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INTERNAL AUDIT DEPARTMENT

Audit No. 2317-C

April 11, 2003

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

Dear Honorable Board Members:

We have completed the March 2003 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
James D. Ruth, Interim County Executive Officer
David Sundstrom, Auditor-Controller
Robert Leblow, Manager, Auditor-Controller/Claims & Disbursing Section
Virginia Czarnecki, A-C/Information Technology/CAPS G/L System Support
Jan Walden, Director, CEO/Office of Human Resources
Patti Cahill, Manager, CEO/HR/ HR Standards
Scott Sanders, Senior Systems Programmer Analyst, CEO/HR/Employee Benefits
Bill Rawlings, Director, CEO/Purchasing & Real Estate
Paula Kielich, Administrator, CEO/Purchasing/Automated Purchasing Program
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury



Monthly Report on
Computer-Assisted Audit Techniques
(CAAT)
Report Date: March 31, 2003

Audit No. 2317-C

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



Internal Audit Department

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.

1. CAAT Performed: **Duplicate Payments.** We used a CAAT to identify potential duplicate payments made February 2003.

Results: Four potential duplicate payments were identified in the February 2003 data.

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
December 2002	1	\$445	0	\$0	0	\$0	1	\$445
January 2003	3	\$772	0	\$0	0	\$0	3	\$772
February 2003	3	\$266	0	\$0	0	\$0	3	\$266
March 2003	4	\$2,368	0	\$0	0	\$0	4	\$2,368
TOTAL	113	\$100,568	10	\$8,092	18	\$16,516	85	\$75,960

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 March 2003, a total of 16,857 invoices for \$74,733,446 were added to this data sub-set representing February 2003 transactions.

Currently, the data sub-set includes a total of 634,752 invoices totaling \$4,482,424,802. The total data file that the sub-set is derived from includes 2,493,128 records totaling \$7,342,643,354.

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

Status: This list was originally presented to the Auditor-Controller's Claims and Disbursing Section and CEO/Office of Human Resources during August 2002. The list included 178 employee-vendor relationships for review. During September, October, and November 2002, the Auditor-Controller's Claims and Disbursing Section and the CEO/Office of Human Resources performed reviews of the relationships and concluded that many were appropriately authorized.

However, the CEO/Office of Human Resources determined that 38 of the original employee-vendor relationships identified required further investigation. During December 2002, we provided additional data to CEO/Office of Human Resources to assist this review.

A meeting was held with CEO/Office of Human Resources, CEO/Purchasing, and Internal Audit on March 19, 2003, to discuss this review. The CEO/Office of Human Resources is continuing their research related to this concern.

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

Status: This CAAT first appeared in the September 2002 CAAT report. At that time, a list was presented to the CEO/Office of Human Resources for analysis. In November 2002, a more accurate and updated list was forwarded to them.

A meeting was held with CEO/Office of Human Resources, CEO/Purchasing, and Internal Audit on March 19, 2003, to discuss this review. The CEO/Office of Human Resources requested additional information relating to this review. We are in the process of gathering the additional data

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 March and no irregular deposit activity was identified by the CAAT.

5. CAAT Performed: **Deleted Vendors.** We used a 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.

Status: This CAAT was applied to February 2003 monthly data. We noted that an additional 32 vendors were deleted from the Vendor Master in February 2003.

Management of Vendor Master data is shared between the Auditor-Controller and CEO/Purchasing. This review has discovered that the policy for deleting vendors from the vendor master is not consistent between the two entities resulting in CEO/Purchasing routinely deleting "V" vendors from the vendor master.

During March 2003, we were granted access to additional data files that will enable us to perform enhanced analysis of changes that are made to the Vendor Master.

6. CAAT Performed: **Retiree/Extra Help Hours.** We used a CAAT to identify Retirees who worked as extra help more than 980 hours during fiscal year 2001/2002.

Results This CAAT was run in February 2002. A list of 14 instances of retirees who worked more than 980 hours during fiscal year 2001/2002 was forwarded to CEO/Office of Human Resources for further review.

A meeting was held with CEO/Office of Human Resources, CEO/Purchasing, and Internal Audit on March 19, 2003, to discuss this review. The CEO/Office of Human Resources has made progress identifying specific concerns related to this issue and is continuing their research.

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

A. Potential Duplicate Payments, dated 3/18/03 – A-C/Claims and Disbursing Section