

DEPARTMENT OF INSURANCE

FRAUD DIVISION
9342 TECH CENTER DRIVE, SUITE 100
SACRAMENTO, CA 95826
(916) 854-5760
(916) 255-3202 (FAX)
www.insurance.ca.gov



April 30, 2008

The Honorable Vern Pierson
District Attorney
County of El Dorado
515 Main Street
Placerville, CA 95667

Dear District Attorney Pierson:

RE: Final Review Report – Fiscal Year 2004/05
Workers' Compensation and Automobile Insurance Fraud Grants

The California Insurance Code §1872.8 -1872.83 authorizes the Commissioner of the California Department of Insurance (CDI) to administer the distribution of grant funds to district attorneys to be used to investigate and prosecute workers' compensation and automobile insurance fraud. The California Code of Regulations, Title 10, §2698.59 and 2698.67, authorizes the Commissioner of the CDI to conduct fiscal audits of the grant programs.

In May 2006 our office conducted a review of the El Dorado County District Attorney's Office (County DA) workers' compensation and automobile insurance fraud grants for Fiscal Year 2004/05. The Preliminary Review Report, dated March 2008, was previously provided to the County DA for review. Pursuant to the County DA's request, the deadline to respond to the report was extended from April 7, 2008 to April 18, 2008. On April 16, 2008, the County DA Fiscal Administrative Manager contacted the CDI Audit Manager to request clarification of Preliminary Review Report findings #1 and #2; clarification was provided on April 17, 2008, and the County DA concurred with both findings.

The Preliminary Review Report had two findings:

Finding 1: The County DA had excessive grant carry-over balances (exceeding 25 percent of the total annual funding) in the workers' compensation and automobile insurance fraud grant funds as of June 30, 2005, but did not submit a request to the CDI Local Assistance Unit for approval to expend the unused funds in subsequent program years as required by regulation.

Finding 2: Additional carry-over funds have been identified in the automobile insurance fraud grant for FY 2003/04 and FY 2004/05, resulting in an additional amount of \$5,465 due to the CDI.

District Attorney Vern Pierson
El Dorado County
April 30, 2008
Page 2

Enclosed for your review is our Final Review Report. If the County DA agrees with the report, no response is necessary. If the County DA does not agree with the report, comments and supporting documentation should be submitted to me in writing by **May 30, 2008**.

In closing, we thank you and your staff for their courtesy and cooperation during the audit. Please continue your efforts to comply with all applicable laws and regulations governing the insurance fraud grant programs.

If you have any questions, please contact me at (916) 854-5822 or nambal@insurance.ca.gov.

Sincerely,



Lori Namba, Audit Manager
Fraud Grant Audit Unit
Fraud Division

Enclosure

cc: El Dorado County District Attorney's Office
Dick Jones, Deputy District Attorney
Mark Messier, Criminal Investigator
Helen Baumann, Chairman of the Board of Supervisors
Jodi Albin, Fiscal Administrative Manager

California Department of Insurance

Dale Banda, Deputy Commissioner, Enforcement Branch
Rick Plein, Bureau Chief, Workers' Compensation Insurance Program
John Standish, Bureau Chief, Automobile Insurance Programs
Robert Yee, Chief Investigator, Sacramento Regional Office
Dennis J. Dunbar, Manager, Enforcement Branch Headquarters
Vicki Griner, Manager, Local Assistance Unit
Lea Longero, Auditor, Fraud Grant Audit Unit
Richard Krenz, Assistant Chief Counsel, Legal Division
Gene Woo, Senior Staff Counsel, Legal Division
Vanessa Himelblau, Senior Staff Counsel, Legal Division

FINAL REVIEW REPORT

Fiscal Year 2004/05

El Dorado County District Attorney's Office

**Workers' Compensation Insurance Fraud and Automobile Insurance Fraud
Grant Programs**



Lori Namba, Audit Manager
Lea Longero, Auditor
California Department of Insurance
Fraud Division, Fraud Grant Audit Unit

April 2008



FINAL REVIEW REPORT
Fiscal Year 2004/05

El Dorado County District Attorney's Office

Workers' Compensation Insurance Fraud and Automobile Insurance Fraud
Grant Programs

TABLE OF CONTENTS

Background	Page 1
Scope and Methodology	Page 2
Internal Controls	Page 2
Compliance with Laws and Regulations	Page 3
Findings and Recommendations	Page 3

**FINAL REVIEW REPORT
Fiscal Year 2004/5**

**Workers' Compensation Insurance Fraud and Automobile Insurance Fraud
Grant Programs**

We have reviewed the El Dorado County District Attorney's Office (County DA) workers' compensation insurance fraud and automobile insurance fraud grant funds for Fiscal Year (FY) 2004/05. We also examined the County DA's workers' compensation and automobile insurance fraud grant carry-over balances for the period July 1, 2003 through June 30, 2005.

BACKGROUND

The California Insurance Code, §1872.8 and 1872.83, authorizes the Commissioner of the California Department of Insurance (CDI) to administer the distribution of grant funds to be used to investigate and prosecute those who are suspected of actively engaging in fraudulent activity related to workers' compensation and automobile insurance fraud. The California Code of Regulations, Title 10, §2698.59 and 2698.67, authorizes the Commissioner of the CDI to conduct fiscal audits of these programs.

The grant funding awarded and distributed to the County DA for FY 2004/05 for workers' compensation and automobile insurance fraud was \$60,000 and \$40,786, respectively. The purpose of the local assistance grants is to distribute funds to county district attorneys for the enhanced investigation and prosecution of workers' compensation and automobile insurance fraud cases. County district attorneys are also allowed to use program funds to address the areas of outreach, personnel, program coordination, management planning, and staff development.

On March 6, 2008, the Preliminary Review Report was issued to the County DA with a timeframe to respond by April 7, 2008. On April 7, 2008, the County DA Fiscal Administrative Manager requested an extension to April 18, 2008, which was approved by the CDI Audit Manager.

El Dorado County is thirty miles east of Sacramento, and offers many nice suburbs for those who commute to Sacramento during the workweek. As the site of James Marshall's first gold finding in 1848, El Dorado County became the epicenter for the gold rush madness that seized California in the nineteenth century. The gold rush brought visitors from Europe, Mexico, and other states. Their diverse cultural influence is still seen today in El Dorado County. El Dorado County encompasses 1,711 square miles and is home to approximately 162,000 people.

The Lake Tahoe area and the ski resorts within are excellent sources of revenue for El Dorado County. Skiers from all over the world visit during the winter months. El Dorado County has a largely agricultural economic base during the rest of the year. Apple orchards grow throughout the eastern parts of the county, and apple exports are a reliable source of seasonal income when the hustle and bustle of ski season ceases. The Sierra Nevada range is also in El Dorado County, where logging industries provide additional economic stimulus. Gold is still found in El Dorado County, lending a feeling of excitement to the area's economic environment.¹

¹ Population/demographic information taken from El Dorado County's website: www.co.el-dorado.ca.us.

The County DA is located in Placerville, California, and began participating in the Workers' Compensation and Automobile Insurance Fraud Programs circa FY 1992/93. All insurance fraud cases are referred to the Deputy District Attorney, who reviews the cases and determines if further action is warranted. In addition, the County DA works with the CDI Sacramento Regional Office to investigate fraud cases.

SCOPE AND METHODOLOGY

The CDI Fraud Division conducted a review to determine if the County DA expended workers' compensation and automobile insurance fraud grant funds in accordance with California Insurance Code §1872.8 and 1872.83. Our review covered the fiscal period July 1, 2004 through June 30, 2005. We also reviewed the workers' compensation and automobile insurance fraud grant carry-over balances for the fiscal period July 1, 2003 through June 30, 2005.

To accomplish our objective, we reviewed financial information contained in the grant application packages submitted to the CDI Fraud Division. The grant application packages included audited financial statements and grant program expenditure reports provided by the County DA. We conducted the review in accordance with the following codes and regulations to determine the propriety of fund expenditures.

1. California Insurance Code, §1872.8 and 1872.83 (Automobile Insurance Fraud, Workers' Compensation Insurance Fraud, respectively).
2. California Code of Regulations, Title 10, §2698.50–2698.59 (Workers' Compensation Insurance Fraud).
3. California Code of Regulations, Title 10, §2698.60–2698.67 (Automobile Insurance Fraud).

INTERNAL CONTROLS

We reviewed the County DA's workers' compensation and automobile insurance fraud grant funds for FY 2004/05.

The management of the County DA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance the obligations are incurred in compliance with applicable laws and regulations and the transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of an evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our review of the workers' compensation and automobile insurance fraud grant funds of the County DA for FY 2004/05, we assessed internal control risk in order to

Response from District Attorney's Office

On April 16, 2008, the County DA Fiscal Administrative Manager called the CDI Audit Manager to clarify if justification requesting authorization to expend carry-over funds should retroactively be submitted to the CDI at this time.

Response Analysis

On April 17, 2008, the CDI Audit Manager and her staff called the County DA Fiscal Administrative Manager and clarified that justification requesting authorization to expend carry-over funds should not be retroactively submitted to the CDI at this time.

Conclusion

The County DA concurs with the finding.

Finding 2

Additional carry-over funds have been identified in the automobile insurance fraud grant for FY 2003/04 and FY 2004/05, resulting in an additional amount of \$5,465 due to the CDI.

Criteria

California Code of Regulations, Title 10, §2698.64 requires that any portion of distributed funds not used for local program purposes be returned to the CDI within 30 days of the final audit.

Condition

In April 2006, the County DA reimbursed \$25,331.57 to the CDI for carry-over funds remaining in the automobile insurance fraud grant for FY 2003/04 (\$9,919.94) and FY 2004/05 (\$15,391.63). Our review has determined that the carry-over for the two fiscal years totaled \$30,797 (see Attachment).

Recommendation

As required by the California Code of Regulations, Title 10, §2698.64, we recommend the County DA return to the CDI \$5,465 for the balance of the carry-over funds from FY 2003/04 and FY 2004/05.

Response from District Attorney's Office

On April 16, 2008, the County DA Fiscal Administrative Manager called the CDI Audit Manager to request clarification of the amount to be returned to the CDI.

determine our review procedures and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion on the internal controls.

COMPLIANCE WITH LAWS AND REGULATIONS

As a part of obtaining reasonable assurance about whether the financial records are free of material misstatement, we performed tests to determine whether or not the management of the County DA complied with applicable laws and regulations.

The results of our tests show that the County DA has complied, in all material respects, with the applicable laws and regulations, with the exception of those issues described in the report. With respect to items not tested, nothing came to our attention that caused us to believe that the County DA had not complied with the applicable laws and regulations.

This report is intended solely for use by the CDI and the County DA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Finding 1

The County DA had excessive grant carry-over balances (exceeding 25 percent of the total annual funding) in both the workers' compensation and automobile insurance fraud grant funds as of June 30, 2005 but did not submit a request to the CDI Local Assistance Unit for permission to expend the unused funds in subsequent program years as required by regulation.

Criteria

California Code of Regulations, Title 10, §2698.53 and 2698.64, requires the district attorney to submit a justification to the Commissioner requesting approval to use unused funds that exceed 25 percent of the total annual funding.

Condition

The County DA had carry-over funds exceeding 25 percent of the total annual funding in both the workers' compensation and automobile insurance fraud grants. The County DA did not provide a request or justification to expend carry-over funds in the following fiscal year.

Recommendation

We recommend that in the future the County DA identify and submit a justification requesting authorization to expend carry-over funds as required by the California Code of Regulations, Title 10, §2698.53 and 2698.64.

Response Analysis

On April 17, 2008, the CDI Audit Manager and her staff called the County DA Fiscal Administrative Manager and confirmed that there was still a balance due for carry-over funds in the amount of \$5,465. (The County DA previously returned carry-over funds to the CDI in the amount of \$25,331.57, check dated April 16, 2006.)

Conclusion

The County DA concurs with the finding and will return \$5,465 to the CDI.

El Dorado County
Automobile Insurance Fraud Grant
Carry-over Calculation through Fiscal Year 2004/05

	2003/04	2004/05
Revenue	37,091.00	40,786.00
Expenditures	39,044.00	25,780.00
Subtotal	(1,953.00)	15,006.00
Carry Forward (Prior FY)	75,735.00	15,610.00
Interest	651.00	181.00
Subtotal	74,433.00	30,797.00
Less Remittance of Carryover	58,823.00	25,331.57
Balance Remaining at End of Period	<u>15,610.00</u>	<u>5,465.43</u>

Note: Significant variances exist between the budget submitted with the grant application and the actual grant expenditures. No budget modification was submitted by the County to reflect the amount awarded. The County has excess carry-over representing 76 percent of total grant funds awarded. The County did not submit an expenditure plan for the unused funds in their FY 2005/06 budget. The County did submit a check to CDI dated 4/18/06 in the amount of \$25,331.57 for carry-over from FY 2003/04 and 2004/05.

EL DORADO COUNTY APPROPRIATION TRANSFER (28125 GOV. CODE)

BUDGET TRANSFER REQUEST #2

District Attorney
DEPARTMENT OR AGENCY NAME

AUDITOR / CONTROLLER'S USE

TRANSFER #

DATE

CODE BY

TO BE COMPLETED BY THE DEPARTMENT

DOCUMENT TOTAL

NUMBER OF LINES

TRANSACTION

CODE TOTAL*

I HEREBY REQUEST AND CERTIFY THAT THE TRANSFER OF APPROPRIATIONS AND/OR ESTIMATED REVENUES LISTED ON THIS FORM ARE BETWEEN INDEX CODES WITH THE SAME FUND STRUCTURE, AND WITHIN THE SAME DEPARTMENT. THIS TRANSFER WILL NOT INCREASE OR DECREASE THE TOTAL DEPARTMENTAL APPROVED BUDGET.

5/13/08 DATE

Joe Harn, C.P.A. / DEPARTMENT AUTHORIZATION SIGNATURE AND PHONE NUMBER

PAGE 1 OF 1

COMPLETE THE INFORMATION BELOW WITH JUSTIFICATION NARRATIVE OR ATTACH A MEMO.
REMOVE THE GOLD COPY AND SUBMIT COMPLETE REQUEST TO THE AUDITOR / CONTROLLER'S OFFICE.
A BUDGET TRANSFER MUST BE AT LEAST TWO LINES, NOT EXCEED TWENTY-SIX LINES AND USE AN "ODD AND EVEN" NUMBERED TRANSACTION CODE*
* 002 = INCREASE ESTIMATED REVENUE
* 003 = DECREASE ESTIMATED REVENUE
* 013 = INCREASE IN APPROPRIATION / BOS APPROVED
* 014 = DECREASE IN APPROPRIATION / BOS APPROVED

LINE #	TRANS CODE NO*	INDEX CODE NUMBER	SUB OBJECT NUMBER	USER CODE NUMBER	AMOUNT	DESCRIPTION (50 CHARACTERS MAX)
1	013	772239	5142		5465.00	Appropriation for FY 04/05 Ret of carry over
2	014	772239	7000		5465.00	
3	003	220230	2029		5465.00	
4	014	220230	4503		2500.00	
5	014	220230	4605		2965.00	
6						
7						
8						
9						
10						
11						
12						
13						

JOE HARN, C.P.A. AUDITOR/CONTROLLER

CHIEF ADMINISTRATIVE OFFICE

REVIEWED FOR FORMAT BY _____

APPROVED _____

REJECTED _____

DATE _____

BY _____

DATE _____

CHIEF ADMINISTRATIVE OFFICE - ANALYST

DISTRIBUTION: WHITE - BOS / YELLOW - AUDITOR / PINK - CHIEF ADMINISTRATIVE OFFICE / GOLD - DEPARTMENT

S:\APFORMS\BUDGET TRANSFER 2.XLS