

Internal Audit Department

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

FOR THE FISCAL YEAR ENDING
JUNE 30, 2009

Our audit found the financial statement presents fairly, in all material respects, the approved budget, expenditures, and costs claimed and accepted for the District Attorney's Office Automobile Insurance Fraud Program, for Fiscal Year Ending June 30, 2009. Grant revenues and expenditures incurred for FY 2009 were \$920,903 and \$1,313,838, respectively.

AUDIT No: 2910
REPORT DATE: DECEMBER 8, 2009

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



RISK BASED AUDITING

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



2009 Association of Certified Fraud Examiners' Hubbard Award
For the Most Outstanding Article of the Year



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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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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. 2910 December 10, 2009

TO: Tony Rackauckas, District Attorney

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

SUBJECT: Orange County District Attorney's
Office Audit of the Automobile
Insurance Fraud Program

Attached are three copies of our report on Audit of the District Attorney's Automobile Insurance Fraud Program for the fiscal year ending June 30, 2009. 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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Fraud Program
Audit No. 2910*

For the Fiscal Year Ending
June 30, 2009

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Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

December 8, 2009

Audit No. 2910

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) Automobile Insurance Fraud Program for the fiscal year ending June 30, 2009. 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 Automobile 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 Automobile Insurance Fraud Program for the fiscal year ending June 30, 2009, 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, the Audit Committee, 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.

Independent Auditor's Report



Respectfully Submitted,

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

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

Independent Auditor's Report



ORANGE COUNTY
DISTRICT ATTORNEY'S OFFICE
AUTOMOBILE INSURANCE FRAUD PROGRAM
STATEMENT OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDING JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues:</u>			
California Department of Insurance Grant Receipts (Note 4)	\$ 908,653	\$ 908,653	\$ 0
Interest Income (Note 6)	12,250	12,250	0
Total Revenue	<u>\$ 920,903</u>	<u>\$ 920,903</u>	<u>\$ 0</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A.)	\$ 821,592	\$1,146,855	\$ (325,263)
Operating Expenditures (Note 3.B.)	<u>99,311</u>	<u>166,983</u>	<u>(67,672)</u>
Total Expenditures	<u>\$ 920,903</u>	<u>\$1,313,838</u>	<u>\$ (392,935)</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		<u>\$ (392,935)</u>	<u>\$ (392,935)</u>

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

Independent Auditor's Report



ORANGE COUNTY

DISTRICT ATTORNEY'S OFFICE

AUTOMOBILE INSURANCE FRAUD PROGRAM

NOTES TO FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDING JUNE 30, 2009

NOTE 1 – BACKGROUND

The Orange County District Attorney's Automobile Insurance Fraud Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of automobile insurance fraud in Orange County. The Orange County District Attorney (OCDA) applied for and was awarded funding for the Automobile Insurance Fraud Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2008 through June 30, 2009. The Program funds provide for enhanced investigation and prosecution of fraudulent automobile insurance claims. The funds are available to local district attorneys under provisions of Section 1872.8 of the California Insurance Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The OCDA 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 1872.8 of the California Insurance Code and California Code of Regulations, Title 10, Sections 2698.6 and 2698.67.1(b)(1), the guidelines in the Request for Application, and the County's 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



NOTES TO FINANCIAL STATEMENT, (CONTINUED)

B. Operating Expenditures

Operating expenditures include transportation supplement/allowance, travel, communication expenses, 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, 2009. 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 OCDA was awarded \$908,653 and received the full award amount in four distributions: \$227,163 on March 11, 2009, \$227,163 on May 5, 2009, \$227,163 on July 14, 2009, and \$227,164 on September 1, 2009. In addition, interest income for fiscal years 2005-06 and 2006-07 totaling \$12,250 was approved by CDI to further program expenditures. Total grant funding was \$920,903.

NOTE 5 – EXCESS OF EXPENDITURES OVER REVENUES

Current year's excess expenditures over revenues was \$392,935.

The net expenditures in excess of revenues as of June 30, 2009 cannot be applied toward future years' grant revenue. Therefore, the excess expenditures were absorbed by the OCDA.

NOTE 6 - INTEREST INCOME

The interest income of \$7,974 from fiscal year 2005-06 and \$4,276 from fiscal year 2006-07 were approved by CDI to be used in the current fiscal year.

There is no interest income earned for the current fiscal year as of June 30, 2009.

See Independent Auditor's Report



OTHER REPORTS

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 8, 2009

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) Automobile Insurance Fraud Program, for the fiscal year ending June 30, 2009, and have issued our report thereon dated December 8, 2009.

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, 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 Automobile Insurance Fraud Program for the fiscal year ending June 30, 2009, 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.

Independent Auditor's Report



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,

A handwritten signature in blue ink, reading "Peter Hughes", is positioned above the printed name.

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 8, 2009

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) Automobile Insurance Fraud Program, for the fiscal year ending June 30, 2009, and have issued our report thereon dated December 8, 2009.

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 Automobile 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,

A handwritten signature in blue ink, reading "Peter Hughes", is positioned above the printed name.

Dr. Peter Hughes, CPA, Director
Internal Audit Department