

1st District  
Janet Nguyen

# O C Board of Supervisors

2nd District  
John M.W. Moorlach

3rd District  
Todd Spitzer

4th District  
Shawn Nelson, Chairman

5th District  
Patricia C. Bates, Vice Chair



## Internal Audit Department

O R A N G E C O U N T Y

### AUDIT HIGHLIGHT DECEMBER 26, 2013

#### FINANCIAL STATEMENT AUDIT ORANGE COUNTY DISTRICT ATTORNEY'S ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM FOR THE FISCAL YEAR ENDED JUNE 30, 2013 AUDIT NO. 1313

#### WHY IS THIS AUDIT IMPORTANT?

The Organized Automobile Fraud Activity Interdiction Program grant funded by the California Department of Insurance requires that the Orange County District Attorney obtain an annual audit of the grant financial statement. The District Attorney has the option of outsourcing the audit to an external CPA firm, but instead requested that the Orange County Internal Audit Department continue to be the vendor of first choice to conduct this important audit.

#### WHAT THE AUDITORS FOUND?

##### Successes

We found the financial statement presents fairly, in all material respects, the revenues and expenditures of the Orange County District Attorney's Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2013. In addition, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, we also issued a report on our consideration of internal control over financial reporting and on compliance and other matters.

In our report of the District Attorney's internal control structure, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. Also, in our report of compliance and other matters, our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

# 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 ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2013

We found the financial statement presents fairly, in all material respects, the revenues and expenditures of the District Attorney's Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2013. Grant revenues and expenditures incurred for FY 2013 were \$544,409 and \$548,685, respectively.

AUDIT NO: 1313  
 REPORT DATE: DECEMBER 26, 2013

**Director:** Dr. Peter Hughes, MBA, 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

Independence

Objectivity

Integrity



*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

**Dr. Peter Hughes**

Director

**Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**

Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

E-mail: [peter.hughes@iad.ocgov.com](mailto:peter.hughes@iad.ocgov.com)

**Michael Goodwin**

**CPA, CIA**

Senior Audit Manager

**Alan Marcum**

**MBA, CPA, CIA, CFE**

Senior Audit Manager

**Hall of Finance & Records**

12 Civic Center Plaza, Room 232  
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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**

# Letter from Dr. Peter Hughes, CPA

## Transmittal Letter



**Audit No. 1313    December 26, 2013**

**TO:** Tony Rackauckas  
District Attorney

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

**SUBJECT:** Financial Statement Audit: Orange County  
District Attorney's Organized Automobile Fraud  
Activity Interdiction Program

Attached is our report on the Audit of the Orange County District Attorney's Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2013.

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***  
***Organized Automobile Fraud Activity Interdiction Program***  
***Audit No. 1313***

**For the Fiscal Year Ended**  
**June 30, 2013**

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# Independent Auditor's Report

December 26, 2013

Audit No. 1313

California Department of Insurance  
Fraud Division/Local Assistance Programs  
9342 Tech Center Drive, Suite 100  
Sacramento, CA 95826

## Report on the Financial Statement

We have audited the accompanying Statement of Revenues and Expenditures - Budget and Actual and the related notes to the financial statement, of the Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2013.

## Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# Independent Auditor's Report

In accordance with Government Auditing Standards issued by the Comptroller General of the United States, we have also issued our report dated December 26, 2013 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.

## Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the OCDA's Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2013, in conformity with the basis described in Note 2.

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.

Respectfully Submitted,

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

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
- Michael B. Giancola, County Executive Officer
- Mark Denny, Chief Operating Officer
- Lisa Bohan-Johnston, Director, District Attorney Administrative Services
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



# Independent Auditor's Report

**ORANGE COUNTY DISTRICT ATTORNEY'S**  
**ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
California Department of Insurance Grant Receipts (Note 4)	\$ 412,949	\$ 412,949	\$ -
Approved Prior Year Carry-Over Funds (Note 4)	131,460	131,460	-
Interest Income (Note 6)	-	-	-
Total Revenue	<u>\$ 544,409</u>	<u>\$ 544,409</u>	<u>\$ -</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	492,345	492,700	(355)
Operating Expenditures (Note 3.B)	<u>52,064</u>	<u>55,985</u>	<u>(3,921)</u>
Total Expenditures	<u>\$ 544,409</u>	<u>\$ 548,685</u>	<u>(\$ 4,276)</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		<u>(\$ 4,276)</u>	<u>(\$ 4,276)</u>

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





# Independent Auditor's Report

## **ORANGE COUNTY DISTRICT ATTORNEY'S**

### **ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM**

#### **NOTES TO FINANCIAL STATEMENT**

#### **FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

##### **NOTE 1 – BACKGROUND**

The Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Unit (Unit) utilizes various forms of investigative techniques and scientific aids in order to detect, investigate, and bring to justice perpetrators of organized automobile fraud activity in Orange County. The OCDA applied for and was awarded funding for the Organized Automobile Fraud Activity Interdiction Program (Program) by the California Department of Insurance (CDI) for the period July 1, 2012 through June 30, 2013. The Program funds provide for enhanced investigation and prosecution of fraudulent organized automobile insurance claims. The funds are available to local district attorneys under provisions of Section 1874.8 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 1874.8 of the California Insurance Code and California Code of Regulations, Title 10, Sections 2698.77 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 (paralegal). 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.



# 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, undercover expenses, and indirect costs. A flat indirect cost rate of ten (10) percent was used for the year ended June 30, 2013. 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 \$412,949 and received the full award amount in four (4) distributions (\$158,835 on March 25, 2013, \$99,087 on June 12, 2013, \$99,521 on August 29, 2013, and \$55,506 on October 15, 2013). In addition, \$131,460 of carry-over funds from fiscal year 2011-12 was approved by CDI to further program expenditures.

Total Grant funding was \$544,409.

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

Current year's excess expenditures over revenues: \$4,276

The net expenditures in excess of revenues as of June 30, 2013 cannot be applied toward future year's grant revenue. Therefore, the excess expenditures will be absorbed by the OCDA.

### **NOTE 6 – INTEREST INCOME**

There was no interest income for the year ended June 30, 2013.

See Independent Auditor's Report.

# Independent Auditor's Report



## OTHER REPORTS



# Independent Auditor's Report

## 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

December 26, 2013

California Department of Insurance  
Fraud Division/Local Assistance Programs  
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) Organized Automobile Fraud Activity Interdiction Program, for the fiscal year ended June 30, 2013, and have issued our report thereon dated December 26, 2013. 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 Organized Automobile Fraud Activity Interdiction Program for the year ended June 30, 2013, 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

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 26, 2013

California Department of Insurance  
Fraud Division/Local Assistance Program  
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) Organized Automobile Fraud Activity Program, for the fiscal year ended June 30, 2013, and have issued our report thereon dated December 26, 2013. 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, reading "Peter Hughes", is positioned above the printed name.

Dr. Peter Hughes, CPA, Director  
Internal Audit Department