

**COUNTY OF ORANGE  
DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION  
INSURANCE FRAUD PROGRAM  
REPORT ON AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**

**REPORT DATE: October 1, 2004**

**Audit Number #2412**

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<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
<b>Audit Manager:</b>	<b>Alan Marcum, CPA, CIA</b>
<b>In-Charge Auditor:</b>	<b>Toni Smart, CPA</b>



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**INTERNAL AUDIT DEPARTMENT  
COUNTY OF ORANGE**

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DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM  
REPORT ON AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

**TABLE OF CONTENTS**

Transmittal Letter.....	1
INDEPENDENT AUDITOR'S REPORT .....	2
FINANCIAL STATEMENT:	
Statement of Revenues and Expenditures – Budget and Actual.....	4
Notes to Financial Statement .....	5
OTHER REPORTS:	
Independent Auditor's Report on the Internal Control Structure Related Matters Noted in a Financial Statement Audit Conducted in Accordance with Government Auditing Standards .....	8
Independent Auditor's Report on Compliance with Laws and Regulations Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards .....	10



**COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT**

**OFFICE OF THE DIRECTOR**

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Objectivity  
Independence*

**PETER HUGHES**  
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**Transmittal Letter**

Audit No. 2412

October 12, 2004

TO: Lisa Bohan-Johnston, Director  
District Attorney Administrative Services

FROM: Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department

SUBJECT: Report on Audit of the Workers' Compensation Insurance Fraud Program

Attached are three copies of our report on Audit of the District Attorney's Workers' Compensation Insurance Fraud Program for the year ended June 30, 2004. Please forward one copy to the State of California Department of Insurance as required by the grant documents.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- James D. Ruth, County Executive Officer
- Foreman, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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**INDEPENDENT AUDITOR'S REPORT**

Audit No. 2412

October 1, 2004

State of California  
Department of Insurance  
Fraud Division  
9342 Tech Center Drive, Suite 100  
Sacramento, CA 95826

We have audited the accompanying Statement of Revenues and Expenditures - Budget and Actual, of the County of Orange District Attorney's Office (District Attorney) Workers' Compensation Insurance Fraud Program for the year ended June 30, 2004. This financial statement is the responsibility of the District Attorney's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

On this date, and in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, we have also issued a report on our consideration of internal control structure related matters and compliance with laws and regulations based on an audit of a financial statement of the Workers' Compensation Insurance Fraud Program. The internal control and compliance reports are an integral part of this audit and should be considered with the results of our report on the financial statement.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the District Attorney's Workers' Compensation Insurance Fraud Program for the year ended June 30, 2004, in conformity with generally accepted accounting principles of the United States of America.

This report is intended solely for the information and use of the County of Orange District Attorney's Office and for filing with the State of California Department of Insurance and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

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

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

**COUNTY OF ORANGE**

**DISTRICT ATTORNEY'S OFFICE**

**WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM**

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2004**

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
California Department of Insurance Grant Receipts (Notes 4 & 5)	<u>\$ 1,328,020</u>	<u>\$1,328,020</u>	<u>\$ ---</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	1,238,913	1,297,081	58,168
Operating Expenditures (Note 3.B)	89,107	94,511	5,404
Equipment (Note 3.C)	<u>---</u>	<u>---</u>	<u>---</u>
Total Expenditures	<u>\$ 1,328,020</u>	<u>\$1,391,592</u>	<u>\$ 63,572</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)	<u>\$ --</u>	<u>\$ (63,572)</u>	<u>\$ (63,572)</u>

See Independent Auditors' Report and Notes to the Financial Statement



**COUNTY OF ORANGE**

**DISTRICT ATTORNEY'S OFFICE**

**WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM**

**NOTES TO FINANCIAL STATEMENT**

**FOR THE YEAR ENDED JUNE 30, 2004**

**1. Background**

The District Attorney's Worker's Compensation Insurance Fraud Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of workers' compensation insurance fraud in Orange County. The District Attorney applied for and was awarded funding for the Workers' Compensation Insurance Fraud Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2003 through June 30, 2004. The Program funds provide for enhanced investigation and prosecution of fraudulent workers' compensation insurance claims. The funds are available to local district attorneys under provisions of Section 1872.83 of the California Insurance Code.

**2. Significant Accounting Policies**

The District Attorney presents its revenues and expenditures on an accrual basis. Revenues are recognized when earned and expenditures are recognized when incurred.

**3. Expenditures**

Expenditures were made for the purposes of the program as specified in Section 1872.83 of the Insurance Code, the Regulations, the guidelines in the Request for Application, and the County of Orange Plan.

**A. Salaries and Benefits**

Expenditures charged to the Program are limited to personnel funded by the grant. These expenditures include salaries and benefits of attorneys and investigators directly involved with the Program. Also included are the salaries and benefits of support personnel (administrative, investigative, and clerical). Support personnel expenditures were allocated based on a percentage of the number of support personnel assigned to the program compared to all employees within the Unit. County of Orange policies and procedures were used to verify the appropriateness of personnel costs. Personnel time charged to the Program was appropriately certified by Program personnel.

See Independent Auditors' Report



NOTES TO FINANCIAL STATEMENT, (CONTINUED)

**B. Operating Expenditures**

These expenditures include transportation, travel and indirect costs. Transportation and travel expenditures were actual costs incurred by Program personnel. A flat indirect cost rate of ten percent was used for the year ended June 30, 2004. Indirect costs were calculated by applying the indirect cost rate to direct salaries. Direct charges to the Program are not included in the calculation of indirect costs charged to the Program.

**C. Equipment**

During the audit period, no equipment was budgeted nor purchased for the Program.

**4. Funding Amounts**

The District Attorney was awarded \$1,328,020 and received a total of \$1,328,020 for the year ended June 30, 2004. The award was received in two payments: March 15, 2004 in the amount of \$722,814 and July 14, 2004 in the amount of \$605,206.

**5. Carry-Over Funds**

There are no carry-over funds as of June 30, 2004.

Current Year excess of Expenditure over Funding	\$ (63,572)
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The net expenditures in excess of revenues as of June 30, 2004 cannot be applied toward future years' grant revenue. Therefore, net expenditure costs will be absorbed by the Unit.

See Independent Auditors' Report





OTHER REPORTS





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**INDEPENDENT AUDITOR'S REPORT ON THE  
INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A  
FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

October 1, 2004

State of California  
Department of Insurance  
Fraud Division  
9342 Tech Center Drive, Suite 100  
Sacramento, CA 95826

We have audited the Statement of Revenues and Expenditures - Budget and Actual, of the County of Orange District Attorney's Office (District Attorney) Workers' Compensation Insurance Fraud Program, for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements.

In planning and performing our audit of the Statement of Revenues and Expenditures - Budget and Actual, of the County of Orange District Attorney's Office Workers' Compensation Insurance Fraud Program, for the year ended June 30, 2004, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the above financial statement and not to provide assurance on the internal control structure.

The management of the District Attorney is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded

against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of the financial statement in accordance with generally accepted accounting principles of the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Payroll
- Operating Expenditures
- Revenues/Receipts
- Administrative Controls

For all internal control categories listed above, we obtained an understanding of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure that we consider to be material weaknesses as defined above.

This report was discussed with staff of the District Attorney on October 1, 2004, and is intended for the information of the management of the District Attorney and California Department of Insurance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,



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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF A FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

October 1, 2004

State of California  
Department of Insurance  
Fraud Division  
9342 Tech Center Drive, Suite 100  
Sacramento, CA 95826

We have audited the Statement of Revenues and Expenditures - Budget and Actual, of the County of Orange District Attorney's Office (District Attorney) Workers' Compensation Insurance Fraud Program, for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements.

Compliance with laws, regulations, contracts, and grants applicable to the Workers' Compensation Insurance Fraud Program is the responsibility of the District Attorney's management. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the District Attorney's compliance with certain provisions of the laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the District Attorney complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the District Attorney had not complied, in all material respects, with those provisions.

This report was discussed with staff of the District Attorney on October 1, 2004, and is intended for the information of the management of the District Attorney and California Department of Insurance.

This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

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

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