

**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,
AND WORKERS' COMPENSATION
INSURANCE FRAUD PROGRAM**

Independent Auditor's Report and Financial Schedules
For the Year ended June 30, 2019



Certified
Public
Accountants

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

Table of Contents

	<i>Page</i>
Independent Auditor's Report	1
Schedules:	
Schedule of Grant Revenues and Expenditures and Carry-Over Funds	3
Schedule of Eligible Costs – Budget to Actual	4
Notes to the Financial Schedules	5
Independent 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 <i>Government Auditing Standards</i>	9
Status of Prior Year Findings.....	11



Independent Auditor's 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, 2019, and the related notes to the Schedules, for the County of Sacramento, California (County), Office of the District Attorney's (DA Office), California Department of Insurance Grants, which comprise the Automobile Insurance Fraud Program, the Organized Automobile Fraud Activity Interdiction Program and the Workers' Compensation Insurance Fraud Program.

Management's Responsibility for the 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.

Auditor's 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.

Opinion

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 Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud Program for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, 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, 2019, 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 31, 2019 on our consideration of the County DA 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 DA 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 DA Office's internal control over financial reporting and compliance.



Sacramento, California
October 31, 2019

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, 2019

	Automobile Insurance Fraud Program	Organized Automobile Fraud Activity Interdiction Program	Workers' Compensation Insurance Fraud Program
Revenues:			
Current Year State Award	\$ 632,662	\$ 333,861	\$ 1,096,341
Carry-over of Prior Year State Award	-	-	34,865
Less State Award Not Yet Earned	(32,811)	-	(44,305)
Total Revenues	599,851	333,861	1,086,901
Expenditures:			
Personnel Services	543,981	321,593	991,670
Operating Expenditures	53,207	25,458	90,511
Equipment	2,381	-	4,397
Total Expenditures	599,569	347,051	1,086,578
Excess (Deficiency) of Revenues Over (Under) Expenditures	282	(13,190)	323
Carry-over Funds/(Deficits), June 30, 2019	\$ 33,093	\$ (13,190)	\$ 44,628

The accompanying notes are an integral part of these schedules.

COUNTY OF SACRAMENTO, CALIFORNIA
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, 2019

Automobile Insurance Fraud Program

	Final Budget	Eligible Costs	Variance
Personnel Services	\$ 576,959	\$ 543,981	\$ 32,978
Operating Expenditures	53,322	53,207	115
Equipment	2,381	2,381	-
Totals	\$ 632,662	\$ 599,569	\$ 33,093

Organized Automobile Fraud Activity Interdiction Program

	Final Budget	Eligible Costs	Variance
Personnel Services	\$ 321,592	\$ 321,593	\$ (1)
Operating Expenditures	12,269	25,458	(13,189)
Totals	\$ 333,861	\$ 347,051	\$ (13,190)

Workers' Compensation Insurance Fraud Program

	Final Budget	Eligible Costs	Variance
Personnel Services	\$ 1,012,801	\$ 991,670	\$ 21,131
Operating Expenditures	114,009	90,511	23,498
Equipment	4,396	4,397	(1)
Totals	\$ 1,131,206	\$ 1,086,578	\$ 44,628

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, 2019

NOTE 1 – ORGANIZATION

A. Program Description

Automobile Insurance Fraud Program

The County of Sacramento (County) Office of the District Attorney (DA Office) entered into an agreement with the California Department of Insurance (DOI) for the Automobile Insurance Fraud Program for the period of July 1, 2018 to June 30, 2019. 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. 2018-0301, adopted by the Sacramento County Board of Supervisors on May 8, 2018. The grant agreement in the amount of \$632,662 provides for reimbursement of costs incurred from July 1, 2018 through June 30, 2019. Total program expenditures incurred were \$599,569 for the period of July 1, 2018 to June 30, 2019.

Organized Automobile Fraud Activity Interdiction Program

The County DA Office entered into an agreement with the California Department of Insurance (DOI) for the Organized Automobile Fraud Activity Interdiction “Urban Grant” Program for the period of July 1, 2018 to June 30, 2019. 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. 2018-0302, adopted by the Sacramento County Board of Supervisors on May 8, 2018. The grant agreement in the amount of \$333,861 provides for reimbursement of costs incurred from July 1, 2018 through June 30, 2019. Total program expenditures incurred were \$347,051 for the period of July 1, 2018 to June 30, 2019.

Workers’ Compensation Insurance Fraud Program

The County DA Office entered into the Workers’ Compensation Insurance Fraud Program with the California Department of Insurance (DOI) for the period of July 1, 2018 to June 30, 2019. 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. 2018-0300, adopted by the Sacramento County Board of Supervisors on May 8, 2018. The grant agreement in the amount of \$1,131,206 provides for reimbursement of costs incurred from July 1, 2018 through June 30, 2019. Total program expenditures incurred were \$1,086,578 for the period of July 1, 2018 to June 30, 2019.

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

Notes to the Financial Schedules (Continued)
For the Year Ended June 30, 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

The Schedules of Grant Revenues and Expenditures and Carry-Over Funds (Schedules) present the eligible costs charged to the Automobile Insurance Fraud Program, Organized Automobile Fraud Activity Interdiction Program, and Workers' Compensation Insurance Fraud by the County DA Office and the revenues awarded to the County DA Office by the California Department of Insurance Fraud Division. 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, 2019, 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 (GAAP).

B. Basis of Accounting

The Schedules are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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 eligible expenditures are incurred.

C. Use of Estimates

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

NOTE 3 – FUNDING AMOUNTS

Automobile Insurance Fraud Program

The amount of the grant payments received from the 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 expenditures is available for distribution to district attorneys. Consequently, the budget amounts are estimated funding levels from the DOI until actual payment is received by the County DA Office.

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

Notes to the Financial Schedules (Continued)
For the Year Ended June 30, 2019

NOTE 3 – FUNDING AMOUNTS (CONTINUED)

Organized Automobile Fraud Activity Interdiction Program

The amount of the grant payments received from the 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 fifty cents annually, for each vehicle insured within the state. 42.5 percent of the assessment after incidental expenditures is available for distribution to district attorneys. Consequently, the budget amounts are estimated funding levels from the DOI until actual payment is received by the County DA Office.

Workers' Compensation Insurance Fraud Program

The amount of the grant payments received 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 the DOI until actual payment is received by the County DA Office.

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 \$405,917. Of this amount, \$273,274 was received in August 2019. The remaining amount of \$132,643 is expected to be received by November 2019. Total grant funds available for the program is comprised of \$632,622 in the current year grant award and the amount recognized as grant revenue was \$599,851. Budgeted revenue exceeded program expenditures creating a carry-over of \$33,093, which is to be used by the County DA Office for future program activities.

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 \$187,684. Of this amount, \$183,344 was received in August 2019. The remaining amount of \$4,340 is expected to be received by November 2019. Total grant funds available and recognized as grant revenue for the program was \$333,861 in the current year grant award. Expenditures exceeded program revenues creating a deficit of \$13,190, which is absorbed by the general operating fund of the County DA Office.

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

Notes to the Financial Schedules (Continued)
For the Year Ended June 30, 2019

**NOTE 4 – REVENUE RECEIVED AFTER YEAR END AND CARRY-OVER FUNDS
(CONTINUED)**

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 \$479,193, which was received in August 2019. Total grant funds available for the program is comprised of \$1,096,341 in the current year grant award with carry-over funds from prior year grant award of \$34,865 and amount recognized as grant revenue was \$1,086,901. Budgeted revenues exceeded program expenditures creating a carry-over of \$44,628 which is to be used by the County DA Office for future program activities.



**Independent 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**

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 (DA Office), California Department of Insurance Grants, which comprise the Automobile Insurance Fraud Program, the Organized Automobile Fraud Activity Interdiction Program, and the Workers’ Compensation Insurance Fraud Program for the year ended June 30, 2019 and have issued our report thereon dated October 31, 2019. Our report included an emphasis of matter paragraph regarding the Schedules not purporting to present fairly the financial position or the changes in financial position of the County DA Office for the year ended June 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the County DA 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 opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the County DA Office’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County DA 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedules 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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Sacramento, California
October 31, 2019

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, 2019

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:

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.

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).

Views of Responsible Officials and Planned Correction Action:

The District Attorney's Office (DA Office) included expenditures based on Section 2 of the Request for Application, 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 Office has put additional procedures in place to ensure only expenditures approved by the budget are claimed.

Current Status as of June 30, 2019:

Implemented. Based on the current year expenditure testing, expenditures claimed were included in the approved budget.

COUNTY OF SACRAMENTO, CALIFORNIA
OFFICE OF THE DISTRICT ATTORNEY'S
CALIFORNIA DEPARTMENT OF INSURANCE GRANTS
Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2019

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:

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.

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.

Current Status as of June 30, 2019:

Implemented. The annual program reports submitted for the year ended June 30, 2019 include management review and approval prior to submission.