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## INTERNAL AUDIT DEPARTMENT

Audit No. 2236-E

December 20, 2002

Members, Board of Supervisors  
Hall of Administration Building  
10 Civic Center Plaza  
Santa Ana, CA 92701

Dear Honorable Board Members:

We have completed the November 2002 report of the results of our Computer-Assisted Audit Techniques (CAAT). The report is attached for your information.

We would like to acknowledge the courtesy and cooperation extended to us by the personnel of the Auditor-Controller's Office and the CEO/Office of Human Resources. As always, I remain available to answer any questions you may have. Please contact me directly or Eli Litter, Deputy Director at (714) 834-5899 if we can be of further assistance.

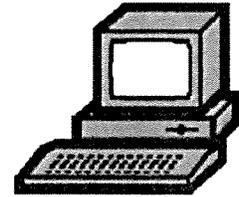
Respectfully submitted,

A handwritten signature in cursive script that reads "Peter Hughes".

Dr. Peter Hughes, CPA, CITP  
Director

Attachment

cc: Members, Audit Oversight Committee  
Dr. Michael Schumacher, County Executive Officer  
David Sundstrom, Auditor-Controller  
Jan Walden, Director, CEO/Office of Human Resources  
Robert Leblow, Manager, Auditor-Controller/Claims & Disbursing Section  
Scott Sanders, Senior Systems Programmer Analyst, CEO/HR/Employee Benefits  
Darlene J. Bloom, Clerk of the Board of Supervisors  
Foreman, Grand Jury



Monthly Report on  
Computer-Assisted Audit Techniques  
(CAAT)  
Report Date: November 27, 2002

Audit No. 2236-E

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Audit Director:	Dr. Peter Hughes, CPA, CITP
Deputy Director:	Eli Littner, CPA, CISA
Audit Manager:	Autumn McKinney
Staff Auditor:	Leigh Riddle



Internal Audit Department

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COUNTY OF ORANGE

CAAT Program: This report details the monthly activity and findings from establishing Computer-Assisted Auditing Techniques (known by the acronym CAAT) as a part of our information technology audit coverage. We are using a proprietary, state-of-the-art/best practices and industry recognized software product to help us in this process. 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.

The CAAT is a continuing and evolving audit process with the goal of developing a toolset of computer-routines and techniques that will analyze patterns in the individual data elements of the County's financial data. The resulting data/exceptions will be subjected to further review, analysis validation, recovery and evaluation of internal control enhancements whose purpose is to prevent future occurrences of the findings identified by the CAAT process.

New CAAT: We added one new CAAT routine for deleted vendors to this month's activities. Improvements and enhancements to existing CAAT routine methodologies and procedures continue to be performed.

1. CAAT Performed: **Duplicate Payments.** We used a CAAT application to identify potential duplicate payments made in October 2002.

Additionally, we were able to retrieve an additional eight months of data from the period October 2000 through May 2001. We then used the CAAT application to identify potential duplicate payments that were made during this period.

Results: No potential duplicate payments were identified in the October 2002 data.

Thirty-five potential duplicate invoices totaling \$32,057 were identified in the October 2000 through May 2001 data. A schedule of these items was prepared and forwarded to the Auditor-Controller's Claims and Disbursing Section for further review.

In November, the Auditor-Controller's Claims and Disbursing Section reported to us that \$7,139 had recently been recovered in the form of checks and credits from items previously submitted for their follow-up.

The table below summarizes the duplicate payment activity to date:

CAAT Report Dated	Total		Not Duplicates		Recovered		In process	
	#'s	\$'s	#'s	\$'s	#'s	\$'s	#'s	\$'s
May 2002	12	\$12,922	0	\$0	0	\$0	12	\$12,922
July 2002	40	\$36,651	10	\$8,092	12	\$7,223	18	\$21,336
August 2002	10	\$12,561	0	\$0	6	\$9,293	4	\$3,268
September 2002	5	\$2,526	0	\$0	0	\$0	5	\$2,526
October 2002	0	\$0	0	\$0	0	\$0	0	\$0
November 2002	35	\$32,057	0	\$0	0	\$0	35	\$32,057
<b>TOTAL</b>	<b>102</b>	<b>\$96,717</b>	<b>10</b>	<b>\$8,092</b>	<b>18</b>	<b>\$16,516</b>	<b>74</b>	<b>\$72,109</b>

Background: This CAAT concentrates on a sub-set of vendor invoices paid by the County possessing certain common attributes. The CAAT reviews the attributes and highlights potential duplicate payments for further review and verification. During the month of October 2002, a total of 20,893 invoices for \$89,012,095 were added to this data sub-set representing October 2002 transactions.

An additional 177,021 invoices for \$1,309,116,462 were added to the subset from the period October 2000 through May 2001.

Currently, the data sub-set includes a total of 560,672 invoices totaling \$3,648,546,007. The total data file that the sub-set is derived from includes 2,152,778 records totaling \$6,102,924,869.

2. CAAT Performed: **Employee Vendors.** A CAAT was created to identify employees who have recently received payments as vendors for goods and/or services based upon similar tax identification numbers.

Status: The list of employee vendors continues to be researched by both the Auditor-Controller's Claims and Disbursing Section as well as the CEO/Office of Human Resources. Many of the employee/vendor arrangements were determined to be proper. However, the CEO/Office of Human Resources recently requested additional information related to a number of the records that will help them to further evaluate the employee/vendor list. We are in the process of gathering that information.

3. CAAT Performed: **Employee Vendor Address Match.** We used a CAAT to identify instances where employees possess the same address as vendors.

Results: Refinement to this CAAT was performed in October. Additional records were provided to the CEO/Office of Human Resources in November. The CEO/Office of Human Resources is continuing to research the results of employee vendor address matches.

4. CAAT Performed: **Direct Deposits.** We used a CAAT application to review for multiple employee paychecks that are directly deposited to the same bank account. This review is designed to identify potential fictitious employees.

Results: This CAAT was applied in November. No further review was deemed necessary because no irregular deposit activity was identified by the CAAT.

5. New CAAT Performed: **Deleted Vendors.** We developed a new CAAT to identify Vendors that have been deleted or removed from the Vendor Master List.

A best business practice is to de-activate vendors rather than delete them from the Vendor Master file. Retaining vendor records in a de-active status protects the County's ability to fully research historical information.

Results: This new CAAT was applied to monthly data covering the period April 2002 to September 2002. We found that approximately 30 vendors were deleted from the Vendor Master each month.

Both the Auditor-Controller and CEO/Purchasing are responsible for processes that establish new vendors on the vendor master. We forwarded a partial list of deleted vendors to the Auditor-Controller for their review and feedback. A full list will be provided in December.

Attachments – Provided to the Auditor-Controller or County Executive Office only:

- A. List of Potential Duplicate Payments dated 11/14/02 – Auditor-Controller/Claims and Disbursing Section
- B. Updated Employee/Vendor Address Matches dated 11/8/02 – CEO/Office of Human Resources
- C. List of Deleted Vendors dated 11/8/02 – Auditor-Controller/Systems Division/CAPS G/L System Support