

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

**Financial Statement
with
Independent Auditors' Reports**

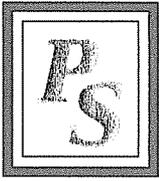
For the Year Ended June 30, 2013

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

Independent Auditors' Report

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

Report on the Financial Statement

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) *Workers' Compensation Insurance Fraud Program Grant* in accordance with the State of California's Department of Insurance Fraud Division *Workers' Compensation Insurance Fraud Program Grant* contract for the year ended June 30, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this 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 this 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, and in accordance with the State of California's 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 from 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.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's 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.

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial 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 State of California's Department of Insurance Fraud Division *Workers' Compensation Insurance Fraud Program* Grant contract for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 on our consideration of Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance, 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* in considering the Office's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management 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.



October 2, 2013

**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, 2013

Revenues

Reimbursements received/receivable	\$ 2,206,339
Interest income	416
Miscellaneous	<u>1,270</u>
Total revenues	<u>2,208,025</u>

Expenditures

Salaries and benefits	2,137,174
Services and supplies	<u>196,135</u>

Total expenditures 2,333,309

Excess of revenues over (under) grant expenditures (125,284)

Fund balance (carryover), beginning of year 125,284

Fund balance (carryover), end of year \$ -

The accompanying notes are an integral part of this statement.

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

Notes to Financial Statement

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) *Workers' Compensation Insurance Fraud Program* Grant for the year ended June 30, 2013. The grant is pursuant to the provisions of California Insurance Code Section 1872.83 and is solely for the purposes of enhancing investigation and prosecution of workers' compensation fraud cases. The grant was funded by the State of 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 nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

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 Insurance Code and California Code of Regulations, Title 10, Section 2698.50 et. Seq., to all local district attorney offices for distribution of funding for investigation and prosecution of workers' compensation insurance fraud cases.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenditures, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

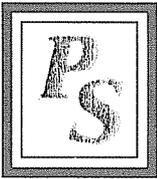
Statement of Grant Revenues and Expenditures

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 State of California Department of Insurance Fraud Division.

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***

Independent Auditors' Report

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

We have audited, 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, and in accordance with the State of California's Department of Insurance Fraud Division "Insurance Fraud Grant Financial Audit Guidelines" the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) *Workers' Compensation Insurance Fraud Program* Grant in accordance with the State of California's *Workers' Compensation Insurance Fraud Program* Grant contract for the year ended June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated October 2, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Office'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 Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office'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 Office'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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.

Compliance and Other Matters

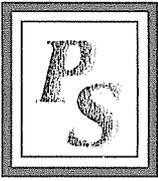
As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

A handwritten signature in cursive script that reads "Lowell & Spafford, LLP".

October 2, 2013



POWELL & SPAFFORD, LLP
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Independent Auditors' Report on State Compliance

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

Report on Compliance

We have audited the San Bernardino County District Attorney's Office (the Office) *Workers' Compensation Insurance Fraud Program* Grant compliance with the types of compliance requirements described in the State of California Department of Insurance Fraud Division "Insurance Fraud Grant Financial Audit Guidelines for Fiscal Year 2012-2013".

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to the Office's *Workers' Compensation Insurance Fraud Program* Grant. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office's compliance with the laws and regulations applicable to the following:

- Expenditures were made for the purposes of the program as specified in Section 1872.8 of the Insurance Code, the Regulations, and the Guidelines in the Request for Application and the County Plan.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Office's *Workers' Compensation Insurance Fraud Program* Grant based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 State of California Department of Insurance Fraud Division "Insurance Fraud Grant Financial Audit Guidelines for Fiscal Year 2012-2013". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Office's *Workers' Compensation Insurance Fraud Program* Grant. An audit includes examining, on a test basis, evidence about the Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the *Workers' Compensation Insurance Fraud Program* Grant. Our audit does not provide a legal determination of the Office's compliance with those requirements.

Opinion

In our opinion the San Bernardino County District Attorney's Office complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Office's *Workers' Compensation Insurance Fraud Program* Grant for the year ended June 30, 2013.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of State of California Department of Insurance Fraud Division "Insurance Fraud Grant Financial Audit Guidelines for Fiscal Year 2012-2013". This report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lowell & Spafford, LLP". The signature is written in dark ink and is positioned to the right of the main text block.

October 2, 2013

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

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

There were no findings or questioned costs for the year ended June 30, 2013.

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

Status of Prior-Year Findings and Questioned Costs

For the Year Ended June 30, 2013

Internal Control and Compliance

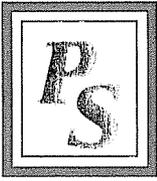
2012-1 Expenditure Report

Condition and Criteria: 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). 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.

Context and Questioned Cost: The salary and benefits on the Expenditure Report were overstated by \$1,626 and the carryover for fiscal year 2011-2012 was understated by \$1,626.

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.

Status: Implemented.



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

We have audited the statement of grant revenues and expenditures of San Bernardino County District Attorney's Office (the Office) Workers' Compensation Insurance Fraud Program Grant for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under 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 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Workers' Compensation Insurance Fraud Program Grant are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the Workers' Compensation Insurance Fraud Program Grant during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement is management's estimate for amounts due from granting agencies, including the State of California. We evaluated the key factors and assumptions used to determine the amounts due the Office from the State of California, in determining that it is a reasonable in relation to the financial statement taken as a whole.

Certain financial statement disclosures may be particularly sensitive because of their significance to the financial statement users. However, the Workers' Compensation Insurance Fraud Program Grant did not have any significant disclosures that are particularly sensitive for the year ended June 30, 2013.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No audit adjustments were proposed as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 2, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Workers' Compensation Insurance Fraud Program Grant's statement of grant revenues and expenditures or a determination of the type of auditor's opinion, that may be expressed on this statement, our professional standards require the consulting accountant check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Office's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

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

Lowell & Spafford, LLP

October 2, 2013