

# Internal Audit Department

O R A N G E C O U N T Y C A L I F O R N I A

## ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE AUDIT OF DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM

For the Fiscal Year Ending  
JUNE 30, 2008

We found the financial statement presents fairly, in all material respects, the approved budget and revenue and expenditures of the District Attorney's Disability and Healthcare Insurance Fraud Program, for Fiscal Year Ending June 30, 2008.

AUDIT NO: 2810

REPORT DATE: OCTOBER 23, 2008

Audit Director: [Peter Hughes, Ph.D., MBA, CPA](#)  
Deputy Director: [Eli Littner, CPA, CIA](#)  
Sr. Audit Manager: [Alan Marcum, MBA, CPA](#)  
Audit Manager: [Camille Gackstetter, CPA](#)  
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*Providing Facts and Perspectives Countywide*

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**OC Fraud Hotline (714) 834-3608**

# Letter from Director Peter Hughes



## Transmittal Letter



**Audit No. 2810** October 28, 2008

**TO:** Tony Rackauckas, District Attorney

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

**SUBJECT:** Report on Audit of the Disability and  
Healthcare Insurance Fraud Program

Attached are three copies of our report on Audit of the District Attorney's Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2008. 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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For the Fiscal Year Ending  
June 30, 2008

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# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

October 23, 2008

Audit No. 2810

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) Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2008. 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, whether caused by error or fraud. 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 Disability and Healthcare 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 Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2008, 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.

# 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  
Tony Rackauckas, District Attorney  
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

#### DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM

#### STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

#### FOR THE FISCAL YEAR ENDING JUNE 30, 2008

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
California Department of Insurance Grant Receipts (Note 4)	<u>\$ 671,462</u>	<u>\$ 671,462</u>	<u>\$ 0</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	594,398	659,182	(64,784)
Operating Expenditures (Note 3.B)	<u>77,064</u>	<u>77,686</u>	<u>(622)</u>
Total Expenditures	<u>\$ 671,462</u>	<u>\$ 736,868</u>	<u>\$ (65,406)</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		<u>\$ (65,406)</u>	<u>\$ (65,406)</u>

See Independent Auditors' Report and Notes to Financial Statement.



## ORANGE COUNTY

### DISTRICT ATTORNEY'S OFFICE

#### DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM

#### NOTES TO FINANCIAL STATEMENT

#### FOR THE FISCAL YEAR ENDING JUNE 30, 2008

##### NOTE 1 – BACKGROUND

The District Attorney's Disability and Healthcare Insurance Fraud Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of disability and healthcare insurance fraud in Orange County. The Orange County District Attorney applied for and was awarded funding for the Disability and Healthcare Insurance Fraud Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2007 through June 30, 2008. The Program funds provide for enhanced investigation and prosecution of fraudulent disability and healthcare insurance claims. The funds are available to local district attorneys under provisions of Section 1872.85 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 purpose of the program as specified in Section 1872.85 of the Insurance Code and California Code of Regulations, Title 10, Sections 2698.95 and 2698.98.1(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 Auditors' Report



## NOTES TO FINANCIAL STATEMENT, (CONTINUED)

### **B. Operating Expenditures**

Operating expenditures include transportation supplement/allowance, travel/transportation, 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, 2008. 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 District Attorney was awarded \$662,791 and received the full award amount in two distributions: \$489,833 on February 20, 2008 and \$172,958 on July 22, 2008. In addition, there were approved carry-over funds from June 30, 2007 of \$8,671, bringing the total Grant revenue to \$671,462 as of June 30, 2008.

### **NOTE 5 – EXCESS OF EXPENDITURES OVER FUNDING**

Current year's excess expenditures over funding: \$65,406

The net expenditures in excess of revenues as of June 30, 2008 cannot be applied toward future years' grant revenue. Therefore, the excess expenditures will be absorbed by the District Attorney.

See Independent Auditors' Report



## OTHER REPORTS



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

October 23, 2008

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) Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2008, and have issued our report thereon dated October 23, 2008.

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 Disability and Healthcare Insurance Fraud Program for the fiscal year ending June 30, 2008, 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,

Dr. Peter Hughes, CPA, Director  
Internal Audit Department

# Independent Auditor's Report



## 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

October 23, 2008

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) Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2008, and have issued our report thereon dated October 23, 2008.

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 Disability and Healthcare 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,

Dr. Peter Hughes, CPA, Director  
Internal Audit Department