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 2010

We analyzed 12,960 vendor invoices paid in September 2010 amounting to about $150 million and found 99.99% of the invoices were paid only once.

Of the $150 million vendor invoices, we identified 1 potential duplicate payment made to vendors for $300.

To date we have identified $951,058 in duplicate vendor payments, of which $904,864 has been recovered.

AUDIT NO: 1041-D
REPORT DATE: OCTOBER 29, 2010

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

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

Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes
Director
Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner
Deputy Director
CPA, CIA, CFE, CFS, CISA
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael J. Goodwin
Senior Audit Manager
CPA, CIA

Alan Marcum
Senior Audit Manager
MBA, CPA, CIA, CFE

Autumn McKinney
Senior Audit Manager
CPA, CIA, CISA, CGFM
Certified Government Financial Manager (CGFM)

Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA  92701
Phone: (714) 834-5475                  Fax: (714) 834-2880

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
The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Letter from Director Peter Hughes

Transmittal Letter

Audit No. 1041-D  October 29, 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 October 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 $904,864.

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,

[Signature]

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Attachment
The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

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
Shelley Carlucci, Assistant Director, Human Resources/Administration
Bob Leys, Assistant Director, Human Resources/Services and Support
Rosie Santiesteban, Admin. Manager II, Human Resources/Administration
Laurence McCabe, Admin. Manager II, Human Resources
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
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*Duplicate Vendor Payments and Other Routines*  
*Audit No. 1041-D*

*For the Month: October 2010*

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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

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 10-11. 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 2010. Our analysis included a review of the following data:

1. **Duplicate Payments:** 12,960 vendor invoices totaling $150,195,288 for potential duplicate payments.

2. **Employee Vendor Match:** 49,935 employee and 12,809 vendor addresses and phone numbers at 9/30/10 for potential matches.

3. **OC Working Retiree/Extra Help Hours:** County working retiree/extra help hours worked during FY 10/11 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:** 36,711 payroll direct deposit transactions processed for pay periods #18 (8/13/10 – 8/26/10) and #19 (8/27/10 – 9/9/10) for suspicious direct deposit activity.
RESULTS

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

- **Objective #1 - Duplicate Payments:**
  We identified one (1) duplicate payment made to a vendor totaling $300 or .0002% of the $150 million of vendor invoices processed during September 2010.

  **Value-added Information**
  Based on the to-date recoveries of $904,864 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 101 monthly performance reports for the CAATs.

- **Objective #2 – Employee Vendor Match:**
  This routine is performed on a quarterly basis. At quarter-end 9/30/10, we identified 1 employee/vendor match that was determined not to be a conflict.

- **Objective #3 – OC Working Retiree/Extra Help Hours:**
  As of 9/20/10, no working retirees exceeded the annual limits of 960 or 720 hours for FY 10/11, 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 September 2010.

#### A. Results
We identified one (1) duplicate payment for $300 or .0002% of the $150 million of vendor invoices processed during September 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:

<table>
<thead>
<tr>
<th>CAAT Report</th>
<th>Total</th>
<th>Not Duplicates</th>
<th>Recovered</th>
<th>In Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#'s</td>
<td>$'s</td>
<td>#’s</td>
<td>$’s</td>
</tr>
<tr>
<td>2002</td>
<td>103</td>
<td>$99,980</td>
<td>19</td>
<td>$10,334</td>
</tr>
<tr>
<td>2003</td>
<td>50</td>
<td>$33,306</td>
<td>7</td>
<td>$10,175</td>
</tr>
<tr>
<td>2004</td>
<td>33</td>
<td>$105,779</td>
<td>7</td>
<td>$2,990</td>
</tr>
<tr>
<td>2005</td>
<td>67</td>
<td>$80,162</td>
<td>2</td>
<td>$668</td>
</tr>
<tr>
<td>2006</td>
<td>75</td>
<td>$347,008</td>
<td>16</td>
<td>$33,720</td>
</tr>
<tr>
<td>2007</td>
<td>93</td>
<td>$99,999</td>
<td>12</td>
<td>$8,411</td>
</tr>
<tr>
<td>2008</td>
<td>70</td>
<td>$77,712</td>
<td>11</td>
<td>$6,794</td>
</tr>
<tr>
<td>2009</td>
<td>100</td>
<td>$155,529</td>
<td>10</td>
<td>$30,173</td>
</tr>
<tr>
<td>January 2010</td>
<td>0</td>
<td>$0</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>February 2010</td>
<td>6</td>
<td>$42,827</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>March 2010</td>
<td>0</td>
<td>$0</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>April 2010</td>
<td>1</td>
<td>$1,140</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>May 2010</td>
<td>9</td>
<td>$2,665</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>June 2010</td>
<td>8</td>
<td>$11,746</td>
<td>3</td>
<td>$6,660</td>
</tr>
<tr>
<td>July 2010</td>
<td>6</td>
<td>$954</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>August 2010</td>
<td>1</td>
<td>$786</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>September 2010</td>
<td>3</td>
<td>$1,090</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>October 2010</td>
<td>1</td>
<td>$300</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>626</strong></td>
<td><strong>$1,060,983</strong></td>
<td><strong>87</strong></td>
<td><strong>$109,925</strong></td>
</tr>
</tbody>
</table>

#### 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 2010, 12,960 invoices for $150,195,288 were added to this data sub-set representing September 2010 transactions. Currently, the data sub-set includes 1,106,319 invoices totaling $11,852,990,302.

The total data file from which the sub-set is derived includes 3,247,827 records totaling $24,212,290,548. For FY 09-10, established vendor payments were about $2.2 billion.
Detailed Results

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:**
9/30/10: We performed an analysis of employee and vendor addresses and phone numbers at 9/30/10. We identified 1 employee/vendor match that was determined not to be a conflict.

As HRD’s reviews are completed for each quarter, that quarter’s status will be removed from the below table.

<table>
<thead>
<tr>
<th>Quarter-End</th>
<th>CAAT Report Month</th>
<th>Matches Submitted to HR</th>
<th>In Progress</th>
<th>Not a Valid Match</th>
<th>No Conflict Exists</th>
<th>No Conflict – Potential HR Policy Issue Resolved to HR’s Satisfaction</th>
<th>Conflict – Issue Resolved to HR’s Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/30/10</td>
<td>October 2010</td>
<td>1</td>
<td>0</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>1</td>
<td>0</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

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 10-11, there have been approximately 83 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of September 20, 2010, no individuals have exceeded the annual limits for FY 10-11.
Detailed Results

For FY 10-11, OC working retiree/extra-help data as of September 20, 2010 is:

<table>
<thead>
<tr>
<th>Department</th>
<th>No. of OC Working Retirees</th>
<th>Total FY Hours to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheriff-Coroner</td>
<td>57</td>
<td>8,814</td>
</tr>
<tr>
<td>District Attorney</td>
<td>8</td>
<td>1,922</td>
</tr>
<tr>
<td>Health Care Agency</td>
<td>9</td>
<td>1,444</td>
</tr>
<tr>
<td>Assessor</td>
<td>5</td>
<td>521</td>
</tr>
<tr>
<td>OC Public Works</td>
<td>2</td>
<td>337</td>
</tr>
<tr>
<td>Auditor-Controller</td>
<td>1</td>
<td>289</td>
</tr>
<tr>
<td>County Counsel</td>
<td>1</td>
<td>229</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>83</strong></td>
<td><strong>13,556</strong></td>
</tr>
</tbody>
</table>

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 09-10, direct deposits for regular payroll were about $1.3 billion.

**Results:**
This CAAT was applied in September 2010 with no significant findings.

**Attachments:**
Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 10/8/10.