INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Integrity
Objectivity
Independence

Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of February 2005

Report Number: 2518-B **REPORT DATE: March 1, 2005**

Audit Director: Peter Hughes, Ph.D., CPA, CITP
Deputy Director: Eli Littner, CPA, CIA, CISA
Audit Manager: Autumn McKinney, CPA, CIA
Senior Auditor: Carol Swe, CPA, CIA

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors

Monthly Report on
Computer-Assisted Audit Techniques
(CAAT)

For the Period: February 2005

TABLE OF CONTENTS

Transmittal Letter i

EXECUTIVE SUMMARY ii

CAAT Program: 1

1. CAAT Performed: Duplicate Payments 1
   - **A. Results:** 1
   - **B. Background:** 1
2. CAAT Performed: Employee Vendor Match 2
   - **Status:** 2
3. CAAT Performed: Retiree/Extra Help Hours 2
   - **Status:** 2
4. CAAT Performed: Direct Deposits 2
   - **Status:** 2
5. CAAT Performed: Deleted Vendors 2
   - **Results:** 2

COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
Objectivity
Independence

PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

Transmittal Letter

Report No. 2518-B

March 1, 2005

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

Dear Honorable Board Members:

We have completed the February 2005 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 Human Resources Department. As always, I remain available to answer any questions you may have. Please contact me directly or Eli Littner, Deputy Director, at (714) 834-5899, or Autumn McKinney, Audit Manager, at (714) 834-6106, if we can be of further assistance.

Respectfully submitted,

Peter Hughes

Peter Hughes, Ph.D., CPA, CITP
Director, Internal Audit

cc: Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
David Sundstrom, Auditor-Controller
Robert Leblow, Manager, Auditor-Controller/Claims & Disbursing Section
Bill Malohn, A-C/Information Technology/CAPS G/L System Support
Marcel Turner, Director, Human Resources
Gloria Phillips, Senior Analyst, Human Resources
Dennis Edwards, Director, CEO/Purchasing
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury

EXECUTIVE SUMMARY

Description of CAAT Program:
The CAAT Routines (Computer Assisted Audit Techniques) are automated queries applied to large amounts of electronic data searching for specified characteristics. 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.

Results (for the Month of February 2005):

No material weaknesses or significant issues identified.**

Reportable Conditions:

- Duplicate Payments to Vendors: We identified **9** duplicate payments made to vendors totaling **$35,671**.
- Employee/Vendor Potential Conflicts of Interest: The **9** items previously identified have been **resolved** to HR's satisfaction. This routine is performed annually and will not be performed again for several months.
- Deleted Vendors: No findings.

** **Classification of Report Items:** We have classified report items into three distinct categories of severity, with assignment of "material weakness" as the most serious:

1. **Material Weaknesses:**
   Audit findings that represent a material weakness in the design or operation of processes or internal controls that could affect a department/agency's ability to record, process and report financial information, safeguard assets, and ensure that transactions are executed in accordance with management's authorization. Material weaknesses can result in significant financial liability and exposure to a department/agency and to the County as a whole. A material weakness could also result if we find an aggregation of significant issues that when combined may be considered as material. Management is expected to address "Material Weaknesses" brought to their attention immediately.

2. **Significant Issues:**
   Audit findings that represent a significant deficiency in the design or operation of processes or internal controls and could affect a department/agency's ability to record, process and report financial information, safeguard assets, and ensure that transactions are executed in accordance with management's authorization. Significant issues do not present a material exposure throughout the County; yet generally will require more immediate attention and corrective action by management than expected with the below "Reportable Conditions."

3. **Reportable Conditions:**
   Audit findings that require management's corrective action to implement or enhance processes and internal controls helpful in achieving department/agency objectives, safeguarding assets, ensuring that transactions are executed in accordance with management's authorization, and minimizing risks.

MONTHLY CAAT REPORT

CAAT Program:
This report details the monthly activity from the Computer-Assisted Auditing Techniques (known by the acronym CAAT). We use a proprietary, 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 CAATs are automated queries applied to large amounts of electronic data searching for specified characteristics. The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.

For example, each month we download the monthly disbursement activity from the County's data warehouse into a cumulative vendor payment database that we have created. Then, we query 100% of the database looking for payments with the same invoice number and the same amount. We then subject the resulting matches to further review and analysis (such as obtaining and reviewing copies of the paid invoices) to determine if a duplicate payment was made. We then forward resulting findings to the Auditor-Controller for validation and recovery.

We also work 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 currently perform five CAATs routines described below utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, biannually, or annually.

1. **CAAT Performed: Duplicate Payments**
   We used a CAAT routine to identify potential duplicate payments made to vendors during January 2005.

   A. **Results:**
   Nine potential duplicate payments were identified in the January 2005 data. 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	$99,982	17	$5,469	76	$85,138	10	$9,375
2003	50	$33,304	5	$10,089	32	$19,263	13	$3,952
2004	33	$105,778	6	$2,815	21	$95,171	6	$7,792
January 2005	1	$8,400	0	$0	0	$0	1	$8,400
February 2005	9	$35,671	0	$0	0	$0	9	$35,671
TOTAL	**196**	**$283,135**	**28**	**$18,373**	**129**	**$199,572**	**39**	**$65,190**

   B. **Background:**
   This CAAT routine concentrates on a sub-set of vendor invoices paid by the County that possess 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 2005, 18,329 invoices for $229,599,102 were added to this data sub-set representing January 2005 transactions. Currently, the data sub-set includes 1,057,220 invoices totaling $8,489,534,847. The total data file from which the sub-set is derived includes 4,547,977 records totaling $14,240,300,322.

2. **CAAT Performed: Employee Vendor Match**
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:
This routine is performed annually. The 9 items identified this year have been resolved to HR's satisfaction.

3. **CAAT Performed: Retiree/Extra Help Hours**
We used a CAAT routine to identify retirees working as extra help in excess of contracted or mandated limits. Our criteria was 960 hours (maximum allowed for regular retirees) or 720 hours (maximum for early retirees) during fiscal year 2003/2004.

Status:
HR continues to clarify OCERS' responsibility if an employee exceeds their limits.

4. **CAAT Performed: Direct Deposits**
We used a CAAT routine to review for multiple employee paychecks directly deposited to the same bank account. This may identify employees paid twice in the same pay period or fictitious employees.

Status:
Postponed as some of the information needed to perform this CAAT is not available. Auditor-Controller/Information Technology has informed us that the information should be available by April 2005.

5. **CAAT Performed: Deleted Vendors**
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 2005 with no significant findings.

Attachment:
Provided to the Auditor-Controller only: Potential Duplicate Payments, dated 2/7/05 – A-C/Claims and Disbursing Section