

County of Santa Clara



Finance Agency Controller-Treasurer Department Internal Audit Division

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Assignment 10285

October 22, 2012

To: Distribution List

From: Manju Beher, CPA, Supervising Internal Auditor

Subject: Internal Audit Report – California Department of Insurance: Disability and Healthcare Insurance Fraud Grant

We have completed a financial audit of the California Department of Insurance Disability and Healthcare Insurance Fraud Grant for the fiscal year ending June 30, 2012. This is one of four annual grants to the District Attorney's Office from the California Department of Insurance. We commenced the audit in August and completed the fieldwork on October 1, 2012.

We thank the staff of the District Attorney's Office for their cooperation during this audit. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

(signature on file)

Manju Beher, CPA
Supervising Internal Auditor

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

CALIFORNIA DEPARTMENT OF INSURANCE – DISABILITY AND HEALTHCARE INSURANCE FRAUD GRANT

June 30, 2012



Assignment 10285
October 22, 2012

**COUNTY OF SANTA CLARA
OFFICE OF DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
DISABILITY AND HEALTHCARE INSURANCE FRAUD GRANT**

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial statement of the County of Santa Clara's Disability and Healthcare Insurance Fraud Grant from the California Department of Insurance for the year ended June 30, 2012, as listed in the table of contents. This financial statement is the responsibility of the County's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. The auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. Although we do not meet the technical definition of organizational independence in the Government Auditing Standards, there are no known professional impairments associated with this audit. 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.

As discussed in Note 2, the financial statement of the County of Santa Clara's Disability and Healthcare Insurance Fraud Grant is intended to present the financial activities of the County's Disability and Healthcare Insurance Fraud Grant funded by the California Department of Insurance and not the financial activities of the County as a whole.

In our opinion, the statement referred to above presents fairly, in all material respects, the resources and expenditures of the County of Santa Clara's Disability Insurance Fraud Grant funded by the California Department of Insurance for the year ended June 30, 2012.

(signature on file)

Manju Beher, CPA
Supervising Internal Auditor

October 22, 2012

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
DISABILITY AND HEALTHCARE INSURANCE FRAUD GRANT
Statement of Resources and Expenditures – Budget and Actual
For the Year Ended June 30, 2012**

		RESOURCES /EXPENDITURES <u>REPORTED</u>	Adjustments	RESOURCES /EXPENDITURES <u>AUDITED</u>
	<u>APPROVED BUDGET</u>			
RESOURCES				
State allocation, fiscal year 2011-2012	\$ 190,000	\$ 190,000	\$ -	\$ 190,000
Balance carried forward from the prior year				
Total resources	Note 3(b) <u>\$ 190,000</u>	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>
EXPENDITURES				
Salaries and benefits	\$ 167,103	\$ 167,128	\$ -	\$ 167,128
Operating expenses	13,548	13,548	-	13,548
Equipment purchases	-	-	-	-
Overhead	9,349	9,324	-	9,324
Total expenditures	Note 3(c) <u>\$ 190,000</u>	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER EXPENDITURES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
DISABILITY AND HEALTHCARE INSURANCE FRAUD GRANT
Notes to the Financial Statement
Fiscal Year Ended June 30, 2012**

1. PROGRAM DESCRIPTION:

The County of Santa Clara District Attorney's Office entered into a Disability and Healthcare Insurance Fraud Investigation grant agreement for the fiscal year ended June 30, 2012, with the California Department of Insurance (CDI) to provide for increased investigation of disability insurance fraud cases. The State Insurance Commissioner makes these funds available to various District Attorneys' offices under the provisions of Section 1872.85 of the California Insurance Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statement includes only the financial activities of the County's Disability and Healthcare Insurance Fraud Grant Program and not the financial activities of the County as a whole. This statement presents the information requested by the CDI.

FUND ACCOUNTING:

The resources received and expenditures incurred have been accounted for in the General Fund of the County.

BUDGET MODIFICATIONS:

In accordance with Section 2698.56(f) of the California Code of Regulations, expenditures may differ from the initial budgeted amounts so long as the total does not exceed the total budget. The financial statement's budgeted amounts reflect the final modification approved by the CDI.

METHOD OF ACCOUNTING:

The financial statement is prepared using the accrual method of accounting. Resources are recognized on the accrual basis. The total of the State's annual allocation of resources generally includes funds received both during and after the end of reporting period. As such, grant resources from the CDI for the period are included in the statement and treated on an accrual basis even if they were received and deposited by the county after the end of the grant period. Expenditures are recognized when incurred.

3. FUNDING AMOUNTS AND EXPENSE CATEGORIES:

- (a) The amount of grant resources provided by CDI is based on an allocation of a portion of the annual assessments as determined by the Insurance Commissioner. Insurers of liable for health insurance fraud must pay an assessment of ten cents per each individual insured. The CDI distributes to district attorneys a percentage (fixed at 50% for disability insurance per the Insurance Code Section 1872.85(a)) of the net assessment (after costs) collected. That portion not distributed to district attorneys is retained by the CDI for its own investigations. Because of the method of allocation, the actual total allocations for the year are not known until a few

months after the beginning of the fiscal year. Based on this process and on the participatory budget process between the CDI and the District Attorney's office, a budget application is prepared for the expected amount of allocation.

- (b) For the Fiscal Year 2011-2012, the CDI approved a grant award of \$190,000; there was not a carryover balance from the previous fiscal year.
- (c) Expenditures were made for the purposes of the program as specified in the Insurance Code Section 1872.85 and the Code of Regulations' Application Procedure and the County Plan.

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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial statement of the County of Santa Clara's Disability and Healthcare Insurance Fraud Grant from the California Department of Insurance, for the year ended June 30, 2012, as listed on the table of contents, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the statement is free of material misstatement, we performed tests of its compliance with certain provisions of the grants, laws, regulations, and the Department of Insurance guidelines that affect the use, amount and reporting of grant fiscal information, noncompliance with which could have a direct and material effect on the determination of the 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control of the District Attorney's Office over financial reporting of grant activities in order to determine our auditing procedures for the purpose of expressing our opinion on the statement and not to provide assurance on the internal control over the grant schedules. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk the possibility that misstatements in amounts would be material in relation to the statement being audited may occur or may 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 over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District Attorney's Office management and the California Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

(signature on file)

Manju Beher, CPA
Supervising Internal Auditor

October 22, 2012