

# Internal Audit Department

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

## FINANCIAL STATEMENT AUDIT ORANGE COUNTY DISTRICT ATTORNEY'S AUTOMOBILE INSURANCE FRAUD PROGRAM

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012

We found the financial statement presents fairly, in all material respects, the revenues and expenditures of the District Attorney's Automobile Insurance Fraud Program, for the fiscal year ended June 30, 2012. Grant revenue and expenditures incurred for FY 2012 were \$1,505,636 and \$1,219,075, respectively.

AUDIT NO: 1212  
REPORT DATE: OCTOBER 29, 2012

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

**RISK BASED AUDITING**

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



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*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

**Dr. Peter Hughes** **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**  
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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Deputy Director Certified Fraud Specialist (CFS)  
Certified Information Systems Auditor (CISA)

**Michael 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)

**Hall of Finance & Records**

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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](http://www.ocgov.com/audit)



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



## Transmittal Letter



**Audit No. 1212 October 29, 2012**

**TO:** Tony Rackauckas  
District Attorney

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

**SUBJECT:** Financial Statement Audit: Orange County  
District Attorney's Automobile Insurance Fraud  
Program

Attached is our report on the Audit of the Orange County District Attorney's Automobile Insurance Fraud Program for the fiscal year ended June 30, 2012.

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***  
***Audit of Automobile Insurance Fraud Program***  
***Audit No. 1212***

For the Fiscal Year Ended  
June 30, 2012

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# Independent Auditor's Report



October 29, 2012

Audit No. 1212

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) Automobile Insurance Fraud Program for the fiscal year ended June 30, 2012. 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 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 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 Automobile Insurance Fraud Program for the fiscal year ended June 30, 2012, in conformity with the basis described in Note 2.

In accordance with Government Auditing Standards issued by the Comptroller General of the United States, we have also issued our report dated October 29, 2012 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.

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.

# 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  
Robert J. Franz, Interim County Executive Officer  
Lisa Bohan-Johnston, Director, District Attorney Administrative Services  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors



**ORANGE COUNTY DISTRICT ATTORNEY'S**  
**AUTOMOBILE INSURANCE FRAUD PROGRAM**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	\$ 1,402,843	\$1,402,843	-
Approved Prior Year Carry-Over Funds (Note 4)	102,426	102,426	-
Other Income (Note 4)		367	367
<b>Total Revenue</b>	<b><u>\$1,505,269</u></b>	<b><u>\$ 1,505,636</u></b>	<b><u>\$ 367</u></b>
 <u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	1,362,019	1,103,923	258,096
Operating Expenditures (Note 3.B)	143,250	115,152	28,098
<b>Total Expenditures</b>	<b><u>\$1,505,269</u></b>	<b><u>\$ 1,219,075</u></b>	<b><u>\$ 286,194</u></b>
 Excess (Deficiency) of Revenues Over Expenditures (Note 5)		 <b><u>\$ 286,561</u></b>	 <b><u>\$ 286,561</u></b>

See Independent Auditor's Report and Notes to Financial Statement



**ORANGE COUNTY DISTRICT ATTORNEY'S**  
**AUTOMOBILE INSURANCE FRAUD PROGRAM**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 – BACKGROUND**

The Orange County District Attorney's (OCDA) 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 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, 2011 through June 30, 2012. 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 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 1872.8 of the California Insurance Code and California Code of Regulations, Title 10, Sections 2698.60 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 (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 transportation supplement/allowance, travel/transportation/training, communication expenses, building lease to house program staff, office supplies, audit costs, and indirect costs. A flat indirect cost rate of ten (10) percent was used for the year ended June 30, 2012. 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 \$1,402,843 and received the full award amount in four (4) distributions (\$531,677 on February 28, 2012, \$388,537 on May 30, 2012, \$333,175 on August 7, 2012 and \$149,454 on September 19, 2012). In addition, \$102,426 of carry-over funds from fiscal year 2010-11 was approved by CDI to further program expenditures.

#### **Other Income (restitution income)**

The OCDA received other income (restitution income) of \$367 during fiscal year 2011-12. Restitution income was utilized to further Program expenditures.

Total Grant funding was \$1,505,636.

### **NOTE 5 – CARRY-OVER FUNDS**

Carry-over funds for the year ended June 30, 2012 are \$286,561. OCDA will submit budget to CDI for the carry-over in the amount of \$286,561 for FY 2012-13.

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

October 29, 2012

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) Automobile Insurance Fraud Program, for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 29, 2012. 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 Automobile Insurance Fraud Program for the year ended June 30, 2012, 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 ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 29, 2012

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) Automobile Insurance Fraud Program, for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 29, 2012. 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