

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**AUTOMOBILE INSURANCE FRAUD PROGRAM
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION
PROGRAM
WORKERS' COMPENSATION INSURANCE FRAUD
PROGRAM**

Independent Auditors' Report and Financial Schedules
For the Year ended June 30, 2018

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

For the Year Ended June 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors and the District Attorney
County of Sacramento
Sacramento, California

Report on the Financial Schedules

We have audited the accompanying Schedules of Grant Revenues and Expenditures and Carry-Over Funds and related Schedule of Eligible Costs – Budget to Actual (Schedules) for the year ended June 30, 2018, and the related notes to the Schedules, for the County of Sacramento, California (County), Office of the District Attorney's (Office), California Department of Insurance Grants, including the Automobile Insurance Fraud Program, the Organized Automobile Fraud Activity Interdiction Program and the Workers' Compensation Insurance Fraud Program.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules 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 statements 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 schedules.

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

Opinions

In our opinion, the Schedules referred to above present fairly, in all material respects, the grant revenues, expenditures, carry-over funds and budgeted amounts of the County's California Department of Insurance Automobile Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program as of and for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Schedules present only the financial activities of the County's California Department of Insurance Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program and Workers' Compensation Insurance Fraud Program and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2018, and the changes in financial position, or where applicable, its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of the County Office's internal control over financial reporting as it relates to the California Department of Insurance Grants 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 solely 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 effectiveness of the County Office's 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 County Office's internal control over financial reporting and compliance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
October 29, 2018

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Schedules of Grant Revenues and Expenditures and Carry-Over Funds
For the year ended June 30, 2018**

	Automobile Insurance Fraud Program	Organized Automobile Fraud Activity Interdiction Program	Workers' Compensation Insurance Fraud Program
Revenues:			
State Grant	\$ 584,620	\$ 351,433	\$ 1,018,367
Total Revenues	584,620	351,433	1,018,367
Expenditures:			
Personnel Services	539,587	327,869	901,539
Operating Expenditures	56,341	31,109	81,963
Total Expenditures	595,928	358,978	983,502
Excess (Deficiency) of Revenues over (Under) Expenditures	(11,308)	(7,545)	34,865
Carry-Over Funds/Deficits, June 30, 2018	\$ (11,308)	\$ (7,545)	\$ 34,865

The accompanying notes are an integral part of these schedules.

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Schedules of Eligible Costs – Budget to Actual
For the year ended June 30, 2018**

Automobile Insurance Fraud Program			
	Final Budget	Actual Costs	Variance
Personnel Services	\$ 539,588	\$ 539,587	\$ 1
Operating Expenditures	45,032	56,341	(11,309)
Totals	\$ 584,620	\$ 595,928	\$ (11,308)

Organized Automobile Fraud Activity Interdiction Program			
	Final Budget	Actual Costs	Variance
Personnel Services	\$ 327,868	\$ 327,869	\$ (1)
Operating Expenditures	23,565	31,109	(7,544)
Totals	\$ 351,433	\$ 358,978	\$ (7,545)

Workers' Compensation Insurance Fraud Program			
	Final Budget	Actual Costs	Variance
Personnel Services	\$ 908,834	\$ 901,539	\$ 7,295
Operating Expenditures	109,533	81,963	27,570
Totals	\$ 1,018,367	\$ 983,502	\$ 34,865

The accompanying notes are an integral part of these schedules.

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Notes to the Financial Schedules
For the year ended June 30, 2018**

NOTE 1 – ORGANIZATION

A. Description of Reporting Entity

The Schedules of Grant Revenues and Expenditures and Carry Over Funds (Schedule) represents the grant revenues and expenditures of the County of Sacramento, California (County) District Attorney's Office (Office) Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program Grants for the year ended June 30, 2018. The grants were funded by the California Department of Insurance Fraud Division and administered by the County Office of the District Attorney. The schedules present only the financial activities of the County's California Department of Insurance Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program of the County and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2018, and the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

B. Program Description

Automobile Insurance Fraud Program

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, 2017 to June 30, 2018. 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. 2017-0453, adopted by the Sacramento County Board of Supervisors on June 14, 2017. The grant agreement in the amount of \$584,620 provides for reimbursement of costs incurred from July 1, 2017 through June 30, 2018. Total expenditures for the program are \$595,928 for the period of July 1, 2017 to June 30, 2018.

Organized Automobile Fraud Activity Interdiction Program

The County of Sacramento, Office of the District Attorney (DA), entered into the Organized Automobile Fraud Activity Interdiction "Urban Grant" Program with the California Department of Insurance (DOI) for the period of July 1, 2017 to June 30, 2018. The funds are to provide for prosecuting and eliminating organized automobile insurance fraud activity. The funds are available to the Insurance Commissioner for distribution to local district attorneys under provisions of Section 1874.8 of the California Insurance Code.

The program was approved by Resolution No. 2017-0454, adopted by the Sacramento County Board of Supervisors on June 14, 2017. The grant agreement in the amount of \$351,433 provides for reimbursement of costs incurred from July 1, 2017 through June 30, 2018. Total expenditures for the program are \$358,978 for the period of July 1, 2017 to June 30, 2018.

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Notes to the Financial Schedules
For the year ended June 30, 2018**

NOTE 1 – ORGANIZATION (CONTINUED)

B. Program Description (Continued)

Workers' Compensation Insurance Fraud Program

The County of Sacramento, Office of the District Attorney (DA), entered into the Workers' Compensation Insurance Fraud Program with the California Department of Insurance (DOI) for the period of July 1, 2017 to June 30, 2018. The funds are to provide for enhanced investigation and prosecution of workers' compensation insurance fraud cases. The funds are available to the Insurance Commissioner for distribution to local district attorneys under provisions of Section 1872.83 of the California Insurance Code.

The program was approved by Resolution No. 2017-0452, adopted by the Sacramento County Board of Supervisors on June 14, 2017. The grant agreement in the amount of \$1,018,367 provides for reimbursement of costs incurred from July 1, 2017 through June 30, 2018. Total expenditures for the program are \$983,502 for the period of July 1, 2017 to June 30, 2018.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Schedules of Grant Revenues, Expenditures and Carry-over Funds

The schedules of grant revenues and expenditures presents the eligible costs charged to the Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Programs by the Sacramento County District Attorney's Office and the revenues awarded to the Office by the California Department of Insurance Fraud Division.

B. Basis of Accounting

The schedules are prepared in accordance with Generally Accepted Accounting Principles. 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.

C. Use of Estimates

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

NOTE 3 – FUNDING AMOUNTS

Automobile Insurance Fraud Program

The amount of the grant payments from DOI is based on the amount of funds available for disbursement. These funds are based on any carryover funds from the prior grant and 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, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Notes to the Financial Schedules
For the year ended June 30, 2018**

NOTE 3 – FUNDING AMOUNTS (CONTINUED)

Organized Automobile Fraud Activity Interdiction Program

The amount of the grant payments from DOI is based on the amount of funds available for disbursement. These funds are based on any carryover funds from the prior grant and 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.

Workers' Compensation Insurance Fraud Program

The amount of the grant payments from DOI is based on the amount of funds available for disbursement. These funds are based on any carryover funds from the prior grant, annual assessments determined by the Fraud Assessment Commission, and fines collected for violations of unlawful acts. A minimum of 40% of the available funds provided to the Department of Insurance Fraud Division is required to be distributed to district attorneys investigating and prosecuting workers' compensation fraud cases and cases relating to the willful failure to secure the payment of workers' compensation. Consequently, the budget amounts are estimated funding levels from DOI until actual payment is received by the DA.

NOTE 4 – REVENUE RECEIVED AFTER YEAR END AND CARRY-OVER FUNDS

Automobile Insurance Fraud Program

Included in State Grant Revenue is an amount due from the State at the end of the program period of \$185,154. Of this amount, \$125,219 was received in July 2018. The remaining amount of \$59,935 is expected to be received by November 2018. Total grant funds available for the program is comprised of \$584,620 in the current year grant award. Expenditures exceeded program revenues creating a deficit of \$11,308 which is absorbed by the general operating fund of the DA.

Organized Automobile Fraud Activity Interdiction Program

Included in State Grant Revenue is an amount due from the State at the end of the program period of \$106,501. Of this amount, \$80,296 was received in July 2018. The remaining amount of \$26,205 is expected to be received by November 2018. Total grant funds available for the program is comprised of \$351,433 in the current year grant award. Expenditures exceeded program revenues creating a deficit of \$7,545 which is absorbed by the general operating fund of the DA.

Workers' Compensation Insurance Fraud Program

Included in State Grant Revenue is an amount due from the State at the end of the program period of \$321,843. This amount due was received in July 2018. Total grant funds available for the program is comprised of \$1,018,367 in the current year grant award. Revenues exceeded program expenditures creating a carry-over of \$34,865 which is to be used by the DA for future program activities.

OTHER REPORTS



INDEPENDENT AUDITORS' 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 the District Attorney
County of Sacramento
Sacramento, California

We have audited, in accordance with the 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, the Schedules of Grant Revenues and Expenditures and Carry-Over Funds and related Schedule of Eligible Costs – Budget to Actual (Schedules) of the County of Sacramento, California, (County), Office of the District Attorney (Office), California Department of Insurance, Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program as of June 30, 2018 and have issued our report thereon dated October 29, 2018. Our report included an emphasis of a matter paragraph regarding the Schedules presented not purporting, or fairly presenting the financial position or changes in financial position of the County Office for the year ended June 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the County Office's internal control over financial reporting (internal control) as they related to the California Department of Insurance Grants to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the County Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the County 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedules of the County Office, California Department of Insurance, Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program are free from 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 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 are 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrinck, Trine, Day & Co. LLP

Sacramento, California
October 29, 2018

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Schedule of Findings and Recommendations
For the year ended June 30, 2018**

Finding 2018-001

REVIEW OF GRANT EXPENDITURES

Criteria:

The grant awards for the Automobile Insurance Fraud, Organized Automobile Fraud Activity Interdiction and Workers' Compensation Insurance Fraud programs require that expenditures for equipment must be only for equipment expenditures authorized in the approved grant budget. The grant award(s) define equipment as non-expendable tangible personnel property having a useful life of more than one year and costing \$1,000 or more per unit. Internal controls should be established to ensure that expenditures claimed against the grant funding are only claimed for costs allowable in the grant award(s) and approved grant budget(s).

Condition Found:

Significant Deficiency – We identified three (3) instances in which expenditures for equipment were claimed for equipment which were not authorized in the approved grant budget(s) for the Automobile Insurance Fraud, Organized Automobile Fraud Activity Interdiction, and Workers' Compensation Fraud Programs.

Context:

The condition noted above was identified during our testing of the grant expenditures.

Cause:

The expenditures were claimed for equipment which were not authorized in the approved grant budget(s).

Effect:

Disallowed/unauthorized expenditures for equipment were claimed against the grants in the amounts of \$322.26 for the Automobile Insurance Fraud Program, \$322.25 for the Organized Automobile Fraud Activity Interdiction Program, and \$2,966.98 for the Workers' Compensation Insurance Fraud Program. Management has reduced the claimed expenditures related to these disallowed items.

Recommendation:

We recommend that management implement policies and procedures to ensure that program expenditures are only claimed against grant funds for equipment authorized in the approved grant budget(s).

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Schedule of Findings and Recommendations
For the year ended June 30, 2018**

Views of Responsible Officials and Planned Correction Action:

The District Attorney's Office (DA) included expenditures based on Section 2 of the RFA's which state: "Other benefits, such as uniforms or California Bar Association dues, are allowable budget items if negotiated as part of an employee benefit package." Professional Reimbursement is a negotiated benefit for Deputy District Attorney's per section 7.5 of the Sacramento County Attorney's Association labor agreement. The DA's office interpreted these expenditures as reimbursement of a negotiated benefit. After discussing with the auditors, the DA's Office decided to remove the line items from the grants' Final Report of Expenditures submitted to the Department of Insurance. The DA has put additional procedures in place to ensure only expenses approved by the budget are claimed.

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Schedule of Findings and Recommendations
For the year ended June 30, 2018**

Finding 2018-002

PROGRAM REPORT PREPARATION

Criteria:

Internal controls should be established to ensure that required program reports submitted to the State Department of Insurance are accurately prepared and reviewed and include all required elements with the grant award(s).

Condition Found:

Significant Deficiency – Based on inquiry with management and inspection of the annual program reports for the Automobile Insurance Fraud, Organized Automobile Fraud Activity Interdiction and Workers' Compensation Insurance Fraud programs, we identified that there was no documented review of the reports by management for accuracy and compliance prior to submission.

Context:

The condition noted above was identified during our testing of the annual grant program reports.

Cause:

Annual grant program reports did not have evidence of review prior to submission by management.

Effect:

Without review of the grant program reports by management prior to submission, there is an increased risk of errors in the reports submitted and there is an increased risk of noncompliance with grant requirements.

Recommendation:

We recommend that management implement policies and procedures to ensure that management review and document their approval of program reports prior to submission.

Views of Responsible Officials and Planned Correction Action:

The District Attorney's Office has put additional procedures in place to ensure documented management review and approval of program reports prior to submission. This will include Executive Management review and electronic approval prior to submittal, as well as a new method of tracking data.

**COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS**

**Status of Prior Year Findings
For the year ended June 30, 2018**

None noted.