



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
INSURANCE TAX FUND
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-441.6**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

441.6

FINANCIAL AUDIT REPORT
INSURANCE TAX FUND
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

441.6

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Insurance Tax Fund, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA; Gus Demas; and Tim Bryan.

Respectfully submitted,

Floyd Mori

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	2
FINANCIAL STATEMENTS	
BALANCE SHEET	3
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES	4
NOTES TO THE FINANCIAL STATEMENTS	5
OTHER COMMENTS	7

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Insurance Tax Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

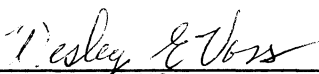
The Insurance Tax Fund was created by Chapter 740, Statutes of 1961 to serve as a temporary depository for taxes levied on insurance companies. Taxes received from insurance companies are deposited in this fund and are available only for the payment of refunds or for transfers to the General Fund. All deposits, after refunds, constitute revenue to the General Fund.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the Insurance Tax Fund as of June 30, 1979 and the related statement of changes in assets and liabilities for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Insurance Tax Fund at June 30, 1979 and the changes in assets and liabilities for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: March 4, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Gus Demas
Tim Bryan

STATE OF CALIFORNIA
INSURANCE TAX FUND

BALANCE SHEET
AGENCY FUND

JUNE 30, 1979

ASSETS

Cash	\$ 34,315
Receivables (Note 2)	3,766,810
Allowance for deferred receivables (Note 2)	<u>(3,516,810)</u>
Total Assets	<u>\$ 284,315</u>

LIABILITIES

Due to General Fund (Note 3)	<u>\$ 284,315</u>
Total Liabilities	<u>\$ 284,315</u>

The notes to the financial statements are an integral part of the statement.

STATE OF CALIFORNIA
INSURANCE TAX FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR FISCAL YEAR ENDED JUNE 30, 1979

	<u>Balance July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1979</u>
<u>ASSETS</u>				
Cash	\$ 2,541,032	\$ 423,957,913	\$ 426,464,633	\$ 34,315
Receivables (Note 2)	3,481,800	516,283,591	515,998,581	3,766,810
Allowance for deferred receivables (Note 2)	<u>(3,359,800)</u>	<u>(516,405,591)</u>	<u>(516,248,581)</u>	<u>(3,516,810)</u>
Total Assets	<u>\$ 2,663,032</u>	<u>\$ 423,835,916</u>	<u>\$ 426,214,633</u>	<u>\$ 284,315</u>
<u>LIABILITIES</u>				
Due to General Fund (Note 3)	<u>\$ 2,663,032</u>	<u>\$ 284,315</u>	<u>\$ 2,663,032</u>	<u>\$ 284,315</u>
Total Liabilities	<u>\$ 2,663,032</u>	<u>\$ 284,315</u>	<u>\$ 2,663,032</u>	<u>\$ 284,315</u>

The notes to the financial statements are an integral part of this statement.

INSURANCE TAX FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and changes in assets and liabilities of the Insurance Tax Fund. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The Insurance Tax Fund is an Agency Fund primarily established as a temporary depository for the collection of taxes from insurance companies. The revenue from these taxes is ultimately transferred to the General Fund. Agency Funds are Fiduciary Fund Types used to account for assets held by a governmental unit as a trustee or as an agent for individuals, private organizations, other governmental units, or other funds. The Insurance Tax Fund is maintained on the modified accrual basis of accounting.

Receivables

Throughout the fiscal year, all tax collections are recorded when the money is deposited in the State Treasury. At June 30, the accounts are adjusted to accrue all taxes, delinquent assessments, penalties, and interest that were not collected at the end of the year.

Due to General Fund

Remittances to the General Fund are accounted for at the time claims for payment are filed with the State Controller. At June 30, all unremitted cash and the balance of accounts receivable due within the next fiscal year are accrued as a liability to the General Fund.

2. RECEIVABLES/ALLOWANCE FOR DEFERRED RECEIVABLES

Receivables consist primarily of delinquent assessments, penalties, and interest. Only \$250,000 of the account balance at June 30, 1979 is expected to be collected within the following fiscal year. The remaining \$3,516,810 is included in the allowance for deferred receivables. This amount primarily represents deficiency determinations for which formal protests have been filed.

3. DUE TO THE GENERAL FUND

All collections of insurance taxation monies are available only for the payment of refunds and for transfers to the General Fund. The Due to General Fund balance reflects cash collections of \$34,315 as yet unremitted to the General Fund at June 30, 1979 as well as that portion of the receivable balance that has been billed and is estimated to be collected within the following fiscal year.

OTHER COMMENTS

As an integral part of our examination, we reviewed the accounting procedures and the related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the State Controller in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The State Controller generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps