



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

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

**FINANCIAL STATEMENT
AUDIT:
OC DISTRICT ATTORNEY
ORGANIZED AUTOMOBILE
FRAUD ACTIVITY
INTERDICTION PROGRAM**

**FOR THE
FISCAL YEAR ENDED
JUNE 30, 2015**



**Audit Number 1512
Report Date: October 26, 2015**



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I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

Toni Smart, CPA	Director, Internal Audit
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

October 26, 2015

Audit No. 1512

TO: Tony Rackauckas
District Attorney

SUBJECT: Financial Statement Audit: OC District Attorney
Organized Automobile Fraud Activity Interdiction
Program

We have completed our report on the Audit of the OC District Attorney Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical 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. Although there were no findings noted during this audit, the results will be included in future status reports to the AOC and 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 report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric H. Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Mark Denny, Chief Operating Officer
- Bob Wilson, Interim Director, District Attorney Administrative Services
- Kim Dinh, Manager, District Attorney Financial Services
- Ana Roach, Revenue & Compliance Manager, District Attorney Financial Services
- Claire Moynihan, Auditor-Controller Central Accounting Operations Director
- Foreperson, Grand Jury
- Robin Stieler, Interim Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Organized Automobile Fraud Activity Interdiction Program
Audit No. 1512***

For the Fiscal Year Ended June 30, 2015

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Independent Auditor's Report

October 26, 2015

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 of the Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction Program for the fiscal year ended June 30, 2015, and the related notes to the financial statement.

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 the financial statement that is 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 accounting 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

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, 2015, in conformity with the basis described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of the OCDA's internal control over financial reporting and on our tests of its 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* in considering OCDA's internal control over financial reporting and compliance.

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.

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Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division



Independent Auditor's Report

ORANGE COUNTY DISTRICT ATTORNEY

ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
California Department of Insurance Grant Receipts (Note 4)	\$ 412,949	\$ 412,949	\$ -
Approved Prior Year Carry-Over Funds (Note 4)	56,782	56,782	-
Total Revenue	<u>\$ 469,731</u>	<u>\$ 469,731</u>	<u>\$ -</u>
<u>Expenditures:</u>			
Salaries and Benefits (Note 3.A)	426,543	530,215	(103,672)
Operating Expenditures (Note 3.B)	<u>43,188</u>	<u>50,619</u>	<u>(7,431)</u>
Total Expenditures	<u>\$ 469,731</u>	<u>\$ 580,834</u>	<u>(\$111,103)</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 5)		<u>(\$ 111,103)</u>	<u>(\$111,103)</u>

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



Independent Auditor's Report

ORANGE COUNTY DISTRICT ATTORNEY

ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM

NOTES TO FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 – BACKGROUND

The Orange County District Attorney's (OCDA) Organized Automobile Fraud Activity Interdiction 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, 2014 through June 30, 2015. 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 of accounting 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 Insurance Code and California Code of Regulations, Title 10, Section 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.



Independent Auditor's Report

B. Operating Expenditures

Operating expenditures include travel/transportation, communication expenses, training, building lease to house program staff, office supplies, audit cost, undercover expenses, and indirect costs. A flat indirect cost rate of ten (10) percent was used for the fiscal year ended June 30, 2015. 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.

NOTE 4 – FUNDING AMOUNTS

California Department of Insurance

The OCDA was awarded \$412,949 and received three (3) installments (\$110,748 on April 2, 2015, \$104,018 on June 5, 2015 and \$101,781 on August 20, 2015). The District Attorney is awaiting payment of \$96,402 from CDI. There were carry-over funds from FY 2013-14 of \$56,782 which were spent in FY 2014-15.

NOTE 5 – EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES

Current year's deficiency of revenues over expenditures: \$111,103

The net expenditures in excess of revenues as of June 30, 2015 cannot be applied toward future years' grant revenue. Therefore, the excess expenditures will be absorbed by the OCDA.



Independent Auditor's Report

OTHER REPORT



Independent Auditor's Report

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

October 26, 2015

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

We have audited, in accordance with the 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, 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, 2015, and the related notes to the financial statement, and have issued our report thereon dated October 26, 2015.

Internal Control over Financial Reporting

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 fiscal year ended June 30, 2015, we considered the OCDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the OCDA's internal control.

A deficiency in internal control exists when the design or operation of a 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 statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Independent Auditor's Report

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OCDA'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

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Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division