



INTERNAL AUDIT DEPARTMENT

ORANGE COUNTY

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Award for Recognition of Commitment to
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Integrity ♦ Objectivity ♦ Independence

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

FOR THE FISCAL YEAR ENDING
JUNE 30, 2007

AUDIT NUMBER: 2710

REPORT DATE: SEPTEMBER 20, 2007

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

**Orange County
District Attorney’s Office
Audit of Disability and Healthcare Insurance
Fraud Program**

**For the Fiscal Year Ending
June 30, 2007**

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BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2710

September 20, 2007

TO: Tony Rackauckas, District Attorney

FROM: Peter Hughes, Ph.D., 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, 2007. Please forward one copy to the State of California Department of Insurance as required by the grant documents.

Each month I now submit a monthly **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 to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

Attachments

Other recipients of this report:

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

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INDEPENDENT AUDITOR'S REPORT

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Audit No. 2710

September 20, 2007

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, 2007. 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 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, 2007, 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.

Respectfully Submitted,



Peter Hughes, Ph.D., CPA
Director, Internal Audit

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

DISABILITY AND HEALTHCARE INSURANCE FRAUD PROGRAM

STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDING JUNE 30, 2007

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	<u>\$ 662,791</u>	<u>\$ 662,791</u>	<u>\$ 0</u>
 <u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	602,718	594,047	<u>8,671</u>
Operating Expenditures (Note 3.B)	<u>60,073</u>	<u>67,834</u>	<u>(7,761)</u>
Total Expenditures	<u>\$ 662,791</u>	<u>\$ 661,881</u>	
Excess (Deficiency) of Revenues Over Expenditures - Salaries and Benefits (Note 5)			<u>\$ 8,671</u>
Excess (Deficiency) of Revenues Over Expenditures - Operating (Note 6)			<u>\$ (7,761)</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, 2007

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, 2006 through June 30, 2007. 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, the guidelines in the Request for Application, and the County of Orange Allocation 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). 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



OTHER REPORTS



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

September 20, 2007

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, 2007, and have issued our report thereon dated September 20, 2007.

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 Disability and Healthcare Insurance Fraud Program, for the fiscal year ending June 30, 2007, 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 judgments 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 September 19, 2007, and is intended for the information of the management of the District Attorney 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,


Peter Hughes, Ph.D., CPA
Director, Internal Audit

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**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**

September 20, 2007

State of California
Department of Insurance
Fraud Division
9342 Tech Center Drive, Suite 100
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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, 2007, and have issued our report thereon dated September 20, 2007.

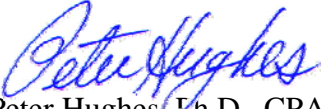
We conducted our audit in accordance with generally accepted auditing standards of the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 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.

This report was discussed with staff of the District Attorney on September 19, 2007 and is intended for the information of the management of the District Attorney 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,



Peter Hughes, Ph.D., CPA
Director, Internal Audit