PETER HUGHES, Ph.D., CPA, CIA, CFE, CITP
Director

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Building 12, Room 232
Santa Ana, California 92701

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

INTERNAL AUDIT DEPARTMENT

File No. 2312

October 31, 2003

TO: Lisa Bohan-Johnston, Director
District Attorney Administrative Services

SUBJECT: Report on 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 year ended June 30, 2003. Please forward one copy to the State of California Department of Insurance as required by the grant documents.

Respectfully submitted,

Dr. Peter Hughes, CPA
Director, Internal Audit

Attachments

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
James Ruth, County Executive Officer
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury

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

FOR THE YEAR ENDED JUNE 30, 2003

REPORT DATE: October 29, 2003

Audit Number #2312

Audit Director:	**Dr. Peter Hughes, CPA**
Deputy Director:	**Eli Littner, CPA**
Audit Manager:	**Alan Marcum, CPA**
In-Charge Auditor:	**Camille Gackstetter, CPA**

INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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

FOR THE YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

Page No.

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENT:

Statement of Revenues and Expenditures - Budget and Actual 3

Notes to Financial Statement 4

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 6

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 8

PETER HUGHES, Ph.D, CPA, CIA, CFE, CITP
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INTERNAL AUDIT DEPARTMENT

File No. 2312

October 29, 2003

INDEPENDENT AUDITOR'S REPORT

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 year ended June 30, 2003. 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.

State of California
Department of Insurance

October 29, 2003

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 year ended June 30, 2003, 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.

Sincerely,

Dr. Peter Hughes, CPA
Director, Internal Audit

/PH:cg

COUNTY OF ORANGE

DISTRICT ATTORNEY'S OFFICE

AUTOMOBILE INSURANCE FRAUD PROGRAM

STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2003

Revenues:	Budget	Actual	Variance
California Department of Insurance Grant Receipts (Notes 4 & 5)	$ 836,543	$ 836,543	$ ---
Expenditures:			
Salaries and Benefits (Note 3.A)	766,111	776,238	10,127
Operating Expenditures (Note 3.B)	70,432	79,421	8,989
Equipment (Note 3.C)	---	---	---
Total Expenditures	$ 836,543	$ 855,659	$ 19,116
Excess (Deficiency) of Revenues Over Expenditures (Note 5)	$ --	$ (19,116)	$ (19,116)

See Independent Auditors' Report and Notes to the Financial Statement

COUNTY OF ORANGE

DISTRICT ATTORNEY'S OFFICE

AUTOMOBILE INSURANCE FRAUD PROGRAM

NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2003

1. Background

The 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 District Attorney 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, 2002 through June 30, 2003. 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.

2. 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.

3. Expenditures

Expenditures were made for the purposes of the program as specified in Section 1872.8 of the Insurance Code, the Regulations, 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 and investigators directly involved with the Program. Also included are the salaries and benefits of support personnel (administrative, investigative, and clerical). Support personnel expenditures were allocated based on a percentage of the number of support personnel assigned to the program compared to all employees within the Unit. 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 Auditors' Report

B. Operating Expenditures

These expenditures include transportation, travel, audit costs, witness/other expenses and indirect costs. Transportation and travel expenditures were actual costs incurred by Program personnel. A flat indirect cost rate of ten percent was used for the year ended June 30, 2003. 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.

4. Funding Amounts

The District Attorney was awarded $821,672 and received a total of $821,672 for the year ended June 30, 2003. The award was received in three payments: April 9, 2003 in the amount of $406,628, July 11, 2003 in the amount of $252,315, and September 17, 2003 in the amount of $162,729.

To implement GASB 33, the District Attorney did not include any revenue received more than 60 days following the end of the fiscal year. The last payment of $162,729 was received more than 60 days following the end of the fiscal period. Therefore, the District Attorney did not include $162,729 as current revenue on their books. However, for reporting purposes, using the accrual method, we accrued the balance of $162,729 as current revenue on the Statement of Revenues and Expenditures – Budget and Actual. If we had reported using GASB 33, the revenue balance would have been $673,814. (Current year receipts plus prior year carry over amount.)

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 $14,871. Therefore, total budgeted and actual revenue for the audit period is $836,543 ($821,672 grant award plus $14,871 prior year carry-over funds).

There are no carry-over funds as of June 30, 2003.

Current Year excess of Expenditure over Funding	$ (19,116)

The net expenditures in excess of revenues as of June 30, 2003 cannot be applied toward future years' grant revenue. Therefore, net expenditure costs will be absorbed by the Unit.

OTHER REPORTS

PETER HUGHES, Ph.D., CPA, CIA, CFE, CITP
Director

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INTERNAL AUDIT DEPARTMENT

October 29, 2003

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

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 year ended June 30, 2003, and have issued our report thereon dated October 29, 2003.

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 Automobile Insurance Fraud Program, for the year ended June 30, 2003, 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 judgements 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

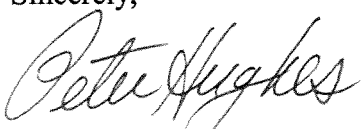
For all internal control categories listed above, we obtained an understanding of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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 October 29, 2003, 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

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INTERNAL AUDIT DEPARTMENT

October 29, 2003

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

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 year ended June 30, 2003, and have issued our report thereon dated October 29, 2003.

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 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.

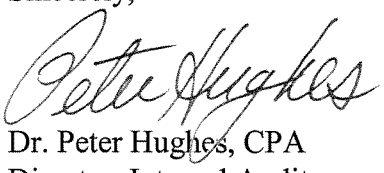
The results of our tests indicate that, with respect to the items tested, the District Attorney complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the District Attorney had not complied, in all material respects, with those provisions.

State of California
Department of Insurance

October 29, 2003

This report was discussed with staff of the District Attorney on October 29, 2003, 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

/PH:cg