

County of Santa Clara



Finance Agency Controller-Treasurer Department Internal Audit Division

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Assignment 10285

October 22, 2012

To: Distribution List

From: Manju Beher, CPA, Supervising Internal Auditor

Subject: Internal Audit Report – California Department of Insurance: Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant

We have completed a financial audit of the California Department of Insurance Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant for the fiscal year ending June 30, 2012. This is one of four annual grants to the District Attorney's Office from the California Department of Insurance. We commenced the audit in August and completed the fieldwork on October 1, 2012.

We thank the staff of the District Attorney's Office for their cooperation during this audit. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

(signature on file)

Manju Beher, CPA
Supervising Internal Auditor

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

**CALIFORNIA DEPARTMENT OF
INSURANCE – ORGANIZED
AUTOMOBILE FRAUD ACTIVITY
INTERDICTION PROGRAM (URBAN)
INSURANCE FRAUD GRANT**

June 30, 2012



Assignment 10285
October 22, 2012

**COUNTY OF SANTA CLARA
OFFICE OF DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM (URBAN)
INSURANCE FRAUD GRANT**

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial statement of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant from the California Department of Insurance for the year ended June 30, 2012, as listed in the table of contents. This financial statement is the responsibility of the County's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. The auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatements. Although we do not meet the technical definition of organizational independence in the Government Auditing Standards, there are no known professional impairments associated with this audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statement of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant is intended to present the financial activities of the County's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant funded by the California Department of Insurance and not the financial activities of the County as a whole.

In our opinion, the schedule referred to above presents fairly, in all material respects, the resources and expenditures of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant funded by the California Department of Insurance for the year ended June 30, 2012.

(signature of file)

Manju Beher, CPA
Supervising Internal Auditor

October 22, 2012

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM
(URBAN) INSURANCE FRAUD GRANT
Statement of Resources and Expenditures – Budget and Actual
For the Year Ended June 30, 2012**

		RESOURCES APPROVED BUDGET	/EXPENDITURES REPORTED	Adjustments	RESOURCES /EXPENDITURES AUDITED
RESOURCES					
State allocation, fiscal year 2011-2012		\$ 772,597	\$ 772,597	\$ -	\$ 772,597
Balance carried forward from the prior year		196,500	196,500	-	196,500
Total resources	Note 3(b)	<u>\$ 969,097</u>	<u>\$ 969,097</u>	<u>\$ -</u>	<u>\$ 969,097</u>
EXPENDITURES					
Salaries and benefits		\$ 780,435	\$ 780,435	\$ -	\$ 780,435
Operating expenses		47,442	47,442	-	47,442
Equipment purchases		12,240	12,240	-	12,240
Overhead		49,565	49,565	-	49,565
Total expenditures	Note 3(c)	<u>\$ 889,682</u>	<u>\$ 889,682</u>	<u>\$ -</u>	<u>\$ 889,682</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER EXPENDITURES					
		<u>\$ 79,415</u>	<u>\$ 79,415</u>	<u>\$ -</u>	<u>\$ 79,415</u>

The accompanying notes are an integral part of this statement.

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM
(URBAN) INSURANCE FRAUD GRANT
Notes to the Statement of Resources and Expenditures
Fiscal Year Ended June 30, 2012**

1. PROGRAM DESCRIPTION:

The County of Santa Clara District Attorney's Office entered into an Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Investigation grant agreement for the fiscal year ended June 30, 2012, with the California Department of Insurance (CDI) to provide for increased investigation of organized automobile insurance fraud cases. The State Insurance Commissioner makes these funds available to various District Attorneys' offices under the provisions of Section 1874.8 of the California Insurance Code for coordinated programs targeted at the successful prosecution and elimination of organized automobile fraud activity.

With the grant application, the District Attorney entered into the Memorandum of Understanding (MOU) with the CDI Fraud Division and the California Highway Patrol for a coordinated investigation and prosecution of organized automobile fraud activities. The Urban Grant program is comprised of investigators from the CDI Fraud Division and the California Highway Patrol, and investigators and prosecutors from the Santa Clara County District Attorney's Office. The program coordinator (supervising criminal investigator from the District Attorney's Office) chairs the MOU Oversight Committee and acts as the liaison between the District Attorney and the CDI Fraud Division. The statement showed only the resources and expenditures for the District Attorney's Office on program activities funded by the Urban Grant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statement includes only the financial activities of the County's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant Program and not the financial activities of the County as a whole. This statement presents the information requested by the CDI.

FUND ACCOUNTING:

The resources received and expenditures incurred have been accounted for in the General Fund of the County.

BUDGET MODIFICATIONS:

In accordance with Section 2698.75(e) of the California Code of Regulations, budget modifications must be pre-approved by the commissioner. The financial statement's budgeted amounts reflect the final modification approved by the CDI.

METHOD OF ACCOUNTING:

The financial statement is prepared using the accrual method of accounting. Resources are recognized on the accrual basis. The total of the State's annual allocation of resources generally includes funds received both during and after the end of reporting period. As such, grant resources from the CDI for the period are included in the statement and treated on an accrual basis even if they were received and deposited by the County after the end of the grant period. Expenditures are recognized when incurred.

3. FUNDING AMOUNTS AND EXPENSE CATEGORIES:

- (a). The amounts of grant resources provided by the CDI are based on an allocation of a portion of the annual registration fees collected from insurance companies by the commissioner (not to exceed fifty cents annually for each vehicle insured under an insurance policy it issues in the state). The CDI distributes to district attorneys a percentage (fixed at 42.5% for Urban Grant per the Insurance Code Section 1874.8(c)) of the funds collected. The grant was awarded on the basis of a single application for a period of three years.
- (b). For the Fiscal Year 2011-2012, the CDI approved a grant award of \$772,597; there was a \$196,500 carryover balance from the previous fiscal year.
- (c). Expenditures were made for the purposes of the program as specified in the Insurance Code Section 1874.8 and the Code of Regulations' Application Procedure and the County Plan.

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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial statement of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program (Urban) Insurance Fraud Grant from the California Department of Insurance, for the year ended June 30, 2012, as listed on the table of contents, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the statement is free of material misstatement, we performed tests of its compliance with certain provisions of the grants, laws, regulations, and the Department of Insurance guidelines that affect the use, amount and reporting of grant fiscal information, noncompliance with which could have a direct and material effect on the determination of the 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control of the District Attorney's Office over financial reporting of grant activities in order to determine our auditing procedures for the purpose of expressing our opinion on the statement and not to provide assurance on the internal control over the grant statement. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk the

possibility that misstatements in amounts would be material in relation to the statement being audited may occur or may not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District Attorney's Office management and the California Department of Insurance and 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.

(signature on file)

Manju Beher, CPA
Supervising Internal Auditor

October 22, 2012