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COUNTY OF ORANGE BOARD OF SUPERVISORS'

INTERNAL AUDIT DEPARTMENT

Audit No. 2665

June 29, 2007

TO: David E. Sundstrom, Auditor-Controller

Julie Poulson, Director, Health Care Agency

SUBJECT: Limited Review of \$223,670 Duplicate Vendor Payment

In December 2006 as part of our monthly computer assisted audit techniques (CAAT), we identified a duplicate vendor payment of \$223,670. Because of the large dollar amount, we performed a review of the cause and circumstances of the duplicate vendor payment to determine whether internal controls and processes related to this specific instance of invoice review and payment could be enhanced.

BACKGROUND

HCA entered into a price agreement contract (PA) with Cardinal Health Inc. (Cardinal) for the provision of various pharmaceutical products. PAs are generally for a one-year term and can be renewed for subsequent terms. The PA designates the vendor code to be used when processing invoices for payment. A copy of the PA is submitted to Auditor-Controller/Claims and Disbursing for its use when processing invoices.

The Cardinal invoices were submitted to Auditor-Controller/HCA Accounting Services for review and approval and then forwarded to Auditor-Controller/Claims & Disbursing (Central Claims) for payment. HCA Accounting Services is an Auditor-Controller Satellite Accounting Unit that provides accounting support services to HCA through an Accounting Services Agreement.

Below are three tables that give further background information:

Cardinal Health Inc. Purchase Agreements (PA):

Price Agreement No.	Contract Period	Vendor Code
F1000002236	9/1/04 - 8/31/05	V24872D
F 2 000002236	9/1/05 - 8/31/06	V24872D
F 3 000002236	9/1/06 - 8/31/07	X0011362

Duplicate Payment Details:

Invoice #	Invoice	Order	Invoice	Payment	Payment	Vendor Code
	Date	Date	Amt.	Date	Voucher #	Used
7114926	7/19/06	7/18/06	\$223,670.47	10/18/06	XVS00007690	V24872D
7114926	7/19/06	7/18/06	\$223,670.47	11/16/06	XEG00000563	X011362
(photocopy)						

Identification of Duplicate Payment:

Identificati	dentification of Duplicate Layment.				
Date	Identified	How Identified			
Identified	By				
11/22/06	Cardinal Health	Cardinal representative notified HCA Accounting Services			
	Inc.	they had identified the duplicate after it had been deposited.			
		HCA Accounting Services requested Cardinal to submit a			
		refund check.			
12/22/06	Internal Audit	Identified during monthly CAAT duplicate vendor payment			
	Department	routine. IAD notified A-C/Claims and Disbursing via email			
		on 12/22/06 and by phone on 12/28/06.			
12/27/06	HCA Accounting	Identified during preparation of monthly Pandemic			
	Services	Influenza claim. The grant expenditures exceeded the grant			
		budget. HCA Accounting Services contacted Cardinal on			
		12/28/06 to follow-up on the refund. A refund check from			
		Cardinal was received and deposited on 1/3/07.			

SUMMARIZED CAUSE OF DUPLICATE PAYMENT

Based on interviews and review of relevant data, the duplicate payment was caused by failure to follow established procedures at three key control points:

- 1) <u>A-C/HCA Accounting Services</u>: Due to a pressing claim deadline, the Supervisor did not thoroughly research the payment status of the invoice and improperly submitted a duplicate invoice (photocopy) for payment.
- 2) <u>A-C/Claims and Disbursing</u>: A relatively new Accounting Specialist selected the incorrect Price Agreement (PA selected was for a period after the invoice order date) and therefore, an incorrect vendor code was used when processing the duplicate invoice.
- 3) <u>A-C/Claims and Disbursing:</u> The Supervisor reviewing the Accounting Specialists work did not detect the incorrect PA/vendor code was used. If the correct vendor code had been used for this invoice, the CAPS system would have prevented the duplicate payment from occurring.

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DETAILED CAUSE OF DUPLICATE PAYMENT

Based on interviews and review of relevant data, below are further details of the cause:

A-C/HCA Accounting Services

• On 11/14/06, HCA Bioterrorism Program, HCA Program Support, and HCA Purchasing staff met with HCA Accounting Services staff to discuss several invoices they believed had not been paid yet. The invoices needed to be paid and recorded by 11/17/06 in order to be reimbursed by the State. One of the invoices the Accounts Payable Supervisor believed to be outstanding was the Cardinal invoice first paid on 10/18/06. It appears that due to the pressing claim deadline, the Accounts Payable Supervisor did not follow established departmental procedures for processing a duplicate invoice. As a result, a sufficient review was apparently not performed and the Supervisor incorrectly concluded the invoice had not been paid yet. The Supervisor documented on the invoice photocopy "Please use as original copy. Invoice has not been paid previously." and submitted the invoice a second time to A-C/Claims and Disbursing for payment.

A-C/Claims and Disbursing (Central Claims)

- It appears the Accounting Specialist did not follow established departmental procedures in processing the duplicate invoice that was clearly identified as a photocopy. The Accounting Specialist paid the duplicate invoice under the current year PA and related vendor code rather than the prior year PA and related vendor code. Between the 2 years, the vendor code had changed due to a new vendor numbering protocol (V vs. X prefix) implemented by CEO/Purchasing. As a result, an incorrect vendor code was used when entering the payment data into the CAPS system.
- We were informed the Accounting Specialist was relatively new to the position (less than 6 months) and had not been deputized yet. Until deputized, all of the invoices processed by an Accounting Specialist are reviewed by a Supervisor for accuracy. It appears the Supervisor did not perform a thorough review and did not detect that an incorrect vendor code was used to process the invoice for payment. The Supervisor should have reviewed the invoice more carefully as it was clearly noted as a photocopy.

CORRECTIVE ACTIONS TAKEN BY AUDITOR-CONTROLLER

As a result of this duplicate payment, A-C/HCA Accounting Services and A-C/Claims and Disbursing have taken the following corrective actions to help mitigate future duplicate payments.

A-C/HCA Accounting Services:

Beginning January 2007, HCA Accounting Services provided a series of refresher training sessions
to its Accounts Payable staff on invoice processing procedures, and the Disbursements and
Accounts Payable Managers also provided training to HCA Program Support staff on the
appropriate procedures for researching the payment status of invoices using the CAPS system.
HCA Accounting Services has also updated their procedures and included a section dealing
specifically with handling requests for expedited payments.

A-C/Claims and Disbursing (Central Claims):

- As of March 2007, all invoices submitted to A-C/Claims and Disbursing with a department/agency
 certification "use as original, not previously paid" must be thoroughly researched in the CAPS
 system to determine whether the invoice has been previously paid.
- As of March 2007, <u>all invoices over \$100K</u> must be reviewed and researched in CAPS <u>by a Supervisor</u> to determine whether the invoice has been previously paid.

A-C/Claims and Disbursing has included these procedures as part of their invoice processing checklists.

CONCLUSION

It appears the duplicate payment was caused by failure to follow prescribed departmental procedures at three key control points. The duplicate payment should have been detected at each of the three key control points.

In addition to reminding staff to follow the existing departmental procedures, the Auditor-Controller has identified and taken the above corrective actions to help prevent future potential duplicate payments of this magnitude. We did not identify any additional internal control enhancements that should be made at this time.

The Internal Audit Department wishes to thank HCA, HCA/Accounting Services and A-C/Claims and Disbursing for their courtesy and cooperation. If additional information is needed, please call me at 834-5475, or Autumn McKinney, Senior Audit Manager at 834-6106.

Sincerely,

Peter Hughe, 7 h.D., CPA Director, Internal Audit

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