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# ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE AUDIT OF WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM For the Fiscal Year Ending

For the Fiscal Year Ending June 30, 2008

We found the financial statement presents fairly, in all material respects, the approved budget and revenue and expenditures of the District Attorney's Workers' Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2008.

AUDIT NO: 2809 REPORT DATE: DECEMBER 17, 2008

Audit Director: Peter Hughes, Ph.D., MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Sr. Audit Manager: Alan Marcum, MBA, CPA
Audit Manager: Camille Gackstetter, CPA
Sr. Auditor: Abdul Khan, CPA, CIA









#### Providing Facts and Perspectives Countywide

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael J. Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM

#### Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

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



OC Fraud Hotline (714) 834-3608

## **Letter from Director Peter Hughes**





#### **Transmittal Letter**

**Audit No. 2809** December 18, 2008

**TO:** Tony Rackauckas District Attorney

**FROM:** Dr. Peter Hughes, 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 fiscal year ending June 30, 2008. Please forward one copy to the State of California Department of Insurance as required by the grant documents.

Each month I submit an **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 complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

#### **ATTACHMENTS**

Other recipients of this report listed on the Independent Auditor's Report on page 2.

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For the Fiscal Year Ending June 30, 2008

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#### INDEPENDENT AUDITOR'S REPORT

December 17, 2008 Audit No. 2809

Ms. Vicki Griner, Manager California Department of Insurance Fraud Division/Local Assistance Program 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 fiscal year ending June 30, 2008. 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 <u>Government Auditing Standards</u>, 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, whether caused by error or fraud. 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 <u>Government Auditing Standards</u>, 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 fiscal year ending June 30, 2008, 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,

Dr. Peter Hughes, CPA, Director Internal Audit Department

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Tony Rackauckas, District Attorney
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**

#### WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM

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

#### FOR THE FISCAL YEAR ENDING JUNE 30, 2008

Revenues:	Budget	Actual	Variance Favorable (Unfavorable)	
California Department of Insurance Grant Receipts (Note 4) Approved Prior Year Carry-over	\$ 1,850,000	\$ 1,850,000	\$	0
Funds (Note 5)	749,926	749,926		0
Total Revenues	\$ 2,599,926	\$ 2,599,926	\$	0
Expenditures:				
Salaries and Benefits (Note 3.A) Operating Expenditures (Note 3.B) Equipment (Note 3.C)	\$ 2,245,820 315,235 38,871	\$ 2,261,894 333,496 38,871	\$	(16,074) (18,261) 0
Total Expenditures	\$ 2,599,926	\$ 2,634,261	\$	(34,335)
Excess (Deficiency) of Revenues Over Expenditures (Note 6)	\$ 0	\$ (34,335)	\$	(34,335)

See Independent Auditor's Report and Notes to Financial Statement.



#### **ORANGE COUNTY**

#### DISTRICT ATTORNEY'S OFFICE

#### **WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM**

#### NOTES TO FINANCIAL STATEMENT

#### FOR THE FISCAL YEAR ENDING JUNE 30, 2008

#### **NOTE 1 – BACKGROUND**

The District Attorney's Workers' 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 Orange County 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, 2007 through June 30, 2008. The Program funds provide for enhanced investigation and prosecution of fraudulent Workers' Compensation insurance claims and an undercover operation to conduct investigations of major cases. The funds are available to local district attorneys under provisions of Section 1872.83 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 1872.83 of the California Insurance Code, the guidelines in the Request for Application, and the County of Orange Joint Investigative 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, investigators, and support personnel (administrative, investigative, and clerical) directly involved with the Program. 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 Auditor's Report



#### NOTES TO FINANCIAL STATEMENT, (CONTINUED)

#### **B.** Operating Expenditures

Operating expenditures include travel/transportation, audit, building lease to house program staff, office expenses/supplies, communication, undercover, and indirect costs. A flat indirect cost rate of ten percent of direct salaries was used for the year ended June 30, 2008.

#### C. Equipment

The following equipment was purchased for the purpose of the Program:

<u>Qty</u> .	<u>Description</u>				<u>Costs</u>
1	Canon DR-9080C Color Production Scanner		\$	6,744	
1	Siforce Fast-Xeon 3.0 Forensic Ana	alysis			
	Storage Tower				12,372
Survei	<u>llance Equipment</u>				
1	IPOD Audio Transmitter	1,795			
1	Synthesized Advisor Elite Pager	1,695			
2	Synthesized Receiver	9,590			
2	Weatherproof Tactical Repeater	6,590			
	Freight	<u>85</u>			<u> 19,755</u>
			Total Costs	\$	38.871
			Total Costs	Ψ	<u> </u>

#### **NOTE 4 – FUNDING AMOUNTS**

The District Attorney was awarded \$1,850,000 and received the full award amount in two distributions: \$814,000 on February 20, 2008 and \$1,036,000 on May 1, 2008.

#### **NOTE 5 – CARRY-OVER FUNDS**

Approved prior year carry-over funds

\$749,926

#### NOTE 6 – EXCESS OF EXPENDITURES OVER FUNDING

Current year's excess expenditures over funding:

\$34.335

The net expenditures in excess of revenues as of June 30, 2008 cannot be applied toward future years' grant revenue. Therefore, the excess expenditures will be absorbed by the District Attorney.

See Independent Auditor's Report



**OTHER REPORTS** 



# INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 17, 2008

Ms. Vicki Griner, Manager California Department of Insurance Fraud Division/Local Assistance Program 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 fiscal year ending June 30, 2008, and have issued our report thereon dated December 17, 2008.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and <u>Government Auditing Standards</u>, 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, whether caused by error or fraud.

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 fiscal year ending June 30, 2008, we considered the District Attorney's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District Attorney's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Attorney's internal control over financial reporting.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District Attorney's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District Attorney's financial statement that is more than inconsequential will not be prevented or detected by the District Attorney's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the District Attorney's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses in the District Attorney's internal control over financial reporting.

This report is intended solely for the information and use of management of the District Attorney, the audit committee, 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,

Dr. Peter Hughes, CPA, Director

Internal Audit Department



# 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

December 17, 2008

Ms. Vicki Griner, Manager California Department of Insurance Fraud Division/Local Assistance Program 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 fiscal year ending June 30, 2008, and have issued our report thereon dated December 17, 2008.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and <u>Government Auditing Standards</u>, 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 District Attorney's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management of the District Attorney, the audit committee, 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,

Dr. Peter Hughes, CPA, Director Internal Audit Department