



A Tradition of Stewardship
A Commitment to Service

**Napa County
District Attorney's Office
Workers' Compensation Insurance Fraud
Grant Program**

Auditor's Report
and Financial Schedules

For the Fiscal Year Ended June 30, 2014

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
October 24, 2014

**NAPA COUNTY DISTRICT ATTORNEY’S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS’ COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

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Auditor-Controller

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Tracy A. Schulze
Auditor-Controller

AUDITOR'S REPORT

Honorable Board of Supervisors
Napa County
Napa, California

We have audited the accompanying Schedule of Grant Revenues and Expenditures; and Schedule of Eligible Costs – Budget to Actual (the financial schedules) of the Napa County District Attorney's Office's California State Department of Insurance Workers' Compensation Insurance Fraud Grant for the fiscal year ended June 30, 2014. These schedules are the responsibility of the management of the District Attorney's Office. Our responsibility is to express an opinion on these schedules based on our audit. In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to Generally Accepted Government Auditing Standards (GAGAS) general statement #2.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS independence standards. Specifically, "Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the offices of Auditor-Controllers are statutorily obligated to maintain the accounts of departments, districts, or funds that are contained within the County Treasury, we believe that the following safeguards and divisions of responsibility would enable the reader of this report to rely on the information contained herein:

- The Internal Audit Division is not responsible for the input or reconciliation of any financial transactions.
- County policy requires the Board of Supervisors' approval for material transactions.
- The Auditor-Controller is elected by and accountable to the Citizens of Napa County.
- Internal Audits are subject to an independent peer review every 5 years.

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 schedules are free of material misstatement. An audit includes consideration of internal

control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Attorney's Office's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

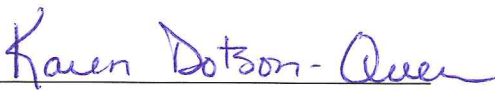
As discussed in Note 1 to the financial schedules, the financial schedules referred to above present only the financial activities of the District Attorney's Office's California State Department of Insurance Workers' Compensation Insurance Fraud Grant. Accordingly, the accompanying financial schedules do not purport to, and do not present fairly the financial position of the County or the District Attorney's Office as of June 30, 2014, and the changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the grant revenues and expenditures of the District Attorney's Office's California State Department of Insurance Workers' Compensation Insurance Fraud Grant for the fiscal year ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 24, 2014, on our consideration of the District Attorney's Office's internal control over financial reporting as it relates to the California State Department of Insurance Workers' Compensation Insurance Fraud Grant 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 the 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.

This report is intended solely for the information and use of the State of California Department of Insurance, the management of the Napa County District Attorney's Office and the Board of Supervisors and is not intended to be and should not be used by anyone other than those specified parties.

Tracy A. Schulze
Auditor-Controller

By 
Karen Dotson-Querin, CPA
Audit Manager

October 24, 2014

**NAPA COUNTY DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS' COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

Schedule of Grant Revenues and Expenditures
For the Fiscal Year Ended June 30, 2014

Grant Revenues:

Reimbursements received/receivable	<u>\$ 130,153</u>
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Expenditures:

Personnel services	158,777
Operating expense and administrative overhead	<u>18,863</u>
Total expenditures	<u>177,640</u>

Deficiency of revenues under expenditures	(47,487)
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Grant carry forward, beginning of year	<u>47,487</u>
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Grant carry forward, end of year	<u><u>\$ -</u></u>
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The notes to the financial schedules are an integral part of this schedule.

**NAPA COUNTY DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS' COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

Schedule of Eligible Costs – Budget to Actual
For the Fiscal Year Ended June 30, 2014

<u>Budget Category</u>	<u>Current Budget</u>	<u>Eligible Costs</u>	<u>Variance</u>
Personnel services	\$158,777	\$158,777	\$ -
Operating expense and administrative overhead	<u>18,863</u>	<u>18,863</u>	<u>-</u>
Total	<u>\$177,640</u>	<u>\$177,640</u>	<u>\$ -</u>

The audited expenditures listed above were made for the purpose of the program as specified in Section 1872.83 of the Insurance Code and California Code of Regulations, Title 10, Section 2698.50 et. seq.

The notes to the financial schedules are an integral part of this schedule.

**NAPA COUNTY DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS' COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

Notes to Financial Schedules
For the Fiscal Year Ended June 30, 2014

Note 1: Summary of Significant Accounting Policies

Background

The Napa County District Attorney's Office applied for a grant from the California State Department of Insurance under the Workers' Compensation Insurance Fraud Grant Program (Grant) pursuant to Section 1872.83 of the Insurance Code in order to institute a program for the investigation and prosecution of workers' compensation insurance fraud.

The Workers' Compensation Fraud Program was established in 1991 through the passage of Senate Bill 1218 (Chapter 116). The law made workers' compensation fraud a felony, required insurers to report suspected fraud, and established a mechanism for funding enforcement and prosecution activities. Senate Bill 1218 also established the Fraud Assessment Commission to determine the level of assessments to fund investigation and prosecution of workers' compensation insurance fraud. The assessments are charged to California employers who are legally required to be insured or self-insured. According to the California Insurance Code Section 1872.83 para (d), after incidental expenses, at least 40% of the monies collected from these employer assessments are to be allocated to District Attorney's within the state.

Basis of Accounting

Basis of accounting refers to the criteria governing the timing of the recognition of revenues and expenditures in the financial schedules. The Grant utilizes the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, increases and decreases in financial resources are recognized only to the extent that they reflect near-term inflows and outflows of cash. Revenues are recognized when earned, only so long as they are collectible within the period or soon enough thereafter to be used to pay liabilities of the current period. Therefore, revenues are only recognized to the degree to which they are measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the related liability is incurred, if measurable.

Financial Schedule Presentation

The schedules present only the financial activities of the District Attorney's Office's Grant and are not intended to present fairly the financial position or changes in financial position of the District Attorney's Office in conformity with accounting principles generally accepted in the United States of America.

**NAPA COUNTY DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS' COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

Notes to Financial Schedules
For the Fiscal Year Ended June 30, 2014

Note 2: Grant Funding

The amount of the grant payments from the Department of Insurance is based on the amount of funds available for disbursement. These funds are based on a special assessment fee to be determined by the Department of Insurance. The amounts are estimated until actual payment is received by the District Attorney's Office. In accordance with the guidelines of the Grant, the District Attorney's Office is not required to provide matching funds.

For the fiscal year ended June 30, 2014, the Department of Insurance awarded \$130,153 to the District Attorney's Office under the Grant program.

Note 3: Administrative Overhead

Administrative overhead is allocated to the grant based on an approved indirect cost rate applied to the total salaries of the staff allocated to the grant. However, indirect cost allocation is restricted by California Code of Regulations, Title 10 §2698.56 (c). The code requires that indirect costs, including those costs not readily itemized but necessary to the local program operation, may not exceed ten percent (10%) of personnel salaries (excluding benefits and overtime) or five percent (5%) of total direct program costs (excluding equipment). Administrative overhead allocated to the grant in fiscal year 2013-14 did not exceed 10% of personnel salaries.

Note 4: Contingencies

The Grant is awarded from the California State Department of Insurance (Department). The Grant is subject to a financial and compliance audit by the Department. It is uncertain whether an audit of the Grant would result in expenditures which might be disallowed and therefore, could result in funds being returned to the California State Department of Insurance. At this time, District Attorney's Office management does not expect any amounts to be disallowed which could be material in relation to the financial schedules.

Note 5: Subsequent Events

As a result of our finding detailed in the Schedule of Internal Control Deficiencies on page nine of this report, the District Attorney's Office requested and received approval from the California Department of Insurance on October 17, 2014 to shift excess personnel budget to operating expenses, allowing the award to be fully expended. The financial schedules included in this report have been revised to reflect this budget modification.



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Auditor-Controller

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

Honorable Board of Supervisors
Napa County
Napa, California

We have audited the financial schedules of the Napa County District Attorney's Office's California State Department of Insurance Workers' Compensation Insurance Fraud Grant (Grant) as of, and for the fiscal year ended June 30, 2014, and have issued our report thereon dated October 24, 2014. 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 Audit Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District Attorney's Office's internal control over financial reporting as it relates to the Grant in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the District Attorney's Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Attorney's Office's internal control over financial reporting.

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 District Attorney's Office's financial schedules 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying Schedule of Internal Control Deficiencies on page nine of this report.

Compliance and Other Matters

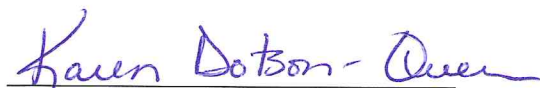
As part of obtaining reasonable assurance about whether the District Attorney's Office's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 or other matters that is 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 District Attorney's Office'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 District Attorney's Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tracy A. Schulze
Auditor-Controller

By



Karen Dotson-Querin, CPA
Audit Manager

October 24, 2014

**NAPA COUNTY DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT OF INSURANCE
WORKERS' COMPENSATION INSURANCE FRAUD GRANT PROGRAM**

Schedule of Internal Control Deficiencies
For the Fiscal Year Ended June 30, 2014

Errors in Salary and Benefit Charges

Finding: During our review of the schedules supporting salaries and benefits, we noted a formula error in the spreadsheet used to calculate these expenses for the Attorney IV. This error resulted in an overcharge of \$1,185 to the Workers' Compensation Insurance Fraud Grant. However, previously unclaimed eligible Investigator salaries and benefits reduced the error by \$150 for a net effect of \$1,035. Subsequent to our audit, a grant budget modification was requested by the District Attorney's Office and approved by the California Department of Insurance. This modification shifted the excess personnel budget to operating expenses, allowing the District Attorney's Office to expend the total award amount.

Recommendation: We recommend that the schedules for salary and benefit charges be analyzed to ensure arithmetic accuracy of the formulas as well as appropriateness of the amounts included in the calculations. A review of the schedules should be performed at least annually, prior to submittal of final expenditure documents to the state.

Management Response: Currently, the District Attorney's Office must utilize project costing reports and labor distribution reports to identify hours worked and salary and benefit figures, respectively. The figures from the separate reports are manually entered into Excel spreadsheets to calculate the costs that are directly attributable to the grant project, including the separation of regular and overtime hours and costs. We acknowledge that this manual practice is inefficient and leaves room for data entry errors and formula calculation errors. We are awaiting County-wide improvements to the financial reporting of project costed personnel costs. As an immediate action step, the Staff Services Analyst will be retrained to verify all of the entries and formulas in the salary and benefits schedules, and to verify figures with manual calculation sample testing for additional balance checks. As an additional protection, the Staff Services Manager will review the files electronically, in addition to the hardcopy review currently being performed, to further identify and prevent potential errors. The Staff Services Manager will continue to work with the Information Technology Services (ITS) Department and the Auditor-Controller's Office to develop automated reports that will ensure more reliable identification of the personnel costs attributable to these grants and other grants county-wide.