



## **INTERNAL AUDIT DEPARTMENT**

### **ORANGE COUNTY**

2005 Recipient of the Institute of Internal Auditors  
Award for Recognition of Commitment to  
Professional Excellence, Quality and Outreach

*Integrity ♦ Objectivity ♦ Independence*

# **ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE AUDIT OF DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM**

**FOR THE FISCAL YEAR ENDING  
JUNE 30, 2007**

**AUDIT NUMBER: 2710**

**REPORT DATE: SEPTEMBER 20, 2007**

<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
<b>Senior Audit Manager:</b>	<b>Alan Marcum, MBA, CPA, CIA</b>
<b>Senior Auditor:</b>	<b>Susan Nestor, CPA, CIA</b>

**Orange County  
District Attorney’s Office  
Audit of Disability and Healthcare Insurance  
Fraud Program**

**For the Fiscal Year Ending  
June 30, 2007**

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**ORANGE COUNTY  
BOARD OF SUPERVISORS'  
INTERNAL AUDIT DEPARTMENT**

**Transmittal Letter**

Audit No. 2710

September 20, 2007

TO: Tony Rackauckas, District Attorney

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

SUBJECT: Report on Audit of the Disability and Healthcare Insurance  
Fraud Program

Attached are three copies of our report on Audit of the District Attorney's Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2007. Please forward one copy to the State of California Department of Insurance as required by the grant documents.

Each month I now submit a monthly **Audit Status Report** to the BOS where I detail any material and significant audit findings 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.

Additionally, we will request your department to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

**Attachments**

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Lisa Bohan-Johnston, Director, District Attorney Administrative Services

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

ORANGE COUNTY  
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**INTERNAL AUDIT DEPARTMENT**

**INDEPENDENT AUDITOR'S REPORT**

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Audit No. 2710

September 20, 2007

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) Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2007. 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 Disability and Healthcare 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 Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2007, 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,



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

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Lisa Bohan-Johnston, Director, District Attorney Administrative Services

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

**ORANGE COUNTY**  
**DISTRICT ATTORNEY'S OFFICE**  
**DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE FISCAL YEAR ENDING JUNE 30, 2007**

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	<u>\$ 662,791</u>	<u>\$ 662,791</u>	<u>\$ 0</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	602,718	594,047	<u>8,671</u>
Operating Expenditures (Note 3.B)	<u>60,073</u>	<u>67,834</u>	<u>(7,761)</u>
Total Expenditures	<u>\$ 662,791</u>	<u>\$ 661,881</u>	
Excess (Deficiency) of Revenues Over Expenditures - Salaries and Benefits (Note 5)			<u>\$ 8,671</u>
Excess (Deficiency) of Revenues Over Expenditures - Operating (Note 6)			<u>\$ (7,761)</u>

See Independent Auditors' Report and Notes to Financial Statement.



**ORANGE COUNTY**  
**DISTRICT ATTORNEY'S OFFICE**  
**DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR THE FISCAL YEAR ENDING JUNE 30, 2007**

**NOTE 1 – BACKGROUND**

The District Attorney's Disability and Healthcare Insurance Fraud Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of disability and healthcare insurance fraud in Orange County. The Orange County District Attorney applied for and was awarded funding for the Disability and Healthcare Insurance Fraud Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2006 through June 30, 2007. The Program funds provide for enhanced investigation and prosecution of fraudulent disability and healthcare insurance claims. The funds are available to local district attorneys under provisions of Section 1872.85 of the California Insurance Code.

**NOTE 2 – SUMMARY OF 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.

**NOTE 3 – EXPENDITURES**

Expenditures were made for the purpose of the program as specified in Section 1872.85 of the Insurance Code, the guidelines in the Request for Application, and the County of Orange Allocation 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). 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**

Operating expenditures include transportation supplement/allowance, travel/transportation, training, building lease to house program staff and indirect costs. A flat indirect cost rate of ten percent was used for the year ended June 30, 2007. 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 auditing period, no equipment was budgeted nor purchased for the program.

**NOTE 4 – FUNDING AMOUNTS**

The District Attorney was awarded \$662,791 and received full award amount in two distributions: \$420,768 on March 30, 2007 and \$242,023 on June 12, 2007.

**NOTE 5 – CARRYOVER FUNDS**

There was no prior-year carry-over fund.

Carry-over funds as of June 30, 2007	\$8,671
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The District Attorney will submit a budget to the California Department of Insurance for the above carry-over amount to FY 2007-08 by December 31, 2007.

**NOTE 6 - EXCESS OF EXPENDITURES OVER FUNDING**

Current Year excess of Operating Expenditures over Funding	(\$7,761)
--	-----------

Actual expenditures are limited to budgeted amounts by category. Expenditures in excess of revenues as of June 30, 2007 cannot be applied toward future years' grant revenue, nor can they be offset by excess revenues available in other budget categories. Therefore, the excess operating costs will be absorbed by the District Attorney.

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**

September 20, 2007

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) Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2007, and have issued our report thereon dated September 20, 2007.

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 Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2007, 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 September 19, 2007, and is intended for the information of the management of the District Attorney and the 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**

September 20, 2007

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) Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2007, and have issued our report thereon dated September 20, 2007.

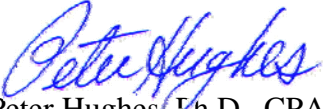
We conducted our audit in accordance with generally accepted auditing standards of the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether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

Compliance with laws, regulations, contracts, and grants applicable to the Disability and Healthcare 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 September 19, 2007 and is intended for the information of the management of the District Attorney and the 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