

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
January 29, 2013  
“*Communications Received and Filed*” Item

To: Board of Supervisors  
From: Department of Finance  
Subject: District Attorney – Automobile Insurance Fraud Program – July 1, 2011 To  
June 30, 2012  
Supervisory District: All  
Contact: Ben Lamera, Assistant Auditor-Controller, 874-7450

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**RECOMMENDATION**

Receive and file the attached audit report, *District Attorney – Automobile Insurance Fraud Program – July 1, 2011 to June 30, 2012.*

Respectively submitted,

**Julie Valverde**  
Director of Finance

Attachment 1: Automobile Insurance Fraud Auditor’s Report for the period July 1, 2011 to  
June 30, 2012

Attachment 2: Letter of Governance for the Automobile Insurance Fraud Program for the period  
July 1, 2011 to June 30, 2012



# **COUNTY OF SACRAMENTO**

**DEPARTMENT OF FINANCE**

**AUDITOR - CONTROLLER**

**County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program**

**For the Period July 1, 2011 to June 30, 2012**

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Audit Staff:

Hong Lun (Andy) Yu  
Coye E. Carter

Audit Manager  
Senior Auditor

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

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**Internal Services**  
**Department of Finance**  
**Auditor-Controller Division**

Ben Lamera,  
Assistant Auditor-Controller



## County of Sacramento

Bradley J. Hudson,  
County Executive

David Villanueva,  
Chief Deputy County Executive

Julie Valverde,  
Director of Finance

December 13, 2012

Jan Scully, District Attorney  
County of Sacramento  
901 G Street  
Sacramento, CA 95814

### AUDITOR'S REPORT

We have audited the accompanying Schedule of Status of Cash and Accounts Receivable (State) of the Sacramento County, Office of the District Attorney (DA), California Department of Insurance, Automobile Insurance Fraud Program, and the related Schedule of Approved Budget, Expenditures Claimed, and Audited Costs, for the program period from July 1, 2011 to June 30, 2012. These schedules are the responsibility of the DA's management. Our responsibility is to express an opinion on these schedules 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe our audit provides a reasonable basis for our opinion.

In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to paragraphs 3.22 through 3.24 of *Government Auditing Standards*.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* independence standards. Specifically, "auditors should not audit their own

work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.”

Although the Director of Finance is obligated by statute to maintain the accounts of departments, districts, or funds that are contained within the County Treasury, we believe the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited, including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the disclosure for paragraphs 3.22 through 3.24 of *Government Auditing Standards* as noted above, the schedules referred to above present fairly in all material respects, the funds and costs incurred under the Sacramento County, DA, California Department of Insurance, Automobile Insurance Fraud Program for the program period from July 1, 2011 to 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 a report dated December 13, 2012, on our consideration of the Sacramento County, DA’s internal control structure 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 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.

Sincerely,

JULIE VALVERDE  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.  
Audit Manager

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Schedule of Status of Cash and Accounts Receivable (State)

Cash Received

State (Received During the Grant Period)	\$ 349,313
Carryover Funds from Prior Grant	<u>99,439</u>
Total Cash Available during the Grant Period	448,752
Amounts Due from State	183,254
	<hr/>
Total Funds Available for the Grant	<u>\$ 632,006</u>

Disbursements

State	\$ 571,668
	<hr/>
Total Disbursements	<u>\$ 571,668</u>
Carryover Funds (Deferred Revenue)	<u>\$ 60,338</u>

The accompanying notes are an integral part of this schedule.

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Schedule of Approved Budget, Expenditures Claimed, and Audited Costs

	<u>Approved Budget</u>	<u>Expenditures Claimed and Audited Costs</u>
Costs		
Salaries and Benefits	\$ 540,234	509,190
Operating Expenses	91,772	62,478
	_____	_____
Total Costs	<u>\$ 632,006</u>	<u>571,668</u>
Funding		
State	\$ 632,006	571,668
	_____	_____
Total Funding	<u>\$ 632,006</u>	<u>571,668</u>

The accompanying notes are an integral part of this schedule.



County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Notes to Financial Schedules

1. Program Description

The County of Sacramento, Office of the District Attorney (DA), entered into the Automobile Insurance Fraud Program with the California Department of Insurance (DOI) for the period of July 1, 2011 to June 30, 2012. The funds are to provide for enhanced investigation and prosecution of automobile insurance fraud and economic car theft cases. The funds are available to the Insurance Commissioner for distribution to local district attorneys under provisions of Section 1872.8 of the California Insurance Code.

The program was approved by Resolution No. 2011-0754, adopted by the Sacramento County Board of Supervisors on October 25, 2011. The grant agreement in the amount of \$532,567 provides for reimbursement of costs incurred from July 1, 2011 through June 30, 2012. Total funding for the program, including the fiscal year end June 30, 2011 carryover amount of \$99,439, is \$632,006 for the period July 1, 2011 to June 30, 2012.

2. Accounts and Records

The DA receives funds from DOI, which are deposited to the DA's Automobile Insurance Fraud Program account with the County of Sacramento, Department of Finance, Treasurer.

Expenditures are reimbursed by transferring funds from the grant trust fund to the grant revenue account. This is done periodically by means of a journal voucher prepared by the DA. The journal voucher is based on expenditure information, which is collected in a separate cost center for the grant.

3. Funding Amounts

The amount of the grant payments from DOI is based on the amount of funds available for disbursement. These funds are based on an annual fee to be determined by the Insurance Commissioner, not to exceed one dollar annually, for each vehicle insured within the state. Fifty-one percent of the assessment after incidental expenses is available for distribution to district attorneys. Consequently, the budget amounts are estimated funding levels from DOI until actual payment is received by the DA.

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Notes to Financial Schedules

4. Accounts Receivable and Carryover Funds

The amount due from the State at the end of the program is \$183,254. This amount due was received in July and September 2012. Total grant funds available for the program is \$632,006. The total available amount is comprised of \$532,567 in current year grant award and \$99,439 in fiscal year 2010-11 carryover funds. The difference between the grant funds available and the expenditures are accounted for as deferred revenue in the amount of \$60,338 and will be requested to use as carryover funds for the subsequent grant by the DA.

OTHER REPORTS

**Internal Services**  
**Department of Finance**  
**Auditor-Controller Division**

Ben Lamera,  
Assistant Auditor-Controller



## County of Sacramento

Bradley J. Hudson,  
County Executive

David Villanueva,  
Chief Deputy County Executive

Julie Valverde,  
Director of Finance

December 13, 2012

Jan Scully, District Attorney  
County of Sacramento  
901 G Street  
Sacramento, CA 95814

**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***

We have audited the accompanying financial schedules of the County of Sacramento, Office of the District Attorney (DA), California Department of Insurance (DOI), Automobile Insurance Fraud Program for the program period from July 1, 2011 to June 30, 2012, and have issued our report thereon dated December 13, 2012. 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.

### **Internal Control Over Financial Reporting**

The DA's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the DA's internal control over financial reporting as the basis for designing 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 DA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DA'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 DA's financial schedules will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 the 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 *Finding and Recommendation* section on page 9, that we consider to be a significant deficiency in internal control over financial reporting. 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 the DA's financial schedules are free of material misstatements, we performed tests of the DA's 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 report 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 *Government Auditing Standards*.

The DA's management response to the finding identified in our audit is described in the accompanying *Finding and Recommendation* section. We did not audit the DA's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the County of Sacramento, DA's management and DOI. This report 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.

Sincerely,

JULIE VALVERDE  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.  
Audit Manager

County of Sacramento  
Office of the District Attorney  
California Department of Insurance  
Automobile Insurance Fraud Program

For the Period July 1, 2011 to June 30, 2012

Finding and Recommendation

**Absence Request Forms**

Comment

During our testing of the County of Sacramento, Office of the District Attorney's (DA) timesheets, we noticed three incidences of copied absence requests being used to request time off. The absence requests were copied from one prior approved absence request. Authorized signatures requesting time off were already present. The absence request forms were copied, and the dates were updated to reflect the current leave being requested. However, we noted that all three absence requests were approved by the staff's supervisor via the electronic timesheet system.

Recommendation

DA staff should use absence request forms with original authorized signatures for the pay period being requested for leave. Absence request forms should not be copied from prior authorized absence request forms. DA staff should use a new absence request form each time they request time off. In addition, supervisors should sign the absence request forms when they approve time off.

Management Response

Due to multiple worksites, it is not uncommon for the DA's Office to have scanned absence requests on file. However, we concur that absence requests should not be copied from prior periods and will ensure that this does not occur in the future. Given the Employee Self Service (ESS) electronic timesheet system, we disagree that the noted issue is a "significant deficiency in internal control over financial reporting" as indicated in the Auditor's Office draft report (pg. 8), as the leave was approved by the supervisor. While absence requests are no longer required by the County for departments using the ESS system, the DA's Office continues to utilize them in verifying payroll and to identify discrepancies. The DA's Office will make every attempt to secure original signatures on all absence requests in the future.



**Internal Services**

**Department of Finance**

**Auditor-Controller Division**

Ben Lamera,  
Assistant Auditor-Controller

## County of Sacramento

Bradley J. Hudson,  
County Executive

David Villanueva,  
Chief Deputy County Executive

Julie Valverde,  
Director of Finance

December 13, 2012

Sacramento County Board of Supervisors  
700 H Street, Suite 2450  
Sacramento, CA 95814

We have audited the Schedules of Status of Cash and Accounts Receivable (State) of the Sacramento County, Office of the District Attorney (DA), California Department of Insurance (DOI), Automobile Insurance Fraud Program, and the related Schedule of Approved Budget, Expenditures Claimed, and Audited Costs for the program period July 1, 2011 to June 30, 2012 and have issued our report thereon dated December 13, 2012. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 29, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial schedules prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial schedules does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial schedules are free of material misstatement. As part of our audit, we considered the internal control of DA. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed test of DA's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the DA in our engagement letter dated August 29, 2012.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. DA follows Sacramento County accounting policies which are described in County of Sacramento annual comprehensive financial report. No new accounting policies were adopted and the application of existing policies was not changed during the program period July 1, 2011 to June 30, 2012. We noted no transactions entered into by DA during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial schedules in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial schedules prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. In some instances, certain accounting estimates are particularly sensitive because of their significance to the financial schedules and because of the possibility that future events affecting them may differ significantly from those expected. We do not note any accounting estimates that are particularly sensitive and required your special attention.

The disclosures in the financial schedules are neutral, consistent, and clear. We do not note any financial schedules disclosures that are particularly sensitive to financial schedule users.

#### *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. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial schedules taken as a whole.

#### *Disagreement with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial schedules or the auditor's report.



We reported an audit finding as a significant deficiency in internal control over financial reporting in the *Finding and Recommendation* section of our report dated December 13, 2012. Management agrees with our audit recommendation but does not agree that the audit finding is a significant deficiency in internal control over financial reporting. Management's response to the audit finding is included in the *Finding and Recommendation* section of our report. We did not audit management's response to our audit finding, and we did not express an opinion on it.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 13, 2012.

*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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to 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 each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Sincerely,

JULIE VALVERDE  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu  
Audit Manager

CC: Jan Scully, District Attorney