Internal Audit Department

ORANGE COUNTY

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

AS OF JUNE 30, 2007

AUDIT NO: 2709
REPORT DATE: NOVEMBER 30, 2007

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Providing Facts and Perspectives Countywide

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Orange County's Internal Audit Fraud Hot-Line 24/7 Fraud Hotline

OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes

Transmittal Letter

AUDIT NO. 2709 **November 30, 2007**

TO: Tony Rackauckas
District Attorney

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: County of Orange District Attorney's Office Audit of 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, 2007. 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.

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 or recommendation.

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 report.

ATTACHMENTS

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

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Audit No. 2709

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INDEPENDENT AUDITOR'S REPORT

AUDIT NO. 2709 **NOVEMBER 30, 2007**

Ms. Vicki Griner, Manager
State of California
Department of Insurance
Fraud Division/Local Assistance Programs
9342 Tech Center Drive, Suite 100
Sacramento, CA 95826

Scope of Review

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, 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 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.

Results

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, 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,

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
Lisa Bohan-Johnston, Director, District Attorney Administrative Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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, 2007

Revenues:	Budget	Actual	Variance
California Department of Insurance Grant Receipts (Notes 4 & 5)	$ 2,560,916	$2,560,916	$ ---
Expenditures:			
Salaries and Benefits (Note 3.A)	2,183,985	1,573,646	610,339
Operating Expenditures (Note 3.B)	355,193	220,977	134,216
Equipment (Note 3.C)	21,738	16,367	5,371
Total Expenditures	$ 2,560,916	$1,810,990	$ 749,926
Excess (Deficiency) of Revenues Over Expenditures (Note 5)	$ --	$ 749,926	$ 749,926

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, 2007

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 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, 2006 through June 30, 2007. 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 purposes of the program as specified in Section 1872.83 of the Insurance Code, 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, 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.

B. Operating Expenditures

Operating expenditures include transportation supplement/allowance, travel/transportation, audit cost, building lease to house program staff, office expenses/supplies, communication expenses and indirect costs. A flat indirect cost rate of ten (10) percent of direct salaries was used for the year ended June 30, 2007. Indirect costs were calculated by applying the indirect cost rate to direct salaries.

C. Equipment

Equipment is defined as nonexpendable tangible personal property having a useful life of more than one year and an acquisition cost of $1,000 or more per unit (including tax, installation, and freight). Equipment includes a paper shredder, multi-media projector, digital duplicator and two document scanners.

NOTE 4 – FUNDING AMOUNTS

The District Attorney was awarded $1,897,853 and received a total of $1,897,853 for the year ended June 30, 2007. The award was received in two payments: March 22, 2007 in the amount of $948,927 and June 20, 2007 in the amount of $948,926.

NOTE 5 – CARRY-OVER FUNDS

Total budget and actual revenue listed on the Statement of Revenues and Expenditures – Budget and Actual include prior year carry-over funds of $663,063. Therefore, total budget and actual revenues for the auditing period are $2,560,916 ($1,897,853 grant award plus $663,063 prior year carry-over funds).

Carry over funds as of June 30, 2007	$ 749,926

The District Attorney will submit a budget to the California Department of Insurance for the above carry-over amount of $749,926 to FY 2007-08 by December 31, 2007.

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

November 30, 2007

Ms. Vicki Griner, Manager
State of California
Department of Insurance
Fraud Division/Local Assistance Programs
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, 2007, and have issued our report thereon dated November 30, 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 Workers' Compensation Insurance Fraud Program, for the year ended 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 November 30, 2007, 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,

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

November 30, 2007

Ms. Vicki Griner, Manager
State of California
Department of Insurance
Fraud Division/Local Assistance Programs
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, 2007, and have issued our report thereon dated November 30, 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 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 November 30, 2007, 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,

Dr. Peter Hughes, CPA, Director
Internal Audit Department