

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

FINANCIAL STATEMENT AUDIT ORANGE COUNTY DISTRICT ATTORNEY’S WORKERS’ COMPENSATION INSURANCE FRAUD PROGRAM

FOR THE FISCAL YEAR ENDED
 JUNE 30, 2014

We found the financial statement presents fairly, in all material respects, the revenues and expenditures of the District Attorney’s Workers’ Compensation Insurance Fraud Program for the fiscal year ended June 30, 2014. We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Grant revenues and expenditures incurred for FY 2013/2014 were \$3,620,608 and \$3,671,393, respectively.

AUDIT No: 1410
 REPORT DATE: DECEMBER 24, 2014

Director: [Dr. Peter Hughes, MBA, CPA, CIA](#)
 Senior Audit Manager: [Alan Marcum, CPA, CFE](#)
 Senior Internal Auditor: [Susan Nestor, CPA, CIA](#)

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners’ Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors’ Bronze Website Award



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



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 Certified in Financial Forensics (CFF)
 Chartered Global Management Accountant (CGMA)

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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



Transmittal Letter



Audit No. 1410 December 24, 2014

TO: Tony Rackauckas
District Attorney

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

SUBJECT: Financial Statement Audit: Orange County
District Attorney's Workers' Compensation
Insurance Fraud Program

Attached is our report on the Audit of the Orange County District Attorney's Workers' Compensation Insurance Fraud Program for the fiscal year ended June 30, 2014.

Each month I submit an **Audit Status Report** to the Board of Supervisors (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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Orange County District Attorney's
Workers' Compensation Insurance Fraud Program
Audit No. 1410

For the Fiscal Year Ended
June 30, 2014

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Independent Auditor's Report



December 24, 2014

Audit No. 1410

California Department of Insurance
Fraud Division/Local Assistance Programs
9342 Tech Center Drive, Suite 100
Sacramento, CA 95826

Report on the Financial Statement

We have audited the accompanying Statement of Revenues and Expenditures - Budget and Actual and the related notes to the financial statement, of the Orange County District Attorney's (OCDA) Workers' Compensation Insurance Fraud Program for the fiscal year ended June 30, 2014.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report



In accordance with Government Auditing Standards issued by the Comptroller General of the United States, we have also issued our report dated December 24, 2014 on our consideration of the OCDA's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the OCDA's Workers' Compensation Insurance Fraud Program for the fiscal year ended June 30, 2014, in conformity with the basis described in Note 2.

This report is intended solely for the information and use of management of the OCDA, the Audit Oversight Committee and for filing with the California Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully Submitted,

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Lisa Bohan-Johnston, Director, District Attorney Administrative Services
Kim Dinh, Manager, District Attorney Financial Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



ORANGE COUNTY DISTRICT ATTORNEY'S
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	\$3,620,608	\$3,620,608	\$ -
	<hr/>	<hr/>	<hr/>
Total Revenue	<u>\$3,620,608</u>	<u>\$3,620,608</u>	<u>\$ -</u>
 <u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	3,140,596	3,149,065	(8,469)
Operating Expenditures (Note 3.B)	480,012	522,328	(42,316)
	<hr/>	<hr/>	<hr/>
Total Expenditures	<u>\$ 3,620,608</u>	<u>\$3,671,393</u>	<u>\$ (50,785)</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		<u>\$ (50,785)</u>	<u>\$ (50,785)</u>

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



ORANGE COUNTY DISTRICT ATTORNEY'S

WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM

NOTES TO FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – BACKGROUND

The Orange County District Attorney's (OCDA) 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 OCDA 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, 2013 through June 30, 2014. The Program funds provide for enhanced investigation and prosecution of fraudulent organized workers' compensation insurance claims. 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 OCDA presents its revenues and expenditures on an accrual basis in accordance with State of California, Department of Insurance Fraud Grant Financial Audit Guidelines. Revenues are recognized when earned and expenditures are recognized when incurred. The accompanying financial statement is not intended to present the financial position and results of the OCDA's operations.

NOTE 3 – EXPENDITURES

Expenditures were made for the purposes of the program as specified in Section 1872.83 of the California Insurance Code and California Code of Regulations, Title 10, Section 2698.50, et. seq. and the County Requirements Upon Award of Grant, Section II, in the Request for Application.

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 Auditor's Report.



B. Operating Expenditures

Operating expenditures include travel/training/transportation, transportation supplement, building lease to house program staff, office supplies, communication expenses, audit cost, case related expenses, other expenses, contract services expenses and indirect costs. A flat indirect cost rate of ten (10) percent was used for the year ended June 30, 2014. 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.

NOTE 4 – FUNDING AMOUNTS

California Department of Insurance

The OCDA was awarded \$3,620,608 and received the full award amount in three (3) distributions: \$1,413,296 on March 17, 2014, \$1,650,744 on July 9, 2014, and \$556,568 on September 19, 2014.

NOTE 5 – EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES

Current year's expenditures in excess of revenues: \$ (50,785)

The net expenditures in excess of revenues as of June 30, 2014 cannot be applied toward future year's grant revenue. Therefore, the excess expenditures will be absorbed by the OCDA.

See Independent Auditor's Report.



OTHER REPORTS



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

December 24, 2014

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 Orange County District Attorney's (OCDA) Workers' Compensation Insurance Fraud Program, for the fiscal year ended June 30, 2014, and have issued our report thereon dated December 24, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

In planning and performing our audit of the Statement of Revenues and Expenditures - Budget and Actual, of the OCDA's Workers' Compensation Insurance Fraud Program for the year ended June 30, 2014, we considered the OCDA'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 OCDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OCDA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph above and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Independent Auditor's Report



This report is intended solely for the information and use of management of the OCDA, the Audit Oversight Committee, and the California Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Independent Auditor's Report



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

December 24, 2014

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 Orange County District Attorney's (OCDA) Workers' Compensation Insurance Fraud Program, for the fiscal year ended June 30, 2014, and have issued our report thereon dated December 24, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether the OCDA's financial statement is free of material misstatement, we performed tests of their 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 OCDA, the Audit Oversight Committee, and the California Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA, Director
Internal Audit Department