

**SAN BERNARDINO COUNTY  
DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION  
INSURANCE FRAUD PROGRAM GRANT**

**FINANCIAL STATEMENT  
WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT  
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JUNE 30, 2012

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## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors and  
San Bernardino County District Attorney's Office  
San Bernardino, California

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (Office) Workers' Compensation Insurance Fraud Program Grant in accordance with the California Department of Insurance Fraud Division Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2012. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in accordance with the California Department of Insurance Fraud Division, "Insurance Fraud Grant Financial Audit Guidelines." 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the California Department of Insurance Fraud Division as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

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In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Workers' Compensation Insurance Fraud Program Grant in accordance with the California Department of Insurance Fraud Division Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2012, 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 December 3, 2012, on our consideration of the Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 San Bernardino County District Attorney's Office management, the Board of Supervisors for the County of San Bernardino, and the California Department of Insurance Fraud Division and is not intended to be and should not be used by anyone other than these specified parties.

*Eadie and Payne, LLP*

December 3, 2012  
Redlands, California

SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE  
 WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT  
 STATEMENT OF GRANT REVENUES AND EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2012

<b>Revenues</b>	
Reimbursements received/receivable	\$2,173,413
Miscellaneous	<u>1,518</u>
<b>Total Revenues</b>	<u>2,174,931</u>
<b>Expenditures</b>	
Salaries and benefits	2,055,073
Services and supplies	<u>194,293</u>
<b>Total Expenditures</b>	<u>2,249,366</u>
<b>Excess of revenues over (under) expenditures</b>	(74,435)
<b>Fund balance (carryover), beginning of year</b>	<u>199,719</u>
<b>Fund Balance (Carryover), End of Year</b>	<u>\$ 125,284</u>

The accompanying notes are an integral part of this financial statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT  
NOTES TO THE STATEMENT OF GRANT REVENUES AND EXPENDITURES  
JUNE 30, 2012**

**1. ORGANIZATION**

**A. Description of Reporting Entity**

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (Office) Workers' Compensation Insurance Fraud Program Grant for the year ended June 30, 2012. The grant is pursuant to the provisions of California Insurance Code Section 1872.83 and is solely for the purpose of enhancing investigation and prosecution of workers' compensation fraud cases. The grant was funded by the California Department of Insurance Fraud Division and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenditures presents only the activities of the Workers' Compensation Insurance Fraud Program Grant and is not intended to present the financial position of the San Bernardino County District Attorney's Office or the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

**B. Description of Grant**

The grant funds are issued pursuant to authority granted to the California Insurance Commissioner, under the provisions of Section 1872.83 of the California Insurance Code, to all local district attorneys' offices for distribution of funding for investigation and prosecution of workers' compensation insurance fraud cases.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**A. Use of Estimates**

The preparation of this financial statement requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures. Actual results could differ from those estimates.

**B. Statement of Grant Revenues and Expenditures**

The statement of grant revenues and expenditures presents the eligible costs charged to the Workers' Compensation Insurance Fraud Program Grant by the San Bernardino County District Attorney's Office and the revenues awarded to the Office by the California Department of Insurance Fraud Division.

## NOTES TO THE STATEMENT OF GRANT REVENUES AND EXPENDITURES (Continued)

### C. **Basis of Accounting**

Revenues and expenditures are presented on an accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which the grant is awarded.



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

To the Board of Supervisors and  
San Bernardino County District Attorney's Office  
San Bernardino, California

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (Office) Workers' Compensation Insurance Fraud Program Grant in accordance with the California Department of Insurance Fraud Division Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with the California Department of Insurance Fraud Division, "Insurance Fraud Grant Financial Audit Guidelines."

Internal Control over Financial Reporting

Management of the Office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement of grant revenues and expenditures, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting for the Workers' Compensation Insurance Fraud Program Grant. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 first paragraph of this section 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. Refer to item 2012-1. 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino County District Attorney's Office Workers' Compensation Insurance Fraud Program Grant statement of grant revenues and expenditures 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-1.

The Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Office's response and, accordingly, we express no opinion on it.

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

*Eadie and Payne, LLP*

December 3, 2012  
Redlands, California



expect quality.

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## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Supervisors and  
San Bernardino County District Attorney's Office  
San Bernardino, California

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office Workers' Compensation Insurance Fraud Program Grant in accordance with the California Department of Insurance Fraud Division Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with the California Department of Insurance Fraud Division, "Insurance Fraud Grant Financial Audit Guidelines for Fiscal Year 2011-2012." Those standards require that we plan and perform the audit to obtain assurance about whether the statement is free of material misstatement. 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.

The San Bernardino County District Attorney's Office management is responsible for the Office's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office's compliance with State laws and regulations applicable to the following:

Grant expenditures were made for the purpose of the program as specified in Section 1872.83 of the California Insurance Code, the applicable regulations, the guidelines in the Request for Application, and the County Plan.

The results of our tests disclosed an instance of noncompliance, which is described in the accompanying schedule of findings and responses. Based on our audit, except for the instance of noncompliance noted above, we found that, for the items tested, the San Bernardino County District Attorney's Office complied with the laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the San Bernardino County District Attorney's Office had not complied with the State laws and regulations.

The Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Office's response and, accordingly, we express no opinion on it.

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

*Eadie and Payne, LLP*

December 3, 2012  
Redlands, California

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2012**

**Internal Control and Compliance**

**2012-1 Expenditure Report**

Criteria: Guideline three of the Insurance Fraud Grant Financial Audit Guidelines for Fiscal Year 2011-2012 for the District Attorney's Office Participation in the California Department of Insurance's Workers' Compensation Insurance Fraud Program requires that the Expenditure Report is an accurate reflection of the information contained in the County Auditor/Controller's records for this program.

Condition: The Office uses the County Labor Distribution Report to prepare the salary and benefits category of the Expenditure Report. During testing of grant expenditures, we noted that the salary expense per the County Labor Distribution Report did not agree with the County Cost Center Expenditure Transaction Analysis Ledger (general ledger). The salary and benefits on the Expenditure Report was overstated by \$1,626 and the carryover for fiscal year 2011-2012 was understated by \$1,626.

Cause: Beginning July 2, 2011, County of San Bernardino employees deferred 1.5 hours of compensation each pay period for 26 pay periods under the Consolidated Memorandum of Understanding. The deferral had no impact on leave accruals or any other benefits. The object code for salary on the County Labor Distribution Report did not reflect the reduction in earnings for the deferred compensation. The Office does not have a procedure in place to verify the accuracy of the reports used in the preparation of the Expenditure Report.

Recommendation: We recommend that the Office design and implement procedures to verify the accuracy of reports used in the preparation of the grant Expenditure Report. A possible procedure might include comparing selected transactions on the County Labor Distribution Report to the County Cost Center Expenditure Transaction Analysis Ledger at least once annually or whenever there is a change in any compensation package. We also recommend that a Revised Expenditure Report for 2011/2012 and a new 2012/2013 budget be prepared and approved by the Department of Insurance.

The Office's Response: For many years, the District Attorney's Office has compiled data for salary reimbursement directly from the County Labor Distribution Report as prepared and distributed each pay period by EMACS. Salary information in the Labor Distribution Report usually mirrors paycheck information by individual employee and accurately reflects the salary and benefits costs for an employee.

For fiscal year 2011-2012, unknown to us and with no notification from the county, even though employees covered by the MOU between the County and San Bernardino Public Employees Association (SBPEA) were furloughed 1.5 hours per pay period, the Labor Distribution Report continued to reflect employees' salaries as though they were being paid for 80 hours per pay period rather than 78.5 hours per pay period. Therefore, for the fiscal year 2011-2012 and for only those employees who were covered under the MOU between the County and SBPEA, we over claimed salary in an amount that equaled each grant funded employee's hourly rate x 1.5 hours. Over claiming salary on the year-end Expenditure Report caused the actual carryover amount to be under claimed for the Workers' Compensation Insurance Fraud Program.

A revised Expenditure Report with the correct salary expense decreased by \$1,626 and a new fiscal year 2012-2013 budget increasing the carryover by \$1,626 was submitted to the California Department of Insurance.

On October 26, 2012, Damian Scribner, Program Analyst for the California Department of Insurance reviewed and provided approval in writing of the revised fiscal year 2012-2013 modified budget for the Workers' Compensation Insurance Fraud Program and the request to utilize the revised carryover amount totaling \$125,284. This approval, along with copies of the revised Expenditure Report and the revised 2012-2013 budget, reflecting the increased carryover amount has been provided to Eadie and Payne, LLP.

Going forward, the District Attorney's Office will implement the practice of comparing the County Labor Distribution Report to the County Cost Center Expenditure Transaction Analysis Ledger (FAS) at least once annually or whenever there is a change in any compensation package to identify possible discrepancies and avoid future errors.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE  
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT  
STATUS OF PRIOR-YEAR FINDINGS AND RESPONSES  
JUNE 30, 2012**

There were no findings or questioned costs for the year ended June 30, 2011.