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ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE AUDIT OF ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

We found the financial statement presents fairly, in all material respects, the revenues and expenditures of the District Attorney's Office Organized Automobile Fraud Activity Interdiction Program, for the fiscal year ended June 30, 2010. Grant budget and expenditures incurred for FY 2010 were \$700,000 and \$565,684, respectively.

AUDIT NO: 1012 REPORT DATE: DECEMBER 13, 2010

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

RISK BASED AUDITING

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

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

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





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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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

> Director Certified Compliance & Ethics Professional (CCEP)

> > Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA) Certified Fraud Examiner (CFE) Certified in Financial Forensics (CFF)

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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

Senior Audit Manager Certified Government Financial Manager (CGFM)

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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

Letter from Dr. Peter Hughes, CPA





Transmittal Letter

Audit No. 1012 December 13, 2010

TO: Tony Rackauckas, District Attorney

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Orange County District Attorney's

Office Audit of Organized Automobile Fraud Activity Interdiction Program

Attached is our report on Audit of the Orange County District Attorney's Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2010. Please forward to the State of California Department of Insurance as required by the grant documents.

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 Office Audit of Organized Automobile Fraud Activity Interdiction Program Audit No. 1012

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December 13, 2010 Audit No. 1012

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 Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Program for the year ended June 30, 2010. This financial statement is the responsibility of the OCDA's management. Our responsibility is to express an opinion on this 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 <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 misstatement. 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.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the OCDA's Organized Automobile Fraud Activity Interdiction Program for the year ended June 30, 2010, in conformity with the basis described in Note 2.

In accordance with <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, we have also issued our report dated December 13, 2010 on our consideration of the OCDA's internal control over financial reporting and on our tests of its 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 <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of management of the Orange County District Attorney's management, the Audit Committee and for filing with the State of 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
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

ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Revenues:	Budget	Actual	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	\$ 700,000	\$ 700,000	-
Total Revenue	\$ 700,000	\$ 700,000	
Expenditures:			
Salaries and Benefits (Note 3.A) Operating Expenditures (Note 3.B)	510,324 189,676	497,546 68,138	12,778 121,538
Total Expenditures	\$ 700,000	\$ 565,684	\$ 134,316
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		\$ 134,316	\$ 134,316

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



ORANGE COUNTY

DISTRICT ATTORNEY'S OFFICE

ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

NOTES TO FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 – BACKGROUND

The Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of organized automobile fraud activity interdiction in Orange County. The OCDA applied for and was awarded funding for the Organized Automobile Fraud Activity Interdiction Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2009 through June 30, 2010. The Program funds provide for enhanced investigation and prosecution of organized automobile fraud activity interdiction and economic car theft cases. The funds are available to local district attorneys under provisions of Section 1874.8 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, 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 1874.8 of the Insurance Code and California Code of Regulations, Title 10, Sections 2698.77 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 investigators directly involved with the Program. Also included are the salaries and benefits of support personnel (administrative, investigative, paralegal 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/transportation, office supplies, communication expenses, training, building lease, case related expenses, undercover expenses, audit and indirect costs. A flat indirect cost rate of ten (10) percent was used for the year ended June 30, 2010. 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.

NOTE 4 – FUNDING AMOUNTS

California Department of Insurance

The OCDA was awarded \$700,000 from the California Department of Insurance and received the full award amount in four (4) distributions (\$133,000 on March 1, 2010, \$133,000 on May 24, 2010, \$136,500 and \$297,500 on July 28, 2010). There was no interest income earned for the year ended June 30, 2010.

NOTE 5 – CARRY-OVER FUNDS

Carry-over funds for the year ended June 30, 2010 are \$134,316. The California Department of Insurance approved the carry-over funds for the 2010/11 fiscal year.



OTHER REPORTS



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

December 13, 2010

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 Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Program, for the year ended June 30, 2010, and have issued our report thereon dated December 13, 2010. 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 Organized Automobile Fraud Activity Interdiction Program for the year ended June 30, 2010, 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.



This report is intended solely for the information and use of management of the Orange County District Attorney, the Audit 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,

Dr. Peter Hughes, CPA, Director

Internal Audit Department

CONFIDENTIAL DRAFT REPORT: Not For Public Distribution

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 13, 2010

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 Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Program, for the year ended June 30, 2010, and have issued our report thereon dated December 13, 2010. 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 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 Orange County District Attorney, the Audit 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,

Dr. Peter Hughes, CPA, Director Internal Audit Department