MONTHLY PERFORMANCE REPORT OF
COMPUTER-ASSISTED
AUDIT TECHNIQUES (CAAT)
FOR DUPLICATE VENDOR PAYMENTS AND
OTHER PERIODIC ROUTINES

AUDIT NO: 2713-D
REPORT DATE: OCTOBER 26, 2007

For the Month of October 2007

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Providing Facts and Perspectives Countywide

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website:  www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608
Letter from Director Peter Hughes

Transmittal Letter

AUDIT NO. 2713-D          OCTOBER 26, 2007

TO:     David Sundstrom, Auditor-Controller
        Carl Crown, Director, Human Resources
        Department
        Ronald C. Vienna, County Purchasing
        Agent, CEO/Purchasing

          Audit Techniques (CAAT) for
          Duplicate Vendor Payments and Other
          Periodic Routines

We have completed the October 2007 report of the results of our Computer-Assisted
Audit Techniques (CAAT). The final report is attached for your information. Recoveries
to date from duplicate vendor payments are $606,960.

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 the
Auditor-Controller’s Office and the Human Resources Department. If we can be of
further assistance, please contact me, Eli Littner, Deputy Director at (714) 834-5899, or
Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Respectfully Submitted,

Dr. Peter Hughes, CPA
Director, Internal Audit Department

ATTACHMENT

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.
Other recipients of this report continued:

Thomas G. Mauk, County Executive Officer
Robert Leblow, Senior Manager, Auditor-Controller/Claims & Disbursing Section
Bill Malohn, A-C/Information Technology/CAPS G/L System Support
Bob Leys, Interim Assistant Director, Human Resources
Rosie Santiesteban, HR Programs, Human Resources
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
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Monthly Performance Report of Computer-Assisted Audit Techniques (CAAT) for Duplicate Vendor Payments and Other Periodic Routines
Month of October 2007

Audit No. 2713-D

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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. These CAAT routines are not an audit because we have not audited the underlying business processes or internal controls.

Results (for the Month of October 2007):
No material weaknesses or significant issues identified. See Appendix A for a description of report item classifications.

Control Findings:
- **Duplicate Payments to Vendors:**
  We did not identify any duplicate payments made to vendors during September 2007.

  The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the Auditor-Controller has a recovery rate of about 86% on these duplicate payments that we have brought to their attention since the inception of the CAAT routines.

- **Deleted Vendors:**
  No findings.

Value-Added Information:
Based on the to-date recoveries of $606,960 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 65 performance reports for the computer assisted routines.
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 CAAT routines described below utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or periodically as needed.
1. **CAAT Performed: Duplicate Payments**

We used a CAAT routine to identify potential duplicate payments made to vendors during September 2007.

**A. Results**

We did not identify any duplicate payments of vendor invoices processed during September 2007. The Auditor-Controller continues to investigate all duplicate payments and is pursuing collection. Currently, the Auditor-Controller has a recovery rate of about 86% on these duplicate payments that we have brought to their attention since the inception of the CAAT routines.

The table below summarizes the duplicate payment activity to date:

<table>
<thead>
<tr>
<th>CAAT Report</th>
<th>Total #’s</th>
<th>Total $’s</th>
<th>Not Duplicates #’s</th>
<th>Not Duplicates $’s</th>
<th>Recovered #’s</th>
<th>Recovered $’s</th>
<th>In Process #’s</th>
<th>In Process $’s</th>
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<tr>
<td>2002</td>
<td>103</td>
<td>$99,981</td>
<td>19</td>
<td>$10,334</td>
<td>79</td>
<td>$87,188</td>
<td>5</td>
<td>$2,459</td>
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<tr>
<td>2003</td>
<td>50</td>
<td>$33,307</td>
<td>7</td>
<td>$10,175</td>
<td>37</td>
<td>$20,556</td>
<td>6</td>
<td>$2,576</td>
</tr>
<tr>
<td>2004</td>
<td>33</td>
<td>$105,778</td>
<td>7</td>
<td>$2,990</td>
<td>24</td>
<td>$101,459</td>
<td>2</td>
<td>$1,329</td>
</tr>
<tr>
<td>2005</td>
<td>67</td>
<td>$80,163</td>
<td>2</td>
<td>$668</td>
<td>59</td>
<td>$40,786</td>
<td>6</td>
<td>$38,709</td>
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<tr>
<td>2006</td>
<td>75</td>
<td>$347,009</td>
<td>13</td>
<td>$30,965</td>
<td>51</td>
<td>$309,570</td>
<td>11</td>
<td>$6,474</td>
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January 2007 22 $14,514 0 $0 17 $13,197 5 $1,317

February 2007 18 $19,993 1 $1,400 13 $14,148 4 $4,445

March 2007 5 $25,159 1 $841 2 $27 2 $24,291

April 2007 4 $406 0 $0 4 $406 0 $0

May 2007 10 $10,373 0 $0 7 $6,008 3 $4,365

June 2007 9 $7,431 0 $0 0 $0 9 $7,431

July 2007 4 $8,037 0 $0 1 $3,000 3 $5,037

August 2007 6 $10,456 0 $0 5 $10,039 1 $417

September 2007 6 $1,496 1 $600 3 $576 2 $320

October 2007 0 $0 0 $0 0 $0 0 $0

TOTAL 412 $764,103 51 $57,973 302 $606,960 59 $99,170

**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.).
CAAT Program

During the month of October 2007, 16,550 invoices for $141,389,327 were added to this data sub-set representing September 2007 transactions. Currently, the data sub-set includes 573,232 invoices totaling $6,944,079,585. The total data file from which the sub-set is derived includes 1,862,723 records totaling $12,100,821,389.

Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.

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 periodically as necessary. There is no current work in progress for this item.

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 the fiscal year (FY).

Status:
This routine is performed annually. We are in the process of reviewing working retiree activity for FY 06-07.

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:
We are rewriting the CAAT routine to accommodate the new data format. We hope to have the routine functioning soon.

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 October 2007 with no significant findings.
Appendix A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

- **Material Weaknesses:**
  Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

- **Significant Issues:**
  Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings and/or Efficiency/Effectiveness Issues:**
  Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.