



**San Mateo County**  
**Mosquito and Vector Control District**  
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www.smcmad.org

March 19, 2012

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**LAFCO**

*Via U. S. Mail*  
San Mateo LAFCo  
Martha Poyatos, Executive Officer  
455 County Center, 2nd Fl.  
Redwood City, CA 94062

Dear Martha Poyatos:

This letter has been prepared for all entities with statutory authority to appoint members of the San Mateo County Mosquito and Vector Control District (SMCMVCD, or "the District"). Because of the pendency of the criminal investigation and prosecution of Joanne Seeney Dearman and Vika Sinipata, the SMCMVCD has been extremely cautious about the information it has released publicly, so as not to impede or compromise in any way those criminal proceedings. However, the District values the need for transparency in the conduct of public business, and recognizes the countervailing importance of providing additional detail to the appointing authorities and the public at large concerning the embezzlement of District funds.

In furtherance of that objective, this letter is intended to address several issues. First, it will provide a brief overview of the District, its mission and relevant history, and the comprehensive regulatory framework governing the District. Second, it contains a summary of the events leading up to and following the discovery of alleged criminal wrongdoing by two former District employees. Finally, it details the various steps the District and others have taken to prosecute the offenders, recoup the losses, and ensure the increased integrity of the District's internal controls.

**A. Introduction and General Background Information**

The mission of the San Mateo Mosquito Abatement and Vector Control District is: "To safeguard the health and comfort of the citizens of this district through a planned program to monitor and reduce mosquitoes and other vectors."

The mosquito control program in San Mateo County is one of the oldest in the United States, initiated in 1904 by the Burlingame Improvement Club, which enlisted the

help of entomologists from the University of California to develop a plan to fight the city's mosquito infestations. However, early attempts were not comprehensive or well-funded, and by 1912, mosquitoes had become so abundant that they contributed to dramatic decreases in property values.

In 1915, the California legislature passed the Mosquito Abatement Act, giving local governments the power to form and fund special districts to control mosquitoes and protect citizens from mosquito-borne diseases. One of the first districts formed under the Act was a joint effort of three San Mateo County cities. In 1953, that early district merged with another district in southern San Mateo County to form the San Mateo County Mosquito Abatement District. Over recent decades, the District has expanded its service area to include all cities and unincorporated areas of San Mateo County. The Mosquito Abatement and Vector Control District Law Act was passed by the State legislature in 2002 in order "to create and continue a broad statutory authority for a class of special districts with the power to conduct effective programs for the surveillance, prevention, abatement, and control of mosquitoes and other vectors."

Robert Gay has been the District Manager since 1999, and previously served the District in the position of Vector Ecologist. His background is as a scientist, coming to the District from a distinguished military career, working as a Medical Entomologist and Preventive Medicine Officer with the U.S. Navy across the globe. During his tenure as District Manager, Mr. Gay has directed and overseen the transformation of the District from its humble operations when he joined the agency to its current headquarters in Burlingame with a state-of-the-art laboratory facility relied on statewide for certain types of animal and insect testing. SMCMVCD is well known as a leader in innovation and effectiveness within the field. Mr. Gay serves on the Board of Directors of the Mosquito and Vector Control Association of California (MVCAC), as past President of the statewide organization.

The District is highly regulated under state laws governing special districts including mosquito and vector control districts and federal laws with the use of bio-rational control agents to suppress mosquitoes and other vectors transmitting diseases like West Nile virus. State law defines a special district as "any agency of the State for local performance of governmental or proprietary functions within limited boundaries" (Government Code 1627[d]). A special district is a separate local governmental agency formed to provide local services, and as such is subject to Government Code regulations concerning budgeting, purchasing, accounting, sale of surplus property, annual audits, and other governmental functions.

SMCMVCD is an independent special district, a type of local government that delivers specific services to citizens within its boundaries under the governance of its own Board of Trustees. The Board of Trustees for the District consists of one resident from each city, appointed by their respective City Council, and one representative appointed by the County Board of Supervisors. Trustees serve for a term of two or four years and are highly dedicated to this community service.

## **B. The Embezzlement**

The embezzlement allegations against former employees of the District included a complex scheme to defraud the District through a variety of means, and included elaborate efforts to cover up the embezzlement using falsified records presented to the District Manager and Board of Trustees. The conspiracy between the alleged perpetrators was so elaborate and well concealed that it also was not detected in the District's annual audit processes.

SMCMVCD operates with a very small administrative staff. The Finance Department consists of two positions, a Finance Director, the position previously held by Ms. Dearman, and an Accounting Supervisor, the position previously held by Ms. Sinipata. In considering the circumstances of the embezzlement, and the level of deception apparently engaged in by the perpetrators, it should be noted that this was a conspiracy in which the entire Finance Department was involved. That fact contributed to the perpetration of the fraud in the first instance, and also to ability of the perpetrators to cover-up the fraud, which thereby allowed it to go on longer without detection.

## **C. Discovery of Apparent Wrongdoing, and Response**

A few District employees raised specific concerns or complaints to the District Manager in late 2010 and early 2011 asking for more detailed reports and documentation from the Finance Director concerning expenditures. Subsequently, similar concerns were voiced by a Board member in connection with a specific District account. These concerns were not ignored. The District Manager responded to these concerns, brought them to Finance Director, and was given explanations for any apparent discrepancies, often involving delays the Finance Director blamed on outside entities, such as vendors, or on the accounting system employed by the County Controller, where the District's accounts were held. These explanations are now known to be false. Documentation was provided to the District Manager and to the Board of Trustees purporting to show reason for any discrepancies. We now know that documentation was falsified. The excuses and delays created by Ms. Dearman and Ms. Sinipata, while they appeared credible and plausible at the time have now been shown to be fabricated.

For example, unauthorized increases in payroll were not readily evident in the documents provided to the District Manager and to the Board of Trustees, as they involved complex (and ultimately inaccurate) calculations of longevity increases. During the relevant time period, the District used an outside vendor for payroll services, and the Finance Director and Accounting Supervisor were the only employees with access to the vendor's online system. As they were the two members of the Finance Department during this time period, the fact that access was limited to these individuals is not, in and of itself, unusual. However, it now appears clear that the online system was used as part of the means of perpetrating fraud against the District. There are numerous instances of what appears to be collusion between the two criminal defendants to both defraud the

District and to create false documentation, accounts and transactions to cover up the fraud.

When a District account appeared to be substantially over budget, the District Manager, and subsequently the Board, asked the Finance Director for an explanation of the overage. The Finance Director promised to investigate further, but shortly thereafter, suddenly went on Family Medical Leave Act (FMLA) leave, claiming the need to care for her seriously ill mother. The District Manager then directed Ms. Sinipata to investigate the concerns and determine the cause of the overage. Unbeknownst to anyone in the District, it is now clear to us that Ms. Sinipata was a co-conspirator, and only furthered the obfuscation and delay, while pretending to investigate the concerns. Meanwhile, certain other events that should have raised "red flags" for District employees were not reported to the District Manager in a timely fashion. In particular, when certain employees were repeatedly asked by the Finance Director to cash District checks written to them for substantial amounts, allegedly for "petty cash," the employees did not report the incidents to the District Manager until well after they occurred, and only as the alleged fraud was being uncovered.

A member of the Board of Trustees then brought the concerns about the pesticide account to the County Counsel's office, at which point an outside forensic audit of the account was immediately ordered by the District Manager, and the District Attorney's office was notified. When the initial audit identified concerns, it was expanded to include all aspects of District finances. It was only through a lengthy and very detailed forensic investigation, which took nearly five months to complete, that the full extent and nature of the apparent fraud and embezzlement was discovered.

Neither the forensic audit nor the criminal investigation has uncovered any evidence of, or given rise to any suggestion that the District Manager had any knowledge of the alleged fraud and embezzlement at any time prior to its discovery through the audit process. To the contrary, the Finance Director and Accounting Supervisor had the trust and confidence of the District Manager and the Board even while these employees were apparently engaging in their criminal scheme.

#### **D. Insurance coverage, status of claims**

As the District has previously indicated, it has insurance coverage that we believe covers the damages caused by these illegal and wrongful acts. Staff and counsel have been working with the insurer to move the claims process along. Following its initial review of the claims and the underlying documentation submitted, the insurer noted that the scheme involved such a high level of complexity and deceit that it needed to hire an outside forensic expert to assist in understanding the methods of embezzlement and processing the claims, therefore requiring more time to process.

The District will actively and vigorously pursue the insurance claims to ensure recovery of every dollar available within its coverage.

**E. Confidentiality Issues**

From the first suggestion that criminal wrongdoing was involved, the County Counsel notified the District Attorney's office and an investigation was initiated by the County Sheriff's Investigative Unit. Because of the very sensitive nature of the investigation, information concerning the matter initially was shared only with SMCMVCD Board officers. At this stage, one of the alleged perpetrators was already in custody for other crimes, but her alleged co-conspirator, who appears to have no prior criminal history, was unaware that the scheme had been discovered. It was crucial that she not be tipped off prior to the completion of the investigation. Accordingly, the utmost confidentiality was maintained, and the District refrained from making any public announcement until the District Attorney was prepared to move forward with charges against the suspected embezzlers.

**F. Board and Management Action**

As soon as it could be done without jeopardizing the criminal investigation, the full Board was fully briefed on the matter. The County Counsel's office, with the assistance of a highly trained outside investigator, immediately initiated two personnel investigations. The first focused on the actions and inactions of a few staff members that, apparently inadvertently, facilitated aspects of the alleged embezzlement by Ms. Dearman and Ms. Sinipata. As required by law and District policy, the results of this investigation were addressed as internal personnel matters, in which any involved employees are entitled to confidentiality.

The second investigation concerned whether and/or to what extent the District Manager actions or inactions during the relevant time period contributed to the circumstances under which the embezzlement scheme was perpetrated. This was triggered by the Board's role as the entity responsible for hiring and evaluating the District Manager. The Board's overarching intention was to assess the District Manager's performance in the context of the events discovered and determine what, if any, action to take as a result of its assessment.

Once the investigation was completed, the matter was agendized for closed session before the Board. The Board conducted a lengthy and very thoughtful consideration of the matter. Although the closed session itself was and remains confidential under the Brown Act, the Board, with a waiver from the District Manager, took the unusual step of reporting out the fact that it had unanimously voted for the implementation of a Performance Improvement Plan (PIP) for the District Manager. That process is ongoing, and the Board will receive monthly closed session reports concerning the District Manager's performance under the PIP.

Simultaneous with the personnel investigations, the District conducted a thorough and very rigorous audit of its policies and procedures in consultation with counsel and

with the forensic auditors. That process has resulted in an extensive review of all District policies and procedures, and where appropriate, revisions. Examples revisions implemented are included below.

#### **G. Remedial Measures**

The Board and District Manager also have engaged in an extensive review and revision of District and Board policies and procedures to address and improve internal controls. Because of the elaborate and extensive falsification of documents by the alleged perpetrators, the forensic auditors rebuilt the District's accounting records and provided extensive consultation on fiscal controls.

The information provided below is not intended to be comprehensive, but describes numerous examples of changes within the District designed to protect against the type of criminal acts perpetrated in this matter, as well as to ensure a framework for applying current best practices in the area of fiscal and personnel controls generally.

The District's new Finance Director and Accounting Technician have been hired using rigorous reference and background checks. They work with the District Manager to continuously review internal controls as appropriate.

- **Payroll:**

The processing of payroll has been modified in several respects as a result of the forensic audit findings. Now, payroll is prepared by the Accounting Technician and reviewed by the Finance Director, the summary documents are provided to the District Manager for review and following his signature the summary documents are processed through the payroll services vendor. The District Manager compares each payroll report to a database of payroll information for each employee showing salary information including base pay, longevity pay and current deductions. The original payroll documents received from the payroll services vendor to the District are delivered directly to the District Manager, who opens the confidential documents to verify payroll prior to distribution to staff by the Accounting Technician or Finance Director.

- **Employee Medical, Vision and Dental Insurance**

The District Manager, Finance Director, and Accounting Technician are all reviewing and verify coding of the monthly invoice prior to processing. The District is verifying all evidence of coverage and ensuring proper documentation in connection with qualifying events, a process previously handled within the Finance Department.

- **Long Term Disability Insurance**

The District Manager, Finance Director, and Accounting Technician review and verify coding of the monthly invoice from the insurer prior to processing.

- **SamCERA Participation**

The Finance Director verifies that salary and deductions are calculated correctly by the Accounting Technician on a monthly basis. The District Manager then reviews and verifies coding of the monthly documents and signs all SamCERA reports. Three separate reviews are utilized on each set of SamCERA documents. Again, this previously was a function handled entirely within the Finance Department, which then prepared a summary for the District Manager and Board on a periodic basis.

- **Fixed Asset Program**

The Board's Policy Committee and counsel have reviewed the District Policy on Disposal of Surplus Property, submitted for Board Approval. The revised policy incorporates additional controls on the valuation and disposal of fixed assets, such as vehicles, to guard against theft and malfeasance.

- **Maintenance Contracts**

All maintenance contracts are reviewed by the District Manager and Finance Director on a quarterly or monthly basis depending on the contract, and the District Manager will conduct a qualitative review of work performed.

- **Wireless Phone Contract**

District Manager reviews the monthly invoice and verifies coding of the document prior to processing. The Finance Director and District Manager verify cell phone usage and hours authorized on a monthly basis.

- **Deferred Compensation**

Deferred compensation documents are prepared by the Accounting Technician and reviewed by the Finance Director. The prepared documents are then provided to the District Manager for review and to verify coding of the documents. Deferred compensation documents are also crosschecked against payroll to ensure accuracy. The District Manager is the Program Administrator, whereas it was previously the Finance Director.

- **District Check Issuance**

The District Manager reviews all invoice coding. The Accounting Technician prepares all checks, and the Finance Director reviews them against invoicing before they go to the District Manager for review and signature. The District Manager will verify all checks and sign all checks. Twice a month the Finance Director will provide the signed checks to a Board Officer for review and their final signature.

- **Credit Card Program**

Under the revised procedures for District credit cards, the District Manager is the Program Administrator and the Finance Director is the backup Program

Administrator. Credit card statements for District cardholders are reviewed and signed by each cardholder and their respective managers on a monthly basis. All statements are submitted to the Accounting Technician with proper support (original receipts) prior to being processed. The Finance Director and District Manager review all transactions for questionable activity and approve statements prior to payment. A copy of the original District credit card statement as well as a report of all credit card activity is provided to the Board on a monthly basis.

- **Employee Leave Balances**

Accounting Technician, Finance Director, and District Manager review and verify all leave balances on a monthly basis.

- **Family Medical Leave Program**

Accounting Technician, Finance Director and District Manager review and verify all requests for FMLA. The District Policy Committee will be updating this policy to address documentation of the basis for leave requests.

- **Workers Compensation Program**

The District Manager and Finance Director review on a quarterly basis the District Workers Compensation Program. The District Manager receives from the risk management authority documentation on all workers compensation claims over \$75,000 on a monthly basis.

- **Management Meetings**

The District Manager meets with the Directors of Operations, Laboratory, and Finance on a weekly basis to review all ongoing programs, current issues, and provide general overview of District activities.

- **Access to Bank Accounts**

The District Manager is the Program Administrator for the account, and no changes can be made to the account without the District Manager's approval. The Finance Director and Accounting Technician have "read only" access for the purposes of reconciling the bank account to the District's books. The Finance Director provides the District Manager and Board a reconciliation of the bank account on a monthly basis.

- **ACH/Wire Transfers**

After careful consideration of the matter, the District Manager, in consultation with the Finance Director, eliminated all use of ACH/wire transfers.

- **Background Checks on New Employees**

The District has contracted with an outside vendor for a Screening and Selection Service Program for all conditional hires. These individuals will undergo an Identity Risk Review, Criminal Risk Review, Crimlink® Multi-



jurisdictional Criminal History Database Review, and a DMV report. Financial staff will also undergo a Credit Risk Review. The Board Policy Committee is engaged in the process of updating the policy manual on Employee Hiring Practices and Promotions. The District is implementing criminal background checks on all conditionally hired employees, as well as drug testing on all conditionally hired employees who drive a district vehicle or operate District machinery.

As you can see, the District has engaged in extensive and comprehensive efforts to improve its internal controls. Based on consultation with other similar public agencies, as well as experts in fiscal management, it is clear that the systems currently in place constitute more rigorous protections than many public agencies, and the District will continue to evaluate and improve its systems going forward to ensure continued best practices.

#### **H. Conclusion**

On behalf of the SMCMVCD Board of Trustees, I'd like to express the full and very serious commitment of the agency to its mission of service to the people of San Mateo County. The betrayal of public trust that has been perpetrated against SMCMVCD has been felt on a personal level by the Board and District Manager, as well as by each and every honest and hardworking employee of this District. I assure you that each and every citizen and public agency relying on the services of the District have the complete and sincere commitment of the Board in earning and maintaining the trust of its constituents each and every day.

Very truly yours,

BOARD OF TRUSTEES  
SAN MATEO COUNTY MOSQUITO AND  
VECTOR CONTROL DISTRICT

  
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Samuel Lerner, DVM, Board President