



# **Audit of the Superior Court of California, County of San Luis Obispo**

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OCTOBER 2023



Judicial Council of California

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**Superior Court of California, County of San Luis Obispo**

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## EXECUTIVE SUMMARY

### Introduction

Government Code, sections 77206(g) and 77009(h) provide the Judicial Council of California (Judicial Council) with the authority to inspect and review superior court records and to perform audits, reviews, and investigations of superior court operations. The Judicial Council's Office of Audit Services (Audit Services) periodically conducts performance audits of the superior courts in order to verify their compliance with the Judicial Council's policies and with state law. These audits, as well as similar audits of the appellate courts, are primarily focused on assisting the courts identify which of their practices, if any, can be improved upon to better promote sound business practices and to demonstrate accountability for their spending of the public's funds.

State law authorizes the Judicial Council to establish each superior court's annual budget and to adopt rules for court administration, practice, and procedure. Most of the criteria used by Audit Services stems from the policies promulgated by the Judicial Council, such as those contained within the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and the *Judicial Branch Contracting Manual* (JBCM). These policies establish both mandatory requirements that all superior courts must follow, as well as suggestive guidance. California's courts drastically vary in terms of their caseloads, budget, and staffing levels, thus requiring the Judicial Council to adopt rules that at times provide the courts with flexibility given their varying resources and constraints. State law also requires the superior courts to operate under a decentralized system of management, and the Judicial Council's policies establish the boundaries within which courts exercise their discretion when managing their day-to-day operations.

Audit Services' annual audit plan for the Judicial Branch establishes the scope of each audit and provides a tentative schedule for the courts being audited during the fiscal year. The audit plan explains those scope areas deemed to be of higher risk based on Audit Services' professional judgment and recognizes that other state audit agencies may, at times, perform reviews that may overlap with Audit Services work. In those instances, Audit Services may curtail its planned procedures as noted in the scope and methodology section of this report.

### Summary of Audit Results

Our audit found that the Superior Court of California, County of San Luis Obispo (Court) demonstrated compliance with many of the Judicial Council's requirements evaluated during the audit, and should be commended for its receptiveness to suggestions for further improvement. Table 1 below presents a summary of the audit's results.

Table 1 Audit Results – At A Glance – California Superior Court, County of San Luis Obispo

Areas and Sub-Areas Subject to Review		Tested	Reportable Audit Findings		
			# of Findings	Finding Reference(s)	Court's View
<b>Cash Handling</b>					
1	Daily Opening Process	Yes	✓		
2	Voided Transactions	Yes	✓		
3	Manual Receipts	Yes	✓		
4	Mail Payments	Yes	1	2022-4-01	Agrees
5	Internet Payments	Yes	✓		
6	Change Fund	Yes	1	2022-6-01	Agrees
7	End-Of-Day Balancing and Closeout	Yes	1	2022-7-01	Agrees
8	Bank Deposits	Yes	1	2022-8-01	Agrees
9	Other Internal Controls	Yes	1	2022-9-01	Agrees
<b>Procurement and Contracts</b>					
10	Procurement Initiation	Yes	✓		
11	Authorization & Authority Levels	Yes	✓		
12	Competitive Procurements	Yes	✓		
13	Non-Competitive Procurements	Yes	✓		
14	Leveraged Purchase Agreements	Yes	✓		
15	Contract Terms	Yes	✓		
16	Other Internal Controls	Yes	✓		
<b>Payment Processing</b>					
17	3-Point Match Process	Yes	1	2022-17-01	Agrees
18	Payment Approval & Authority Levels	Yes	✓		
19	Special Rules - In-Court Service Providers	Yes	✓		
20	Special Rules - Court Interpreters	Yes	✓		
21	Other Items of Expense	Yes	✓		
22	Jury Expenses	Yes	✓		
23	Allowable Costs	Yes	✓		
24	Other Internal Controls	Yes	✓		
<b>Fine &amp; Fee Distributions</b>					
25	Distribution Calculations	Yes	✓		
<b>Fund Balance</b>					
26	Year-End Encumbrances	Yes	✓		
27	Use of "Held on Behalf" Funds	N/A	-		
<b>JBSIS Case Filing Data</b>					
28	Validity of JBSIS Data	Yes	✓		
<b>Enhanced Collections</b>					
29	Enhanced Collections	Yes	✓		
<b>Other Areas</b>					
30	[None]	N/A	-		

Source: Auditor generated table based on testing results and court management's perspective.

Note: Areas subjected to testing are generally based on requirements in the Trial Court Financial Policies and Procedures Manual, the Judicial Branch Contracting Manual, or California Rules of Court, but may also include other Judicial Council policies and directives. Areas not tested are based on audit determinations—such as area was not applicable, recently reviewed by others, or no transactions were selected to review—which are described more fully in the Audit Scope and Methodology section of the report. Applicable criteria are cited in each audit finding (as referenced above) in the body of our report. The Judicial Council's audit staff determine the scope of each audit based on their professional judgment and the needs of the Judicial Council, while also providing courts with an opportunity to highlight additional areas for potential review depending on available audit resources.

The Court demonstrated consistent adherence with many of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated good compliance in the areas of reporting new case filing counts and data to JBSIS, and in meeting enhanced collections requirements. For example, our review found that the Court's records materially supported the new case filing counts and data it submitted to JBSIS. In addition, our review found that the Court properly supports its timekeeping and other expenses that it charges to enhanced collections activities.

However, our audit did identify six reportable audit findings where we believe the Court should consider taking corrective action to improve its operations and more fully comply with the Judicial Council's policies. These six findings are identified in Table 1 under the column "Reportable Findings" and include reference numbers indicating where the reader can view in further detail the specific findings and the Court's perspective.

One particular area of focus for the Court as it considers opportunities for improvement should include strengthening its controls over the required three-point-match verification process when paying invoices and claims. Specifically, the Court could not demonstrate how it matched and agreed the invoices or claims to the terms in an applicable contract or equivalent court authorization for some transactions. Without written agreements or authorizations that specify the expected work, term, and pay, court accounts payable staff cannot fully perform the required three-point match. As a result, the Court risks paying for unauthorized goods or services or being overcharged without any basis for disputing such work or charges. The Court indicated it agreed with our finding and recommendation in this area and that it will work towards strengthening its three-point match system.

### **Summary Perspective of Court Officials**

Audit Services initiated its audit of the Court on August 4, 2022, and completed its fieldwork in January 2023. Audit Services shared the draft findings with the Court starting on September 30, 2022, and received the Court's final official responses on January 24, 2023. The Court agreed with the findings, and its specific responses are included in the body of the report after each finding.

## BACKGROUND ON THE COURT'S OPERATIONS

The Superior Court of California, County of San Luis Obispo (Court) operates four court facilities in the cities of San Luis Obispo, Paso Robles, and Grover Beach. The Court operates under the authority and direction of the Presiding Judge, who is responsible for ensuring the effective management and administration of the Court, consistent with any rules, policies, strategic plan, and the funding provided by the Judicial Council.

California's 58 superior courts each have differing workloads, staffing levels, and financial resources. They operate under a decentralized system of governance and are each responsible for their own local court operations and business decisions. The Presiding Judge has the authority to: develop a local budget and allocate the funding provided by the Judicial Council; approve procurements and contracts; and authorize the Court's expenditures. The information in Table 2 is intended to provide the reader with context and perspective on the Court's relative size and workload compared to averages of all 58 superior courts.

Table 2 – Statistical Data for San Luis Obispo Superior Court and Average of all Superior Courts

Statistic	San Luis Obispo Superior Court	Average of All Superior Courts				
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts	All 58 Courts
<b>Financial Highlights (Fiscal Year 2022-23)</b>						
Total Revenue	\$ 22,469,870	\$ 3,516,596	\$ 14,926,999	\$ 56,356,321	\$ 283,441,690	\$ 58,298,424
Total Expenditures	\$ 22,439,930	\$ 3,218,159	\$ 14,532,808	\$ 55,423,780	\$ 255,806,509	\$ 54,050,955
Staff Salaries & Benefits	\$ 18,482,900	\$ 2,037,590	\$ 10,635,517	\$ 42,045,871	\$ 206,241,699	\$ 42,432,330
As a % of Total Expenditures	82.4%	63.3%	73.2%	75.9%	80.6%	78.5%
<b>Judicial Officers and Staff (2023 Court Statistics Report)</b>						
Judges	13	2	8	30	142	30
Commissioners/Referees	2	-	1	4	21	4
Non-Judicial Staff (approx.)	118	16	84	289	1,312	282
Total	133	18	93	323	1,475	316
<b>New Case Filings (Fiscal Year 2021-22)</b>						
<b>Appeal Filings</b>	127	9	74	130	154	81
<b>Civil Filings</b>						
Civil	2,570	263	1,895	8,108	54,067	10,062
Family Law	1,641	240	1,477	5,137	25,312	5,265
Juvenile Delinquency	142	27	130	539	1,303	357
Juvenile Dependency	208	30	171	547	3,486	676
Mental Health	897	15	225	1,359	8,343	1,545
Probate	445	58	325	986	4,623	997
Small Claims	306	31	216	891	6,244	1,151
<b>Criminal Filings</b>						
Felonies	1,393	200	1,169	3,686	13,675	3,208
Misdemeanors / Infractions	32,550	3,282	16,654	55,404	239,708	52,647
<b>Total</b>	40,279	4,155	22,336	76,787	356,915	75,989

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts are from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of August 2, 2023, and may not agree with other reports as this data is continuously updated.

Note: The Judicial Council generally groups superior courts into four clusters and uses these clusters, for example, when analyzing workload and allocating funding to courts. According to past Judicial Council documents, the cluster 1 courts are those superior courts with between 1.1 and 4 judicial position equivalents (JPEs), cluster 2 courts are those with between 4.1 and 20 JPEs, cluster 3 courts are those with between 20.1 and 59.9 JPEs, and cluster 4 courts are those with 60 or more JPEs. San Luis Obispo Superior Court is a cluster 2 court.

## AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of San Luis Obispo (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit's objectives. The period covered by this audit was generally limited to fiscal year (FY) 2021-22, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

Table 3 – Audit Objectives and the Methods Used to Address Them

	<b>Audit Objective</b>	<b>Method</b>
1	Through inquiry, auditor observation, and review of local court policies and procedures, identify areas of high risk to evaluate the Court's compliance.	Audit Services developed an annual audit plan generally identifying areas of high risk at the superior courts. At the Court, we made inquiries and reviewed any local procedures to further understand its unique processes in each compliance area.
2	<p>Determine whether the Court implemented adequate internal controls over its handling of cash receipts and other payments. Such a review will include, at a minimum, the following:</p> <ul style="list-style-type: none"> <li>▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling.</li> <li>▪ Assess the quality of the Court's internal controls to minimize the potential for theft, such as controls over the use of manual receipts and voided transactions.</li> </ul>	We obtained information from the Court regarding the types and average volume of collections at each of its payment collection locations. For selected locations, we observed the Court's practice for safeguarding and accounting for cash and other forms of payments from the public. For example, we reviewed and observed the Court's practice for appropriately segregating incompatible duties, assigning cash drawers to cashiers at the beginning of the day, reviewing and approving void transactions, safeguarding and accounting for manual receipts, opening and processing mail payments, controlling access to change funds, overseeing the end-of-day balancing and closeout process, and preparing and accounting for the daily bank deposits.
3	Determine whether the Court demonstrated appropriate control over its non-personal services spending activities. Specifically, our review included the following:	We reviewed the Court's assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services,



	<ul style="list-style-type: none"> <li>▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual.</li>   <li>▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules.</li> </ul>	<p>receiving the goods, and paying for the goods or services.</p> <p>We also judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none"> <li>• Was properly authorized and approved by authorized court management.</li> <li>• Adhered to competitive bidding requirements, when applicable.</li> <li>• Had contracts, when applicable, that contained certain terms required to protect the Court’s interests.</li> </ul> <p>We selected a sample of 40 FY 2021-22 payments pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none"> <li>• The Court followed the 3-point match process as described in the FIN Manual to ensure goods and services are received and accepted, and in accordance with contract terms prior to payment.</li> <li>• Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix.</li> <li>• The payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810.</li> <li>• The payments to in-court service providers adhered to applicable Judicial Council policies.</li> </ul>
4	<p>Determine whether the Court properly calculates fine and fee distributions for certain selected case types.</p>	<p>We reviewed the Court’s process for updating and controlling access to its distribution tables.</p> <p>We also reviewed the Court’s calculations and distributions of fines, penalties, fees, and</p>

		assessments for certain high volume or complex case types.
5	<p>Determine whether the Court properly classified its year-end encumbrances for the most recent completed fiscal year.</p> <p>Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.</p>	<p>We obtained the Court's Year-End Encumbrance Calculation Worksheet for the most recently completed fiscal year at the time of our testing (FY 2020-21) and traced and verified year-end encumbrances to supporting records and the Phoenix accounting system.</p> <p>The Court has not requested to hold any funds on its behalf in either the current or the previous fiscal year. As a result, no further review was deemed necessary.</p>
6	<p>Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).</p>	<p>We obtained an understanding of the Court's process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (FY 2020-21), we performed the following:</p> <ul style="list-style-type: none"> <li>• Obtained the relevant case filings data the Court reported to JBSIS and reconciled the reported new case filings counts to its underlying records of cases that support each reported case filing count, by case type, to validate that the Court accurately reported its case filings count data.</li> <li>• We selected 10 cases from six case types, for a total of 60 reported cases, and reviewed the relevant case file records to verify that the Court correctly applied the JBSIS definitions for reporting each case filing.</li> </ul>
7	<p>Determine whether Enhanced Collections revenue is funding only collections activities.</p>	<p>We obtained the Court's Collection Report Template for fiscal year 2020-21 and determined whether the Court's collection program met the minimum requirements for a comprehensive collection program as defined in state law. We identified and analyzed the revenues,</p>

	expenditures, and transfers ins/outs for Fund 120007 (Enhanced Collections) to verify that Enhanced Collections revenue was used only to fund collections activities. For example, for personnel service costs charged to collections activities, we reviewed employee timesheets to verify the costs and time charged to the enhanced collection program. We interviewed selected employees to determine how they track and report the time they charged to collections activities. We also reviewed other operating costs and expenditures charged to determine whether the costs were supported, allowable, and allocable to collections activities.
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### Assessment of Data Reliability

The U.S. Government Accountability Office (GAO) requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we obtained and reviewed financial transaction data from the Phoenix financial system—the statewide accounting system used by the superior courts—for the limited purpose of selecting transactions to test the Court’s compliance with its procurement and related payment activities. Prior to making our selections, we independently queried the Phoenix financial system to isolate distinct types of non-personal service expenditure transactions relevant to our testing—such as by general ledger code—and reconciled the resulting extract with the Court’s total expenditures as noted on its trial balance report for the same period. Our analysis noted no material differences leading us to conclude that use of the Phoenix financial transaction data was sufficiently reliable for the limited purpose of selecting transactions for testing.

### Report Distribution

The Judicial Council’s *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* reviewed this report on October 27, 2023, and approved it for public release.

California Rules of Court, Rule 10.500 provides for the public access to non-deliberative or non-adjudicative court records. Final audit reports are among the judicial administrative records that are subject to public access unless an exemption from disclosure is applicable. The exemptions under rule 10.500 (f) include records whose disclosure would compromise the security of a judicial branch entity or the safety of judicial branch personnel. As a result, any information meeting the nondisclosure requirements of rule 10.500(f) have been omitted from this audit report.

**Audit Staff**

This audit was completed by the following staff under the general supervision of Dawn Tomita, Manager:

Joe Meyer, Supervisor (auditor in charge), CPA, CIA  
Lorraine De Leon, Auditor  
Linda Gow, Auditor  
Usamah Salem, Auditor, CFE

**SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION**

## CASH HANDLING

### The Court Should Strengthen Its Controls Over Certain Payment Collection Processes

#### Background

Trial courts must collect and process customer payments in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute a system of internal control procedures that assure the safe and secure collection, and accurate accounting of all payments. A court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per the Trial Court Financial Policies and Procedures Manual (FIN Manual) are compromised or not in operation.

Overall, the Court demonstrated compliance in many of the areas we evaluated during the audit. Specifically, the Court demonstrated sound management practices in the areas of its void transactions and internet payments.

Nevertheless, we identified five audit findings that we believe require the Court's attention and corrective action. These findings pertained to the following specific areas of cash handling:

Finding Reference	Subject Area
2022-4-01	Mail Payments – Endorsement
2022-6-01	Change Fund – Accountability
2022-7-01	End-of-Day Balancing and Closeout
2022-8-01	Bank Deposits – Verification
2022-9-01	Other Internal Controls – Segregation of Duties

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#### **FINDING REFERENCE: 2022-4-01** *MAIL PAYMENTS – ENDORSEMENT*

#### **CRITERIA**

FIN MANUAL, FIN 10.02, 6.3.4 CHECK, MONEY ORDER, AND CASHIER'S CHECK HANDLING PROCEDURES:

9. The trial court must restrictively endorse all checks, warrants, money orders, and other negotiable instruments immediately upon receipt and acceptance.

#### **CONDITION**

The Court's San Luis Obispo Criminal Division, Paso Robles, and Grover Beach payment collection locations reviewed do not restrictively endorse checks and money orders immediately upon receipt in the mail. Instead, they endorse the mail payment checks when entering them into the CMS, which may be subsequent to the day received. According to the Court, clerks are instructed to verify that money is due on a case, ensure checks are written out correctly, and verify the case has a balance to apply before processing payment and endorsing the check. Additionally, the Court indicated that if it is required to mail the check back to the party, the

endorsement stamp could cause problems. However, the FIN Manual requires courts to restrictively endorse checks immediately upon receipt. Endorsing checks and money orders "for deposit only" immediately upon receipt protects a court's interests by limiting the potential for further negotiation of the checks and money orders. Further, there is little downside risk to immediately endorsing checks that courts may later return. When courts do not immediately restrictively endorse checks or money orders, they risk that unendorsed checks and money orders may be lost or stolen and cashed or deposited in a non-court bank account.

### **RECOMMENDATION**

To ensure the safe, secure collection, and accurate accounting of all payments received through the mail, the Court should take steps, such as updating local cash handling procedures and periodic staff training, to ensure that all staff consistently restrictively endorse all checks, money orders, and other negotiable instruments immediately upon receipt in the mail.

### **COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The Court agrees with the recommendation. All staff will now consistently restrictively endorse all checks, money orders, and other negotiable instruments immediately upon receipt in the mail.

**Response provided on 10/28/2022 by:** Geoff O'Quest, Court Fiscal Officer

**Date of Corrective Action:** Corrective Action will begin 11/7/2022.

**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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### **FINDING REFERENCE: 2022-6-01**

*CHANGE FUND – ACCOUNTABILITY*

### **CRITERIA**

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND:

7. At the end of each business day, individuals responsible for making change from the Cash Change Fund must—in the presence of a court manager, supervisor, or his or her designee—count, verify, and reconcile the Change Fund monies to the day's beginning balance, and initial and date the verification/reconciliation.

### **CONDITION**

Although the Court currently maintains a \$1,400 change fund at its Fiscal division, a \$700 change fund at its San Luis Obispo payment location, and \$500 change funds at its Paso Robles and Grover Beach locations, its verification practices do not fully align with the FIN Manual requirements. Specifically, the Fiscal division's change fund is counted only once per month or on days when the change fund is used to make change, San Luis Obispo's change fund is counted only on Mondays or on days when the change fund is used to make change, and Grover Beach's change fund is counted only on days when the change fund is used to make change. Additionally, at the Grover Beach and Paso Robles locations, while the count and verification of these locations' \$500 change funds is documented, the custodians perform the verifications alone at their desks, not in the presence of a manager, supervisor, or designee. According to the Court, this is to preserve staff time and safekeeping of the change funds in the locked safe and away

from the busy floor. Nonetheless, the FIN Manual requires these counts to be performed on a daily basis. As a result, the Court's current practice of counting the change fund absent the presence of a responsible second person potentially allows a change fund shortage to occur without clear accountability of when the shortage may have occurred or who may have caused the shortage.

### **RECOMMENDATION**

To reduce the risk of prolonged unaccountable change fund shortages or overages, the Court should establish local cash handling policies and procedures that align with the FIN Manual requirement. Specifically, the Court should ensure that individuals responsible for making change from the change funds count, verify, and reconcile the change fund monies to the day's beginning balance at the end of each business day.

### **COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The court agrees with the recommendation. All Court locations now perform daily counts of their change funds. The count is done in the presence of a manager, supervisor, or designee.

**Response provided on 10/28/2022 by:** Geoff O'Quest, Court Fiscal Officer

**Date of Corrective Action:** 10/10/2022

**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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### **FINDING REFERENCE: 2022-7-01**

#### *END-OF-DAY BALANCING AND CLOSEOUT*

### **CRITERIA**

FIN MANUAL, FIN 10.02, 6.3.10 DAILY BALANCING AND CLOSEOUT:

1. At the end of each workday, each cashier must balance the payments collected in his or her individual cash drawer/bag with the payments and collections recorded in the cashiering system and/or automated case management system. Cashiers may not leave the premises or transact new business until the daily balancing and closeout processes are complete.
2. The balancing and closeout process includes the following steps:
  - a. The cashier completes and signs the recap of daily collections report; attaches a calculator tape for checks; and submits the report, collections, and beginning cash to the supervisor or his or her designee for verification;
  - b. The supervisor or his or her designee verifies in the presence of the cashier that the beginning cash is fully accounted for and the submitted collections balance with the recap of daily collections report;
  - c. The supervisor or his or her designee then verifies that the submitted collections balance with the associated payments and collections reported on the cashier's case management system daily collections closeout report;
  - d. If the collections balance with the amounts in the case management system, the cashier and supervisor or his or her designee must both sign and date the case management system daily collections closeout report.



**CONDITION**

The Court does not require a designated supervisor to count and verify each cashier's end-of-day collections to the CMS daily closeout reports while the cashier is present. Specifically, our observation noted that clerks at the Court's payment locations verified their daily collections at their desks, then submitted their daily collections and closeout documentation to the lead for review and verification. However, the cashier is not present when the lead verifies that the cashier's end-of-day collections balance with their recap of daily collections. Additionally, because the Court's windows close to the public at noon, the Court occasionally allows clerks to leave the premises early, such as for appointments, before the daily balancing and closeout processes are complete. According to the Court, while clerks may finish ringing early, there could be a need to re-open should something unexpected occur, and it's rare that a clerk may have to leave for an emergency after having gone to lunch. Nonetheless, the FIN Manual requires a designated supervisor to count and verify each cashier's end-of-day collections to their collections recap forms and to the CMS daily closeout reports while the cashiers are present and before they leave for the day. Adhering to the daily closeout requirements outlined in the FIN Manual helps protect the integrity of both the Court and all its cash handling employees.

**RECOMMENDATION**

To better safeguard its funds and ensure clear accountability for cashier shortages and overages, the Court should consistently require cashiers to remain present during the counting and verification of their collections, and for the cashiers and a supervisor or his or her designee to sign and date the closeout documentation to indicate verification that the collections balance with the case management system.

**COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The court agrees with the recommendation. Cashiers are now required to remain present while a supervisor counts and verifies their end-of-day collections to the case management system.

**Response provided on 10/28/2022 by:** Geoff O'Quest, Court Fiscal Officer

**Date of Corrective Action:** 10/10/2022

**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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**FINDING REFERENCE: 2022-8-01*****BANK DEPOSITS – VERIFICATION*****CRITERIA**

FIN MANUAL, FIN 13.01, 6.4 DEPOSITS

3. Deposits consisting of coin and paper currency in excess of \$100 will be prepared as follows:
  - b. The coin and paper currency portion of any bank deposit must be counted by one person and verified and initialed by a second person (preferably a supervisor or lead) prior to tendering the deposit to an armored car service, a court employee for deposit to a bank night deposit drop safe, or a bank teller within the lobby of the bank.

- c. Paper currency and coin (unrolled) will be placed in the deposit bag and sealed in the presence of two court employees who will sign a court copy of the deposit slip indicating they have verified the coin and paper currency amount contained in the deposit bag.

#### FIN MANUAL, FIN 1.01, 6.4 TRIAL COURT OPERATING STANDARDS:

3. A presiding judge or his/her designee who wants to establish an alternative procedure will submit a signed and dated Request for Alternative Procedure Form (copy provided in 7.0, Associated Documents) to:

Judicial Council of California  
Director of Branch Accounting and Procurement  
Attn.: Trial Court Alternative Financial Policies and Procedures  
2850 Gateway Oaks Drive, Suite 300  
Sacramento, CA 95833-4348  
E-mail: [TCFin@jud.ca.gov](mailto:TCFin@jud.ca.gov)

A written response to the submission of alternative procedures will be returned to the submitting court within 60 business days of receipt of the document. When a Request for Alternative Procedure has been received by Judicial Council of California Staff, an acknowledgement of receipt will be returned to the submitting court. The 60 business-day response time will begin once the court receives that acknowledgement of receipt. Absent a response from Judicial Council of California Staff within 60 business-days, the alternative procedure will be in effect, subject to further review and consideration by Judicial Council of California Staff. Undocumented procedures or those not approved by Judicial Council of California Staff will not be considered valid for audit purposes.

Once approved, alternative procedures must be documented by the trial court, incorporated into the local trial court manual, and distributed to court personnel. Any alternative procedure that is different from what is included in the Trial Court Financial Policies and Procedures Manual or the county's policy document must first be approved by Judicial Council of California Staff.

#### **CONDITION**

The Court does not require one person to prepare and a second person to verify and initial its bank deposits. Instead, a single person at each location prepares the deposit with no secondary verification process. In addition, the staff members do not sign a court copy of the deposit slip to indicate they verified the coin and paper currency amount contained in the local bank deposit bag. According to the Court, it follows this practice at the Fiscal Division because the collections to be deposited were already counted during the initial closeout, then counted again the day after the closeout by a Fiscal staff member. Additionally, the Court indicated that it follows this practice at its outlying locations due to staffing issues. However, the FIN Manual requires courts to have a second person, preferably a supervisor or lead, verify deposits, and for both employees to sign a court copy of the deposit slip indicating they have verified the coin and paper currency amount contained in the deposit bag. Without a secondary verification of the Court's deposit, any potential deposit shortage would be without clear accountability of when the shortage may have occurred or who may have been responsible for the discrepancy—the Court or the bank.

**RECOMMENDATION**

To safeguard its receipts and reduce the risk of lost or stolen collections, the Court should ensure that a lead or supervisor verifies and initials its daily bank deposits after they are prepared by another court employee. If the Court cannot perform this deposit verification process, it should prepare and submit to the Judicial Council a request for approval of an alternate procedure for verifying the daily deposits. The Court should also ensure deposit slips are consistently signed by both employees.

**COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The Court agrees with the recommendation. The Court now ensures that one person prepares, and a second person verifies and initials bank deposits. Deposit slips are now consistently signed by both employees.

**Response provided on 10/28/2022 by:** Geoff O'Quest, Court Fiscal Officer

**Date of Corrective Action:** 10/10/2022

**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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**FINDING REFERENCE: 2022-9-01***OTHER INTERNAL CONTROLS – SEGREGATION OF DUTIES***CRITERIA**

FIN MANUAL, FIN 1.03, 6.3.3 CONTROL ACTIVITIES:

**6. Appropriate Segregation of Duties**

- a. An organization plan should be established that provides for an appropriate segregation of duties; this will help safeguard trial court assets. Segregation of duties is based on the concept that no one individual controls all phases of an activity or transaction.
- b. Work must be assigned to court employees in such fashion that no one person is in a position to initiate and conceal errors and/or irregularities in the normal course of his or her duties.

**CONDITION**

The Court does not adequately segregate court staff duties when preparing its deposits. Specifically, at the Paso Robles and Grover Beach payment locations, the person who verifies the cashier's closeout also prepares the deposit. According to the Court, this occurs due to staffing issues. Nonetheless, the FIN Manual requires courts to segregate duties so that no one person is in a position to initiate and conceal errors and/or irregularities in the normal course of their duties. As a result of the lack of segregation of duties, potential fund shortages and thefts may occur and go undetected.

**RECOMMENDATION**

To reduce the risk of potential fund shortages and thefts, the Court should require someone other than the person who verifies the cashier's closeout to prepare the deposit.

**COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The Court agrees with this recommendation. The person who verifies the cashier's closeout will not be the same person who prepares the deposit.

**Response provided on 10/28/2022 by:** Geoff O'Quest, Court Fiscal Officer

**Date of Corrective Action:** 11/7/2022

**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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## PROCUREMENT AND CONTRACTS

### The Court Complied with Applicable Requirements for Procuring Goods and Services

#### Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. To achieve this expectation, the Judicial Branch Contracting Manual (JBCM) and the Trial Court Financial Policies and Procedures Manual provide uniform guidelines for trial courts to use in procuring necessary goods and services and in documenting their procurement practices. Trial courts must demonstrate that their procurement of goods and services are conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. Typically, a purchase requisition is used to initiate all procurement actions and to document approval of the procurement by an authorized individual. The requestor identifies the goods or services, verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the court manager authorized to approve purchase requests. The court manager is responsible for verifying the necessity and appropriateness of the requested items, that the correct account codes are specified and assuring that funds are available before approving and forwarding the requisition form to the staff responsible for procuring goods and services. Depending on the type, cost, and frequency of the goods or services to be procured, court staff responsible for procuring goods and services may need to perform varying degrees of procurement research to generate an appropriate level of competition and obtain the best value. Court procurement staff may need to also prepare and enter the agreed-upon terms and conditions into purchase orders, service agreements, or contracts to document the terms and conditions of the procurement transaction, and maintain a procurement file that fully documents the procurement transaction.

Our review found that the Court complied with applicable requirements for procuring goods and services. Specifically, the Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of procurement initiation, leveraged purchase agreements, and contract terms.

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## PAYMENT PROCESSING

### The Court Should Strengthen Its Verification of Invoices and Claims Prior to Payment

#### Background

Trial courts must institute procedures and internal controls to ensure they pay for appropriate goods and services in an economical and responsible manner, ensuring that they receive acceptable goods and services prior to payment. Thus, the FIN Manual provides courts with various policies on payment processing and provides uniform guidelines for processing vendor invoices and in-court service provider claims. All invoices and claims received from trial court vendors, suppliers, consultants and other contractors are routed to the trial court accounts payable department for processing. The accounts payable staff must process the invoices in a timely fashion and in accordance with the terms and conditions of the respective agreements. Staff must match all invoices to the proper supporting procurement and receipt documentation, and must ensure approval for payment is authorized by court management acting within the scope of their authority.

The Court demonstrated compliance in various payment processing areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of other items of expense, jury expenses, and allowable costs. Nevertheless, we identified one audit finding in the payment processing area that we believe requires the Court's corrective action. This finding pertains to the following specific area of payment processing:

Finding Reference	Subject
2022-17-01	Three-Point Match

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#### FINDING REFERENCE: 2022-17-01

#### *THREE-POINT MATCH*

#### CRITERIA

#### FIN MANUAL, FIN 8.01, 6.3.2 DOCUMENT MATCHING:

1. At the scheduled time and depending on the court's invoice payment cycle, an accounts payable employee will match the vendor invoices to all appropriate supporting documentation. The court will adopt the "three-point match" procedure to process vendor invoices.
2. A three-point match procedure consists of matching a vendor invoice to a purchase agreement and to proof of receipt and acceptance of goods or services. For example:
  - a. All details of the invoice, including a description of the goods and services ordered, quantities involved, unit prices billed, and other applicable charges, must be matched to the details and terms and conditions of the court's purchase agreements or contracts.
  - b. All invoice details, including a description of the goods or services ordered and quantities invoiced must be matched to the details of packing slips, shipping orders,

- receiving reports, or other forms of acknowledgement of delivery of products or completion of work by an authorized court employee.
3. Vendor invoices shall not be processed for payment without completing the three-point match procedure. If one element is missing (e.g., if there is no evidence of receipt of goods or services), the accounts payable employee should contact the responsible court employee to obtain the appropriate documents or secure a signature of approval.

### **CONDITION**

For four of the 40 payment transactions reviewed, the Court could not demonstrate completing the entire three-point-match verification process when paying invoices and claims. Specifically, accounts payable staff could not demonstrate how they matched and agreed the invoices or claims to the terms in an applicable contract or equivalent court authorization for these transactions. For example, accounts payable staff paid a vendor \$16,100 for their work with participants on probation who were referred as part of the Court's Behavioral Health Treatment Court program. However, although the Court has a grant agreement with the JCC which helps fund this program, there is no contract or agreement currently in place with the vendor specifying the work to be performed or the authorized rates. According to the Court, its agreement with the vendor is out of date and it is in discussions with the vendor to create an updated agreement. For another transaction, the Court paid the County \$15,900 for custodial and maintenance services. However, the Court does not have a Memorandum of Understanding in place with the county. Instead, the Court receives and reviews a spreadsheet from the county that details service hours for custodial and maintenance activities that the Court reviews the invoice against, but there are no documented agreed-upon rates for accounts payable staff to match against. Additionally, for a third transaction, the Court paid a vendor \$1,300 for shredding services. Again, the Court does not have a contract in place with the vendor. According to the Court, it knows that the typical rate is \$42 per shred bin—plus a 7% recycling fee—that it uses to match the invoice against. The Court is currently pursuing a new contract with the vendor. Without written agreements or authorizations that specify the expected work, term, and pay, court accounts payable staff cannot fully perform the required three-point match. Additionally, when Court staff do not perform the required three-point match, the Court risks paying for unauthorized goods or services or being overcharged without any basis for disputing such work or charges.

### **RECOMMENDATION**

To ensure that it can demonstrate it pays the proper amounts for the goods and services it receives, the Court should take steps to strengthen its process for approving vendor payments. Specifically, the Court should ensure that it has a written contract or agreement with clear pricing terms on file for each of its procurements, and provides these contracts or agreements to its accounts payable staff so that they are able to fully perform the required three-point match and verify the accuracy of vendor invoices prior to payment approval and processing.

### **COURT'S VIEW AND CORRECTIVE ACTION PLAN**

The Court agrees with the recommendation. The Court will take steps to strengthen its process for approving vendor payments and will work to ensure it has written contracts or agreements in place in order to fully perform a three-point match prior to payment approval.

**Response provided 1/24/2023 by:** Geoff O'Quest, Court Fiscal Officer  
**Date of Corrective Action:** Corrective Action will begin 2/1/2023.  
**Responsible Person(s):** Geoff O'Quest, Court Fiscal Officer

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## **FINE AND FEE DISTRIBUTIONS**

### **The Court Calculated Accurate Fine and Fee Distributions for the Case Types Reviewed**

#### **Background**

Trial courts must accurately calculate and distribute the monies they collect so that State and local funds receive the amounts State law designates for each. State statutes and local ordinances govern the distribution of the fines, penalties, fees, and other assessments that courts collect. In addition, courts rely on the State Controller's Office *Trial Court Revenue Distribution Guidelines* and the Judicial Council *Uniform Bail and Penalty Schedules* to calculate and distribute these court collections to the appropriate State and local funds. Courts may use either an automated system, manual process, or a combination of both to perform the often-complex calculations and distributions required by law.

Our review of its fine and fee distributions found that the Court configured its automated case management system to accurately calculate and distribute the fines, penalties, assessments, and fees collected to the appropriate funds and entities.

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## FUND BALANCE

### The Court Did Not Have Year-End Encumbrances or Funds Held on Behalf

#### Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed a defined percentage of a court's prior fiscal year operating budget. Operating budget is defined as the court's total expenditures from all funds (excluding fiduciary funds) that are expended for operating the court. Certain types of funds received by the court and restricted for certain purposes—as specifically designated in statute, and including year-end encumbrances—are exempt from this requirement. The intent of the legislation was to prevent trial courts from accumulating significant fund balances instead of spending the funds on court operations. Audit Services reviews year-end encumbrances to ensure courts do not inflate their calculated fund balance caps by overstating total year-end encumbrance amounts for the current fiscal year, avoiding any required reductions in their budget allocation.

In addition, should a court need to retain funds that exceed its fund balance cap, the Judicial Council adopted a process whereby courts that meet certain specified guidelines may request approval from the Judicial Council to hold excess funds “on behalf of the court.” The request specifies how the funds will be used and requires the court to explain why such spending could not occur through its annual operating budget. If the Judicial Council approves the court's request, the Judicial Council may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with these funds held on behalf of the court. As a part of the Judicial Council-approved process for approving funds held on behalf of a court, Audit Service is charged with reviewing funds held on behalf of the courts as a part of its normal court audit cycle to confirm that the courts used the funds for their approved stated purpose.

Although we reviewed the Court's process for reporting year-end encumbrances, our review found that the Court did not have any year end-encumbrances reported on its final FY 2020-21 calculation form.

Finally, we did not review its use of any excess funds because the Court has not requested the Judicial Council to hold any such funds on its behalf.

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## **JBSIS CASE FILING DATA**

### **The Court Reported Accurate New Case Filing Counts and Data to JBSIS**

#### **Background**

The Judicial Branch Statistical Information System (JBSIS) is a reporting system that defines and electronically collects summary information from court case management systems for each major case processing area of the court. JBSIS directly supports the technology goals of the Judicial Council's strategic plan, providing information for judicial branch policy and budgetary decisions, management reports for court administrators, and the Judicial Council's legislative mandate to report on the business of the courts. Authorization for JBSIS is found in California Rules of Court, rule 10.400: "Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, JBSIS is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the JBSIS Manual adopted by the Judicial Council..." The Court Executives Advisory Committee is responsible for oversight of this program.

Our review found that the Court's records supported the new case filing counts and data it reported to the Judicial Council's Office of Court Research through JBSIS for fiscal year 2020-21.

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## ENHANCED COLLECTIONS

### The Court Appropriately Recovered Costs for its Enhanced Collections Program

#### Background

Penal Code section 1463.010(a) requires the Judicial Council to adopt guidelines for a comprehensive program concerning the collection of monies owed for fees, fines, forfeitures, penalties, and assessments imposed by court order. In addition, as part of its guidelines, the Judicial Council may establish standard agreements for entities to provide collection services. Section (b) requires courts and counties to maintain the collection program that was in place on January 1, 1996, unless otherwise agreed to in writing by the court and county. The program may be in whole or in part staffed and operated in the court itself, in the county, or contracted with a third party. Also, in carrying out its collection program, each superior court and county is required to develop a cooperative plan to implement the Judicial Council guidelines. Section (c) requires the Judicial Council to develop performance measures and benchmarks to review the effectiveness of the cooperative superior court and county collection programs operating pursuant to this section. Further, it requires each superior court and county to jointly report to the Judicial Council information requested in a reporting template on an annual basis.

The standards by which a court or county may recover the costs of operating a comprehensive collection program are provided in Penal Code section 1463.007. Collection costs (with the exception of capital expenditures) may be recovered from the collection of delinquent court-ordered fines, fees, forfeitures, penalties, and assessments imposed on infraction, misdemeanor, and felony cases before revenues are distributed to any other government entity. A comprehensive collection program is a separate and distinct revenue collection activity that meets certain requirements and engages in certain collection activity components as defined in state law. Eligible costs that can be recovered include staff costs, costs paid to another entity under an agreement for their collection activities, and indirect costs.

Our review found that the Court had a qualified enhanced collections program. Furthermore, we found that the Court appropriately recovered only eligible collection costs.

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## **OTHER AREAS**

### **Background**

We did not identify any other significant areas during the initial audit planning process that, based on our professional judgement, warranted any additional audit work. Therefore, we did not review compliance with any other areas.

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