments** made to vendors of the **\$150 million** of vendor invoices processed during November 2013.

#### Value-added Information

Based on the to-date recoveries of **\$1,013,713** 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 139 monthly performance reports for the CAATs.

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

This routine is performed on a quarterly basis and was not performed in December. All employee-vendor matches identified to date have been resolved. Our next analysis will be conducted at December 31, 2013.

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

As of November 28, 2013, **no OC working retirees exceeded the annual fiscal year 2013-2014 limits** of 960 or 720 hours mandated by Government Code Sections 31680.6 and 31641.04.

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

Analysis performed on 36,333 direct deposit transactions with **no findings noted**.

See the Detailed Results section for further information.



# Detailed Results

## 1. Duplicate Vendor Payments (Objective #1)

We used a CAAT routine to identify potential duplicate payments made to vendors during November 2013.

### Results:

We identified **no (0) potential duplicate** payments made to vendors of the \$150 million in vendor invoices processed during November 2013. 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	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	31	\$75,980	2	\$29
2011	22	\$9,351	0	\$0	22	\$9,351	0	\$0
2012	18	\$38,843	0	\$0	18	\$38,843	0	\$0
January 2013	1	\$65	1	\$65	0	\$0	0	\$0
February 2013	1	\$120	0	\$0	1	\$120	0	\$0
March 2013	3	\$384	0	\$0	3	\$384	0	\$0
April 2013	0	\$0	0	\$0	0	\$0	0	\$0
May 2013	1	\$237	0	\$0	1	\$237	0	\$0
June 2013	1	\$29	1	\$29	0	\$0	0	\$0
July 2013	2	\$4,548	0	\$0	1	\$1,623	1	\$2,925
August 2013	0	\$0	0	\$0	0	\$0	0	\$0
September 2013	0	\$0	0	\$0	0	\$0	0	\$0
October 2013	1	\$107	0	\$0	0	\$0	1	\$107
November 2013	0	\$0	0	\$0	0	\$0	0	\$0
December 2013	0	\$0	0	\$0	0	\$0	0	\$0
<b>TOTAL</b>	<b>681</b>	<b>\$1,137,218</b>	<b>93</b>	<b>\$111,409</b>	<b>566</b>	<b>\$1,013,713</b>	<b>22</b>	<b>\$12,096</b>

### Background:

This CAAT routine concentrates on a sub-set of vendor invoices paid by the County that possess 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 2013, 19,824 invoices for \$150,397,225 were added to this data sub-set representing November 2013 transactions. Currently, the data sub-set includes 1,392,945 invoices totaling \$15,004,509,405. The total data file from which the sub-set is derived includes 2,991,174 records totaling \$32,575,849,897. For FY 12-13, established vendor payments were about \$2.6 billion.

Our prior research has indicated that the duplicate payments are typically caused by 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.

#### Results:

This routine is performed on a quarterly basis and was not performed in December. All employee-vendor matches identified to date have been resolved. Our next analysis will be performed at December 31, 2013.

### 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 FY 13-14.

#### Results:

The Government Code Sections 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 November 28, 2013, there were 167 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of November 28, 2013, **no OC working retiree exceeded the annual fiscal year limits.**

Department	No. of OC Working Retirees	FY 13-14 Hours
Sheriff-Coroner	87	26,349
District Attorney	31	10,428
Probation	11	3,442
Assessor	13	3,413
Health Care Agency	11	2,251
OC Public Works	4	1,489
Social Services Agency	4	1,436
Human Resource Services	2	696
Treasurer-Tax Collector	1	373
BOS 2 <sup>nd</sup> District	1	241
OC Community Resources	1	84
Child Support Services	1	16
Total	167	50,218



## Detailed Results

### 4. Payroll Direct Deposits (Objective #4)

We used a CAAT routine to identify multiple employee paychecks directly deposited to the same bank account in the same pay period. For the month of November 2013, there were 36,333 regular payroll direct deposit transactions as shown below:

Pay Period	Pay Period Dates	# of Direct Deposit Transactions
PP23	10/18/13 – 10/31/13	18,184
PP24	11/01/13 – 11/14/13	18,149
	TOTAL	36,333

### Results:

We reviewed results to determine whether there has been any irregular direct deposit activity. **No unusual direct deposit activity** was identified. For FY 12-13, direct deposits for regular payroll were about \$1.3 billion.