

County of Santa Clara
Finance Agency
Controller-Treasurer Department



Internal Audit Division
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October 24, 2008

To: Distribution List

From: Bill Perrone, CIA, Manager, Internal Audit

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

We have completed a financial audit of the California Department of Insurance Organized Automobile Fraud Activity Interdiction Program (Urban) Grant for the fiscal year ending June 30, 2008. This is one of four annual grants to the District Attorney's Office from the California Department of Insurance. We conducted the audit in September and October 2008; the date of fieldwork completion was October 22, 2008.

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.

Distribution:

Department of Insurance, State of California
Dolores Carr, District Attorney, County of Santa Clara
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Board of Supervisors, County of Santa Clara
Civil Grand Jury, County of Santa Clara

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

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

June 30, 2008



Assignment 10195
October 24, 2008

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

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial schedules of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program, hereinafter, the Urban Grant, from the California Department of Insurance (CDI) for the year ended June 30, 2008, as listed in the table of contents. These financial schedules are the responsibility of the County's management. Our responsibility is to express an opinion on these schedules 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 schedules are 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 schedules. 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 schedules of the County of Santa Clara's Urban Grant are intended to present the financial activities of the County's Urban Grant funded by the California Department of Insurance and not the financial activities of the County as a whole.

In our opinion, the schedules referred to above present fairly, in all material respects, the resources and expenditures of the County of Santa Clara's Urban Grant funded by the California Department of Insurance for the year ended June 30, 2008.

(signatures on file)

Vinod K. Sharma
Controller-Treasurer

Bill Perrone, CIA
Manager, Internal Audit

Brian P. Mark, CIA
Senior Internal Auditor

October 24, 2008

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM
(URBAN GRANT)
Schedule of Resources
For the Year Ended June 30, 2008**

	<u>AS REPORTED</u>	<u>Adjustment</u>	<u>AS AUDITED</u>
<u>State allocation for the grant year</u>			
Received during the grant year	\$ 365,668	\$ -	\$ 365,668
Received after the grant year	<u>339,432</u>	<u>-</u>	<u>339,432</u>
Total State allocation for the grant year	\$ 705,100	-	\$ 705,100
 <u>Balance carried forward</u>			
Balance from prior year	<u>54,649</u>	<u>-</u>	<u>54,649</u>
 Total Resources Available	 <u><u>\$ 759,749</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 759,749</u></u>

The accompanying notes are an integral part of this schedule.

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

**Schedule of Expenditures and Resources – Budget and Actual
For the Year Ended June 30, 2008**

		EXPENDITURES APPROVED <u>BUDGET</u>	EXPENDITURES /RESOURCE <u>REPORTED</u>	<u>Adjustment</u>	EXPENDITURES /RESOURCE <u>AUDITED</u>
EXPENDITURES					
Salaries and benefits		\$ 676,436	\$ 674,423	\$ -	\$ 674,423
Operating expenses		37,309	40,141	-	40,141
Equipment purchases		-	-	-	-
Overhead		<u>46,004</u>	<u>45,185</u>	<u>-</u>	<u>45,185</u>
Total expenditures	Note 3(c)	<u>759,749</u>	<u>759,749</u>	<u>-</u>	<u>759,749</u>
RESOURCES					
State allocation, fiscal year 2007-2008		54,649	54,649	-	54,649
Balance carried forward Balance from prior year		<u>705,100</u>	<u>705,100</u>	<u>-</u>	<u>705,100</u>
Total Resources Available	Note 3(b)	<u>759,749</u>	<u>759,749</u>	<u>-</u>	<u>759,749</u>
EXCESS (DEFICIENCY) OF RESOURCCES OVER EXPENDITURES					
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**COUNTY OF SANTA CLARA
OFFICE OF THE DISTRICT ATTORNEY
CALIFORNIA DEPARTMENT OF INSURANCE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM
(URBAN GRANT)
Notes to the Financial Schedules
Fiscal Year Ended June 30, 2008**

1. PROGRAM DESCRIPTION:

The County of Santa Clara District Attorney's Office entered into an Organized Automobile Fraud Activity Interdiction Program (Urban Grant) agreement for the fiscal year ended June 30, 2008, 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 schedules 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 schedules include only the financial activities of the County's Organized Automobile Activity Fraud Interdiction Program, and not the financial activities of the County as a whole. These schedules present the information requested by 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, expenditures may differ from the initial budgeted amounts so long as the total does

not exceed the total budget. There were no such modifications to the budget during the year.

METHOD OF ACCOUNTING:

The financial schedules are 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 schedules 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 & EXPENSE CATEGORIES:

- (a). The amounts of grant resources provided by the CDI are based on an allocation of a portion of the annual 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 by law at 42.5% for Urban Grant) of the funds collected. The grant was awarded on the basis of a single application for a period of three years.
- (b). For the FY 2007-2008, the CDI approved a grant award of \$705,100; there was a \$54,649 carryover balance from the previous fiscal year.
- (c). Expenditures were made for the purposes of the program as specified in Section 1874.8 of the Insurance Code, the Regulations, the guidelines in the Request for Application, and the County Plan.

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

Board of Supervisors
County of Santa Clara

We have audited the accompanying financial schedules of the County of Santa Clara's Organized Automobile Fraud Activity Interdiction Program from the California Department of Insurance, for the year ended June 30, 2008, as listed on the table of contents, and have issued our report thereon dated October 24, 2008. 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 schedules are free of material misstatement, we performed tests of its compliance with certain provisions of the grants, laws, regulations, and 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 schedules and not to provide assurance on the internal control over the grant schedules. 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 schedules being audited may occur and 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.

(signatures on file)

Vinod K. Sharma
Controller-Treasurer

Bill Perrone, CIA
Manager, Internal Audit

Brian P. Mark, CIA
Senior Internal Auditor

October 24, 2008