

MEMORANDUM

PLACER COUNTY AUDITOR CONTROLLER COUNTY OF PLACER

TO: Board of Supervisors

FROM: Katherine J. Martinis, Auditor-Controller 

DATE: January 12, 2010

SUBJECT: Independent Auditor's Report on Automobile Insurance Fraud Grant – 06/30/09

Attached for your information and review is the Auditor Controller's Independent Auditor's Report on the Automobile Insurance Fraud Grant. This statement is for the year ended June 30, 2009.

**COUNTY OF PLACER
DISTRICT ATTORNEY'S OFFICE
CALIFORNIA STATE DEPARTMENT
OF INSURANCE**

**AUTOMOBILE INSURANCE FRAUD
GRANT PROGRAM**

Independent Auditor's Report
and Financial Schedules

For the Year Ended
June 30, 2009

**COUNTY OF PLACER
CALIFORNIA STATE DEPARTMENT OF INSURANCE
AUTOMOBILE INSURANCE FRAUD GRANT PROGRAM**

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COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
of the County of Placer
Auburn, California

We have audited the accompanying schedule of grant revenues and expenditures and schedule of eligible costs – budget to actual (the financial schedules) of the Placer County District Attorney's Office, California State Department of Insurance Automobile Insurance Fraud Grant for the year ended June 30, 2009. These schedules are the responsibility of management of the Placer County District Attorney's Office. Our responsibility is to express an opinion on these schedules based on our audit. In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to Generally Accepted Government Auditing Standards (GAGAS) general statement #2.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS independence standards. Specifically, "Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the offices of Auditor-Controllers are statutorily obligated to maintain the accounts of departments, districts, or funds that are contained in the County Treasury, we believe that the following safeguards and divisions of responsibility would enable the reader of this report to rely on the information contained herein:

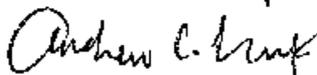
- The Internal Audit Division is not responsible for the input or reconciliation of any financial transactions.
- County policy requires the Board of Supervisors' approval for material transactions.
- The Auditor-Controller is elected by and accountable to the Citizens of Placer County.
- The County's Charter of the Audit Committee provides both the practice and appearance of independence.
- The Internal Audit Division is subjected to an independent peer review every 5 years.

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 financial schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Attorney's Office's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial schedules, the financial schedules referred to above present only the financial activities of the County's California State Department of Insurance Automobile Insurance Fraud Grant. Accordingly, the accompanying financial schedules do not purport to, and do not present fairly the financial position of the County or the District Attorney's Office as of June 30, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the grant revenues and expenditures of the County's California State Department of Insurance Automobile Insurance Fraud Grant for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 3, 2009, on our consideration of the County's internal control over financial reporting as it relates to the California State Department of Insurance Automobile Insurance Fraud Grant and on 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 Standard* and should be considered in assessing the results of our audit.



Andrew C. Sisk, CPA
Assistant Auditor-Controller
December 3, 2009

**CALIFORNIA STATE DEPARTMENT OF INSURANCE
AUTOMOBILE INSURANCE FRAUD GRANT**

Schedule of Grant Revenues and Expenditures
For the Year Ended June 30, 2009

Grant revenues:	
State	\$ 1,983
Investment earnings	<u>4,360</u>
Total revenues	<u>6,343</u>
Grant expenditures:	
Personal services	57,747
Operating expenditures	2,632
Equipment	<u>5,000</u>
Total expenditures	<u>65,379</u>
Excess of revenues under expenditures	(59,036)
Grant carry forward, July 1, 2008	<u>78,903</u>
Grant carry forward, June 30, 2009	<u><u>\$ 19,867</u></u>

The notes to the financial schedules are an integral part of this schedule.

**COUNTY OF PLACER
CALIFORNIA STATE DEPARTMENT OF INSURANCE
AUTOMOBILE INSURANCE FRAUD GRANT**

Schedule of Eligible Costs - Budget to Actual
For the Year Ended June 30, 2009

	<u>Current Budget</u>	<u>Eligible Costs</u>	<u>Variance</u>
Personal services	\$ 61,244	\$ 57,747	\$ 3,497
Operating expenditures	10,804	2,632	8,172
Equipment	<u>8,527</u>	<u>5,000</u>	<u>3,527</u>
Total	<u>\$ 80,574</u>	<u>\$ 65,379</u>	<u>\$ 15,195</u>

The audited expenditures listed above were made for the purpose of the program as specified in Section 1872.8 of the Insurance Code and the application for grant funding as approved by the grant award agreement.

The notes to the financial schedules are an integral part of this schedule.

**COUNTY OF PLACER
CALIFORNIA STATE DEPARTMENT OF INSURANCE
AUTOMOBILE INSURANCE FRAUD GRANT PROGRAM**

Notes to Financial Schedules
For the Year Ended June 30, 2009

Note 1: Summary of Significant Accounting Policies

Background

The District Attorney of the County of Placer (County) applied for a grant from the California State Department of Insurance (Department) under the Automobile Insurance Fraud Grant Program (Grant) pursuant to Sections 1874.8 and 1874.81 of the Insurance Code in order to institute a program for investigation and prosecution of automobile insurance fraud.

Each insurer doing business in the State of California must pay a \$1 annual fee for each vehicle insured under an insurance policy issued in the State, in order to fund increased investigation and prosecution of fraudulent automobile insurance claims and economic automobile theft. Distribution of the annual fees collected occurs in accordance with California Insurance Code Section 1872.8, wherein 34 percent of ninety-five cents (\$0.95) of this earmarked assessment fee collected by the State Department of Motor Vehicles shall be distributed by the Bureau of Fraudulent Claims for the sole purpose of investigation and prosecution of automobile insurance fraud cases. Distribution is to be made by the State to qualifying District Attorneys on a semi-annual basis at a minimum, in that period following collection of the assessment.

Basis of Accounting

Basis of accounting refers to the criteria governing the timing of the recognition of revenues and expenditures in the financial schedules. The Grant utilizes the current financial resources measurement focus or the modified accrual basis of accounting. Under the modified accrual basis of accounting, increases and decreases in financial resources are recognized only to the extent that they reflect near-term inflows and outflows of cash. Revenues are recognized when earned, only so long as they are collectible within the period or soon enough thereafter to be used to pay liabilities of the current period. Therefore, revenues are only recognized to the degree to which they are measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the related liability is incurred or contracted, if measurable.

Financial Schedule Presentation

The schedules present only the financial activities of the County's Grant and are not intended to present fairly the financial position or changes in financial position of the County in conformity with accounting principles generally accepted in the United States of America.

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**COUNTY OF PLACER
CALIFORNIA STATE DEPARTMENT OF INSURANCE
AUTOMOBILE INSURANCE FRAUD GRANT PROGRAM**

Notes to Financial Schedules (Continued)
For the Year Ended June 30, 2009

Use of Estimates

The preparation of the financial schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures. Accordingly, actual results could differ from those estimates.

Note 2: Grant Funding

The amount of the grant payments from the Department of Insurance is based on the amounts of funds available for disbursement. These funds are based on an annual fee to be determined by the Insurance Commissioner, not to exceed \$1 annually for each vehicle insured within the state. The amounts are estimated until actual payment is received by the District Attorney's Office.

For the year ended June 30, 2009, the Department of Insurance awarded \$1,983 to the County under the Grant program. The Department of Insurance has allowed the County to use carryover Grant funds from the prior years for current year activities.

Note 3: Investment Earnings

The Grant earns interest on excess grant funds. Investment earnings on the excess grant funds are to be used for activities of the automobile insurance fraud grant program. Grant funds are pooled with other County funds, which are maintained and invested by the County Treasurer.

Note 4: Contingencies

The Grant is awarded from the California State Department of Insurance. The Grant is subject to financial and compliance audit by the Department. It is uncertain whether an audit of the Grant would result in expenditures which might be disallowed and therefore, could result in funds being returned to the Department. At this time, County management does not expect any such amounts to be disallowed which could be material in relation to the financial schedules.



COUNTY OF PLACER

OFFICE OF
AUDITOR-CONTROLLER

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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
of the County of Placer
Auburn, California

We have audited the financial schedules of the Placer County District Attorney's Office, California State Department of Insurance Automobile Insurance Fraud Grant (Grant) as of, and for the year ended June 30, 2009, and have issued our report thereon dated December 3, 2009. 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 Audit Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District Attorney's internal control over financial reporting as it relates to the Grant in order to determine 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 District Attorney's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Attorney's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District Attorney's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District Attorney's financial statements that is more than inconsequential will not be prevented or detected by the District Attorney's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the District Attorney's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District Attorney's financial schedules are 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 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 is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State of California Department of Insurance and the management of the County of Placer and is not intended to be and should not be used by anyone other than those specified parties.



Andrew C. Sisk, CPA
Assistant Auditor-Controller
December 3, 2009

