

County of Santa Clara
Finance Agency
Controller-Treasurer Department



Internal Audit Division
70 West Hedding Street East Wing 2nd Floor
San Jose, CA 95110
408.299.6836 Fax 408.289.8629

November 3, 2009

To: Distribution List

From: Bill Perrone, CIA, Supervising Internal Auditor

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

We have completed a financial audit of the California Department of Insurance Healthcare and Long-Term Disability Fraud Grant for the fiscal year ending June 30, 2009. This is one of four annual grants to the District Attorney's Office from the California Department of Insurance. We conducted the audit in September and October 2009; the date of fieldwork completion was October 28, 2009.

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.

Distribution:

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

**CALIFORNIA DEPARTMENT OF
INSURANCE – HEALTHCARE AND
LONG-TERM DISABILITY
INSURANCE FRAUD GRANT
June 30, 2009**



Assignment 10238
November 3, 2009

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

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial schedule of the County of Santa Clara's Healthcare and Long-Term Disability Fraud Grant from the California Department of Insurance for the year ended June 30, 2009, as listed in the table of contents. This financial schedule is the responsibility of the County's management. Our responsibility is to express an opinion on this schedule 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 schedules are 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 schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the schedule referred to above presents fairly, in all material respects, the resources and expenditures of the County of Santa Clara's Healthcare and Long-Term Disability Fraud Grant funded by the California Department of Insurance for the year ended June 30, 2009.

Bill Perrone, CIA
Manager, Internal Audit

Brian P. Mark, CIA
Senior Internal Auditor

November 3, 2009

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
HEALTHCARE AND LONG-TERM DISABILITY FRAUD GRANT
Schedule of Expenditures and Resources – Budget and Actual
For the Year Ended June 30, 2009**

		EXPENDITURES /RESOURCE		EXPENDITURES /RESOURCE
	APPROVED BUDGET	REPORTED	Adjustment	AUDITED
EXPENDITURES				
Salaries and benefits	\$ 334,427	\$ 334,688	\$ -	\$ 334,688
Operating expenses	13,492	14,110	-	14,110
Equipment	-	-	-	-
Overhead	21,889	21,010	-	21,010
Total expenditures	Note 3(c) <u>369,808</u>	<u>369,808</u>	<u>-</u>	<u>369,808</u>
RESOURCES				
State allocation, fiscal year 2008-2009	371,500	369,808	-	369,808
Balance carried forward				
Balance from prior year	0	-	-	0
Reduction in funding	<u>(1,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total resources available	Note 3(b) <u>369,808</u>	<u>369,808</u>	<u>-</u>	<u>369,808</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
HEALTHCARE AND LONG-TERM DISABILITY FRAUD GRANT
Notes to the Financial Schedule
Fiscal Year Ended June 30, 2009**

1. PROGRAM DESCRIPTION:

The County of Santa Clara District Attorney's Office entered into a Healthcare and Long-Term Disability Fraud Investigation grant agreement for the fiscal year ended June 30, 2009 with the California Department of Insurance (CDI) for increased investigation of healthcare and long-term disability 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 schedule include only the financial activities of the County's Healthcare and Long-Term Disability Fraud Grant Program and not the financial activities of the County as a whole. This schedule presents the information requested by 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. There was no such modification to the budget during the year.

METHOD OF ACCOUNTING:

The financial schedules are prepared using the accrual method of accounting. Resources are recognized on the accrual basis. Expenditures are recognized when incurred.

3. FUNDING AMOUNTS & 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 by law at 50% for health and disability insurance) 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 FY 2008-2009, the CDI approved a grant award of \$371,500; there was not a carryover balance from the previous fiscal year. During the year, the CDI reduced its funding by \$1,692 resulting in a net grant award of \$369,808.
- (c) Expenditures were made for the purposes of the program as specified in Section 1872.85 of the Insurance Code, its Regulations, the Guidelines in the Request for Application, and the County Plan.

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**REPORT ON COMPLIANCE AND ON 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 schedule of the County of Santa Clara's Healthcare and Long-Term Disability Fraud Grant from the California Department of Insurance, for the year ended June 30, 2009 as listed on the table of contents, and have issued our report thereon dated November 3, 2009. 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 schedule is free of material misstatement, we performed tests of its compliance with certain provisions of the grants, laws, regulations, and 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 schedule 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 controls of the District Attorney's Office over the financial reporting of grant activities in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to

provide assurance on the internal control over the grant schedules. Our consideration of the internal controls 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 schedules 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.

Bill Perrone, CIA
Supervising Internal Auditor

Brian P. Mark, CIA
Senior Internal Auditor

November 3, 2009