

# Internal Audit Department

O R A N G E County in the USA  
6<sup>th</sup> Largest County

## 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:  
August 2011

Duplicate Vendor Payments: We analyzed 13,041 vendor invoices paid in July 2011 amounting to about \$337 million and found 99.98% of the invoices were paid only once. Of the \$337 million vendor invoices, we identified three (3) potential duplicate payments made to vendors totaling \$443. To date we have identified \$980,675 in duplicate vendor payments, of which \$954,858 has been recovered.

New Analysis – County Employees as IHSS Providers: This month we are reporting on a Board of Supervisor requested analysis of County employees who also provide In-Home Supportive Services (IHSS). We identified 92 County employees that are IHSS providers. SSA is currently gathering further information to provide to Human Resources for their review of any potential conflicts with County employment.

AUDIT NO: 1139-B  
REPORT DATE: AUGUST 31, 2011

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



ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

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

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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

# Letter from Director Peter Hughes



## Transmittal Letter



**Audit No. 1139-B August 31, 2011**

**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 August 2011 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 **\$954,858**.

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".

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  
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  
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Michael Riley, Director, Social Services Agency  
Wendy Aquin, Division Director, SSA/Adult Services and Assistance Programs  
Division  
Carol Mitchell, Deputy Director, SSA/Adult Services  
Julie Loats, Administrative Manager II, SSA/Adult Services Program Support  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors

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Audit No. 1139-B

August 31, 2011

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 13,041 vendor invoices paid in July 2011 amounting to about \$337 million and found 99.98% of the invoices were only paid once.

Of the \$337 million vendor invoices, we identified three (3) potential duplicate payments made to vendors totaling \$443.

To date we have identified **\$980,675** in duplicate vendor payments, of which **\$954,858** 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 (New):** Active County employees providing In-Home Supportive Services (IHSS) to determine whether conflicts of interest exist. This CAAT is a new routine and is being performed as a special request from the Board of Supervisors via HRD.



## 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 August 2011. Our analysis included a review of the following data:

1. **Duplicate Payments:** 13,041 vendor invoices totaling \$336,731,492 for potential duplicate payments.
2. **Employee Vendor Match:** This routine is performed on a quarterly basis; therefore, it was not performed in July 2011. The next analysis will be performed at 9/30/11.
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:** 36,246 payroll direct deposit transactions processed for pay periods #14 (6/17/11 – 6/30/11) and #15 (7/1/11 – 7/14/11) for suspicious direct deposit activity.
5. **In-Home Supportive Services (New):** As of 5/31/11, 15,850 unique IHSS providers and, as of 6/30/11, 38,772 employee records (active and inactive) for potential matches with County employees.



## RESULTS

For the month of August 2011, we found the following:

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

We identified three (3) duplicate payments made to vendors totaling \$443 of the **\$337 million** of vendor invoices processed during July 2011.

#### **Value-added Information**

Based on the to-date recoveries of **\$954,858** 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 111 monthly performance reports for the CAATs.

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

This routine is performed on a quarterly basis. All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 9/30/11.

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

As of 7/28/11, 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 of 6/30/11, we identified 92 active County employees who are IHSS providers. Of the County employee providers, 31 are SSA employees. We also identified that the highest number of clients (recipients of services) an individual employee has is two (2). In most instances, each County employee has one (1) client. Our results have been submitted to SSA and HRD for further evaluation.

Also utilizing the IHSS provider data, we were able to perform some additional data analysis (beyond the Board of Supervisors' original request). We identified 49 SSA employees that share the same address with an IHSS provider, some instances of providers with *potentially* multiple clients, some instances of multiple IHSS providers with the same address, and a potentially large number of IHSS providers at two mobile home parks.

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 July 2011.

### A. Results

We identified three (3) potential duplicate payments totaling \$443 or .0001% of the \$337 million of vendor invoices processed during July 2011. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the County has a recovery rate of about **97%** 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	54	\$310,019	5	\$3,269
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	28	\$63,643	5	\$12,366
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	0	\$0	1	\$428
August 2011	3	\$443	0	\$0	0	\$0	3	\$443
<b>TOTAL</b>	<b>652</b>	<b>\$1,091,990</b>	<b>91</b>	<b>\$111,315</b>	<b>530</b>	<b>\$954,858</b>	<b>31</b>	<b>\$25,817</b>

### 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 August 2011, 13,041 invoices for \$336,731,492 were added to this data sub-set representing July 2011 transactions. Currently, the data sub-set includes 1,289,148 invoices totaling \$13,920,858,832.

The total data file from which the sub-set is derived includes 3,590,521 records totaling \$29,037,658,827. 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:

All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 9/30/11.

## 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 7/28/11, there were 82 OC working retirees with hours; non-County working retirees are excluded from these totals (e.g. Superior Court, OCERS, LAFCO, etc.). As of 7/28/11, no OC working retiree exceeded the annual limits.

For FY 11-12, as of 7/28/11, OC working retiree/extra-help data is:

Department	No. of OC Working Retirees	Total FY Hours to Date
Sheriff-Coroner	55	4,068
Health Care Agency	11	739
District Attorney	8	572
Assessor	4	150
OC Public Works	2	154
Human Resources	1	112
County Counsel	1	82
Total	82	5,877

**GOOD NEWS - Correction to FY 10-11 Results:** In our prior month report (No. 1139-A), we indicated that one OC working retiree exceeded the 960 hour annual threshold by 9.5 hours. After further research by HRD, they determined a minor error existed in the data report for this individual related to prior year hours worked that were incorrectly carried forward. After adjusting for the prior year hours, it was determined this individual worked 953.5 hours and did not exceed the 960 hour threshold for FY 10-11. This correction resulted in full compliance with the Working Retiree Policy for FY10/11.



#### 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 August 2011 with no significant findings.

#### 5. In-Home Supportive Services (Objective #5)

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 \$9.30 per hour.

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 is to identify active County employees who are also providing IHSS services in Orange County as of June 30, 2011. Our results will be provided to SSA who will further research the IHSS services provided (nature of work performed and hours worked) by County employees. SSA will then provide the service information to HRD for their review to determine whether the IHSS work conflicts with County employment.

##### Status:

We received the IHSS data from SSA on June 22, 2011 and the employee data from Auditor-Controller/CAPS+ on June 30, 2011 and July 18, 2011. There are **15,850** unique IHSS providers (as of about 5/31/11) and **38,772** employee records (active and inactive employees as of 6/30/11).

**It is important to note that the 15,850 IHSS providers have been "authorized" to provide services, but may not be currently providing services (i.e. they are inactive).**

**Unless there is a conflict of interest, nothing in County or IHSS program policy prohibits a County employee from also serving as an IHSS provider. An example of a conflict is performing IHSS services while on County time or using their County position to improperly influence eligibility or payment of IHSS services. There are appropriate reasons or instances when a County employee will be a provider of IHSS services, such as caring for an eligible disabled or elderly person during non-County work hours.**

# Detailed Results



Below is a summary of our results. We have provided the detailed results to HRD and/or SSA. We appreciate the cooperation and assistance provided by SSA and HRD while performing our analysis.

## 1. County Employees - IHSS Providers:

We identified 92 active County employees who are IHSS providers. Of the County employee providers, 31 are SSA employees. We also identified that the highest number of clients (recipients of services) an individual employee has is two (2). In most instances, each County employee has one (1) client. See tables below.

	Active Employees (including on leave)
County – Other Departments	61
SSA	31
Total County	92

Potential Number of Clients	Active Employees (including on leave)
2	11
1	81
Total	92

Our results were provided to SSA on August 8, 2011 for their further research to determine the nature of IHSS services provided and hours worked by County employees. SSA will then provide this service information to HRD for their review and determination of whether the IHSS work conflicts with County employment. SSA's review is currently in progress. Key milestones will be presented below:

Description	Matches Submitted to SSA	Matches Resolved in a Prior Analysis Performed by SSA	SSA Review In Progress	HRD Review In Progress	HRD Disposition			
					No Conflict Exists	No Conflict – Potential Policy Issue Resolved to HRD's Satisfaction	Conflict – Issue Resolved to HRD's Satisfaction	Potential Fraud – Referred to DA's Fraud Unit
Active County Employees Also IHSS Providers	92	21	71					

## 2. Additional Potential Conflicts or Anomalies that SSA Should Research Further:

When reviewing the IHSS provider data, we performed some additional data analysis (beyond the Board of Supervisors' original request) using the original IHSS data provided by SSA. This information should be reviewed by SSA to determine whether any of the below "potential" conflicts or anomalies should be investigated further by SSA. Our results were provided to SSA on August 8, 2011 for their further review. SSA's review is currently in progress as noted below.

### a. Potential Conflict with SSA Employee Duties:

We identified 49 active SSA employees sharing the same address with an IHSS provider (the SSA employee is not the provider). **Please note that the IHSS client hires the provider, not SSA.**

# Detailed Results



Because clients and providers may often be related (i.e. family members), the instance of a provider sharing an address with an employee could also *potentially* be an instance of a client related to an employee.

According to SSA, clients are to disclose if they live with or have a relationship with someone who is involved with a County program. SSA is currently revising its provider orientation to inform providers they must also disclose similar relationships. When this disclosure is made, SSA monitors by putting the case into a confidential caseload. SSA should review these 49 instances to determine whether the case was self-disclosed and put into the confidential caseload. If not, SSA should review those exceptions to determine whether the employee was in a position to influence the awarding or monitoring of services for IHSS clients using these providers.

SSA Employees	IHSS Provider Shares Address with SSA Employee	SSA Disposition		
		Included in Confidential Caseload (i.e. Self-Disclosed)	Not a Confidential Case & Not a Conflict	Conflict - Issue Resolved to SSA's Satisfaction
Active Employees (including on leave)	49			

b. IHSS Providers with *Potentially* Multiple Clients:

We identified the following number of IHSS providers who are *potentially* providing services to multiple clients. Because of the nature of the provider data, the number of records/potential clients listed below may not represent “active” clients (i.e. currently receiving services from that provider). **It is likely the number of records/potential clients listed below is overstated due to the nature of the data used in our analysis (e.g. each provider record could be a client or could be another transaction such as an address change).** Also, it may be appropriate for a provider to serve multiple clients (such as on a part-time basis).

SSA should consider reviewing those instances where a provider is *potentially* providing services to a high number of clients (such as 6 to 8 clients) to determine whether any potential inappropriate activity or abuse of the IHSS program exists.

Number of Records ( <i>Potential</i> Clients)	Number of IHSS Providers		Total
	Not A County Employee	County Employee	
8	1	0	1
7	8	0	8
6	18	0	18
<b>Subtotal</b>	<b>27</b>	<b>0</b>	<b>27</b>
5	41	0	41
4	107	0	107
3	282	0	282
2	2,326	11	2,337
1	12,971	85	13,056
<b>Total</b>	<b>15,754</b>	<b>96</b>	<b>15,850</b>



SSA reviewed the instance of one provider *potentially* serving eight clients (had 8 “records” in the data file) listed above. SSA determined the provider is actually serving three active clients and identified no concerns with this provider’s number of clients.

In our discussions with SSA, they stated SSA receives a monthly report of “Providers 300+ Hours” which alerts SSA to those providers with high service hours who may have multiple clients (300 hours represents about \$2,790 taxable income per month). SSA regularly performs research and follow-up on those high activity cases. For example, there are some clients who require protective supervision (need 24 hrs/7 days week) and they may be approved for the maximum of 283 hours of services per month with an additional plan showing how services will be provided beyond this point. Some providers care for more than one person with high hours putting them over the 300 hours of service. As SSA has an existing process to review and address the above instances of providers with a *potentially* large number of clients, SSA determined that no additional follow-up is needed at this time. This appears reasonable. We close-out further reporting of this portion of the data analysis.

- c. 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 as described above, 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 should consider reviewing those instances where there are a high number of providers (such as 4 or 5) with the same address to determine whether any potential inappropriate activity or abuse of the IHSS program exists.

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



- d. Potentially Large Number of IHSS Providers at Same Mobile Home Park: We identified the following locations (addresses appear to be mobile home parks) where a large number of providers reside and are providing services to a large number of clients. Because of the nature of the provider data as described above, some providers listed may be “inactive” (not currently providing services). SSA should consider reviewing the two instances where there are a high number of providers with addresses at the same mobile home park to determine whether any potential inappropriate activity or abuse of the IHSS program exists.

Mobile Home Park #	# of Providers at Mobile Home Park	# of Clients Potentially Served by These Providers
1	32	42
2	23	30
Total	55	72

In our discussions with SSA, they indicated these two mobile home parks are designated for senior citizens. It is not unusual for providers to be senior citizens who are often caring for a senior spouse. As a result, SSA will not perform further follow-up on the above providers. Therefore, we close-out further reporting of this portion of the data analysis.

Attachments:

Details of Duplicate Payments provided to the Auditor-Controller/Claims & Disbursing Section, dated 8/10/11.