



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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

Report Number: 2518-A

REPORT DATE: February 9, 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

Monthly Report on
Computer-Assisted Audit Techniques
(CAAT)

For the Period: January 2005

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INTERNAL AUDIT DEPARTMENT**

OFFICE OF THE DIRECTOR

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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-A

February 9, 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 January 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, 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 January 2005:

No significant issues identified.

Work Performed for the Month of January 2005:

We performed the following CAAT routines:

- Duplicate Payments to Vendors: We identified one duplicate payment made to a vendor for \$8,400.
- Deleted Vendors: No findings.
- Employee/Vendor Potential Conflicts of Interest: Human Resources completed their research on eight exceptions we identified in November 2004. Human Resources determined that no potential conflict of interest existed for any of the eight exceptions.
- Retirees Working as Extra Help: Human Resources finalized their enhanced processes with County departments and employees to address issues the CAAT identified in prior months. Human Resources continues to clarify OCERS' responsibility if an employee exceeds their limits.
- Multiple Payroll Direct Deposits: Postponed this routine as some of the information is not available. Auditor-Controller has informed us that the information should be available by April 2005.

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 December 2004.

A. Results:

One potential duplicate payment was identified in the December 2004 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
TOTAL	187	\$247,464	28	\$18,373	129	\$199,572	30	\$29,519

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 January 2005, 18,374 invoices for \$530,747,151 were added to this data sub-set representing December 2004 transactions. Currently, the data sub-set includes 1,038,891 invoices totaling \$8,259,935,745. The total data file from which the sub-set is derived includes 4,459,505 records totaling \$13,847,219,968.

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:

We have completed our analysis of the CAAT routine results. The table below tracks the status of the identified employee/vendor matches submitted to HR for their review.

CAAT Report Month	Data Matches Submitted to HR	In Progress	HR Disposition			
			Not a Valid Match	No Conflict Exists	Potential Conflict - Issue Resolved to HR's Satisfaction	Conflict - Issue Resolved to HR's Satisfaction
September 2004	2	0	0	1	0	1
November 2004	8	0	0	8	0	0
TOTAL	10	0	0	9	0	1

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 has finalized their enhanced processes with County departments and employees to address this issue. 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 January 2005 with no significant findings.

Attachment:

Provided to the Auditor-Controller only: Potential Duplicate Payments, dated 1/31/05 – A-C/Claims and Disbursing Section

