MONTHLY PERFORMANCE REPORT OF CAATS:  
AUDITOR-CONTROLLER, HUMAN RESOURCES, 
& COUNTY EXECUTIVE OFFICE/PURCHASING  
DUPLICATE VENDOR PAYMENTS AND 
OTHER PERIODIC ROUTINES  
(Cited as a Best Practice by the Institute of Internal Auditors)  
For the Month:  
February 2009  

We analyzed 14,594 vendor invoices paid in January 2009 amounting to about $75 million and found 99.99% of the invoices were only paid once.  

Of the $75 million vendor invoices, we identified 2 potential duplicate payments made to vendors totaling $3,991.  

To date we have identified $776,138 in duplicate vendor payments, of which $752,794 has been recovered.  

AUDIT NO: 2844-H  
REPORT DATE: FEBRUARY 27, 2009  

Audit Director: Peter Hughes, Ph.D., MBA, CPA, CITP  
Deputy Director: Eli Littner, CPA, CIA, CISA  
Sr. Audit Manager: Autumn McKinney, CPA, CIA, CISA  
Audit Manager: Carol Swe, CPA, CIA, CISA
Dr. Peter Hughes  
Office of The 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)  
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.

Transmittal Letter

Audit No. 2844-H  February 27, 2009

TO:  David Sundstrom, Auditor-Controller
     Carl Crown, Director, Human Resources Department
     Ronald C. Vienna, County Purchasing Agent, County Procurement Office

SUBJECT:  Monthly Performance Report of CAATS: Auditor-Controller, Human Resources, & CEO/Purchasing - Duplicate Vendor Payments and Other Periodic Routines

We have completed the February 2009 report of the results of our Computer-Assisted Audit Techniques (CAAT). The final report is attached for your information. Recoveries to date from duplicate vendor payments are $752,794.

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 the Auditor-Controller’s Office and the Human Resources Department. 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,

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
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Jan Grimes, Director, Auditor-Controller/Central Accounting Operations
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Laurence McCabe, Admin. Manager II, Human Resources
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
## Monthly Performance Report of CAATS:
**Auditor-Controller, Human Resources, & CEO/Purchasing**
**Duplicate Vendor Payments and Other Periodic Routines**
**Audit No. 2844-H**

*For the Month:*
*February 2009*

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<td>5. Direct Deposits (Objective #5)</td>
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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:  Monthly Performance Report of CAATS:  
          Auditor-Controller, Human Resources, &  
          CEO/Purchasing - Duplicate Vendor Payments and  
          Other Periodic Routines  

OBJECTIVES  
Each month, the Internal Audit Department conducts a variety of  
performance reviews of vendor payment and payroll activity utilizing  
Computer-Assisted Audit Techniques (known by the acronym CAAT). Our objectives are to analyze the 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 periodically as needed.  
3. **Retiree/Extra Help Hours**: Retirees working as extra help in excess of mandated hour limits. This CAAT is performed annually.  
4. **Deleted Vendors**: Active vendors deleted from the Vendor Master Table which could be an indicator of inappropriate payments. This CAAT is performed monthly.  
5. **Direct Deposits**: Multiple employee paychecks directly deposited to the same bank account which could be an indicator of inappropriate payments. This CAAT is being reintroduced this month and will continue to be performed monthly in the future.  

BACKGROUND  
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 February 2009. Our analysis included a review of the following data:

- 14,594 vendor invoices totaling $74,758,649 for potential duplicate payments.
- 103,839 vendors in the Vendor Master Table as of 2/4/09.
- 39,271 payroll direct deposit transactions processed for pay periods 1 (12/19/08 - 1/1/09) and 2 (1/2/09 - 1/15/09).

**RESULTS**

For the month of February 2009, we found the following:

- **Objective #1 - Duplicate Payments:**
  We identified 2 duplicate payments made to vendors, totaling $3,991 or **.005%** of the **$75 million** of vendor invoices processed during January 2009.

  **Value-added Information**
  Based on the to-date recoveries of **$752,794** 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 81 monthly performance reports for the CAATs.

- **Objective #2 – Employee Vendor Match:**
  Our analysis of employee-vendor activity is in process; results will be reported at a later date.
Objective #3 – Retiree/Extra Help Hours:
Our review of working retiree activity is performed annually; we are currently in the process of analyzing FY 08-09 working retiree activity.

Objective #4 - Deleted Vendors:
Analysis performed with no findings noted.

Objective #5 – 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 January 2009.

A. Results
We identified two (2) duplicate payments totaling $3,991 or .005% of the $75 million of vendor invoices processed during January 2009. We have communicated the duplicate payments to the Auditor-Controller. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the Auditor-Controller has a recovery rate of about 97% on these duplicate payments that we have brought to their attention 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>
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<tbody>
<tr>
<td></td>
<td>#’s</td>
<td>$’s</td>
<td>#’s</td>
<td>$’s</td>
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<tr>
<td>2002</td>
<td>103</td>
<td>$99,980</td>
<td>19</td>
<td>$10,334</td>
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<tr>
<td>2003</td>
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<td>2004</td>
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<tr>
<td>2005</td>
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<tr>
<td>2006</td>
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<td>2007</td>
<td>93</td>
<td>$99,999</td>
<td>12</td>
<td>$8,411</td>
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<td>January 2008</td>
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<td>$2,410</td>
<td>3</td>
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<tr>
<td>February 2008</td>
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<td>$3,594</td>
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<td>$2,126</td>
</tr>
<tr>
<td>March 2008</td>
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<td>3</td>
<td>$2,343</td>
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<td>April 2008</td>
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<td>May 2008</td>
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<td>$144</td>
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<td>December 2008</td>
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<td>January 2009</td>
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<td>February 2009</td>
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<td>$0</td>
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<td><strong>TOTAL</strong></td>
<td>495</td>
<td><strong>$849,230</strong></td>
<td>74</td>
<td><strong>$73,092</strong></td>
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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 February 2009, 14,594 invoices for $74,758,649 were added to this data sub-set representing January 2009 transactions. Currently, the data sub-set includes 835,191 invoices totaling $8,435,419,127.

The total data file from which the sub-set is derived includes 2,510,624 records totaling $16,431,025,655.

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 as a vendor. This may identify employees buying goods or issuing contracts to themselves or a related vendor.

Status:
In prior months, we gathered the data for this routine. We are currently working with a consultant who helped us perform this routine. We are currently reviewing the output of the routine (potential employee vendor address matches). After our initial analysis is completed, we plan to provide the results to Human Resources for their evaluation as to whether any employee vendor conflicts exist in the matches identified.

3. Retiree/Extra Help Hours (Objective #3)
We performed an analysis of working retiree hours to identify retirees working as extra help in excess of 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:
This routine is performed annually. We are currently in the process of performing analysis of FY 08-09 working retiree hours.

4. Deleted Vendors (Objective #4)
We used a CAAT to identify vendors that have been deleted or removed from the Vendor Master List. For deleted vendors, we verify that there has been no recent activity for that vendor.
Results:
This CAAT was applied in February 2009 with no significant findings.

5. Direct Deposits (Objective #5)
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.

Results:
This CAAT was applied in February 2009 with no significant findings.

Attachments:
Provided to the Auditor-Controller: dated 2/24/09 – A-C/Claims & Disbursing Section.