



Judicial Council of California . Administrative Office of the Courts

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: February 26, 2010

Title	Agenda Item Type
Governance of the Judicial Branch Audit Program	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	February 26, 2010
Recommended by	Date of Report
Administrative Office of the Courts Ronald G. Overholt, Chief Deputy Director	February 18, 2010
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Executive Summary

The Administrative Office of the Courts (AOC) recommends that the Judicial Council approve procedures concerning the public disclosure of final audit reports, the formal reporting of audit results and activities to the council on a regular basis, and a process to report any impairment that would affect the ability of Internal Audit Services (IAS) to perform its function. These recommendations support branch governance and enhance accountability through reporting and review of the financial, compliance, and operational activities of the judicial branch.

Recommendation

The Administrative Office of the Courts proposes the following recommendations concerning enhancement of the procedures of the judicial branch audit program.

1. Audit reports shall be submitted to the Judicial Council. Audit reports will not be considered “final audit reports” until formally accepted by the council.
2. All final audit reports shall be placed on the California Courts public Web site to facilitate public access. This shall be in effect for all reports accepted by the Judicial Council after approval of this recommendation.
3. Annually, the senior manager of Internal Audit Services shall:
 - a. Report on audit results and activities undertaken in the previous year; and
 - b. Present for review and approval the Superior Court Audit Schedule (Attachment 2) for the next fiscal year. This report will include the anticipated schedule for the next four fiscal years.
4. As considered necessary, the senior manager of Internal Audit Services shall report to the council on any impairment of or restriction on the ability of Internal Audit Services to perform its function.

Previous Council Action

There has been no previous action by the Judicial Council concerning the recommendations as presented above. At the February 27, 2004 business meeting, the Judicial Council approved the Internal Audit Services Charter (Attachment 1), which formalized the mission, objectives, scope, responsibility, authority, and independence of IAS. The charter recognizes IAS as the internal independent appraisal entity of the judicial branch.

Rationale for Recommendation

The principles of transparency and accountability for the use of public resources are fundamental to well-run governing processes. Government officials are trustees of public funds and, as such, are responsible for carrying out public functions efficiently, economically, effectively, ethically, and equitably. High-quality auditing is essential for government accountability to the public and transparency regarding the linkage of resources to program results. Auditing of government programs should provide independent, objective, fact-based, nonpartisan assessments of the stewardship, performance, and cost of government policies, programs, and operations. Government audits also provide key information to the stakeholders and the public in order to maintain accountability, help improve program performance and operations, reduce costs, facilitate decisionmaking, stimulate improvements, and identify current and projected multidisciplinary issues and trends that affect government programs and the people those programs serve.

These recommendations allow for the more effective discharge of the Judicial Council’s responsibility under Government Code section 77009(h), which specifies that “[t]he Judicial Council or its representatives may perform audits, reviews, and investigations of superior court operations and records wherever they may be located.” Additionally, the recommendations allow for improved compliance with generally accepted auditing standards, including standards on oversight and governance of the function as issued by the U.S. Government Accountability Office (GAO), which has issued generally accepted government auditing standards; the

American Institute of Certified Public Accountants, which has issued *Statements on Auditing Standards*; and the Institute of Internal Auditors, which has issued *International Standards for the Professional Practice of Internal Auditing*.

Submission of audit reports to the Judicial Council

In July 2009, the Governor signed Senate Bill X4 13, a budget trailer bill, which, among other things, clarified the public's right to access certain administrative records held by the superior courts and the AOC. It also required the Judicial Council to adopt rules of court by January 1, 2010, that provide for public access to nondeliberative or nonadjudicative court records and budget and management information. Rules 10.500 and 10.501 of the California Rules of Court were adopted by the Judicial Council on December 15, 2009, with an effective date of January 1, 2010. Final audit reports are among the judicial administrative records that are subject to public access. The recommendation concerning final audit reports provides for increased accountability and transparency of the internal audit process and the activities of the branch.

Previously, an audit report was considered final and available for public disclosure when the report was issued to the presiding judge of the superior court subject to the audit or the head of the division or organization responsible for the function or activity being audited. One of the government auditing standards issued by the GAO regarding reporting states that

Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits.

Consistent with the council's responsibility under Government Code section 77009(h), we recommend that executive summaries of audit reports be submitted to and accepted by the Judicial Council before being considered final. Full audit reports are available to each council member, as requested.

Placement of final audit reports on the public Web site

To ensure a high level of transparency, we recommend that final audit reports be made publicly available on the California Courts public Web site. This will increase the transparency and accountability of the branch by ensuring that the reports are easily obtained by members of the public and is in concert with the policy of other state audit organizations. Previously final audit reports have been made available to members of the public on written request.

The placement of final audit reports on the public Web site would be in effect for all reports accepted by the Judicial Council after approval of this recommendation. All previously issued final audit reports would continue to be made available to the public through the standard request process for judicial administrative records.

Annual reporting of audit activities to the Judicial Council

The senior manager of Internal Audit Services has previously reported on audit activities to the Judicial Council as necessary. The reporting of results and activities on a regular, periodic basis would further increase the accountability and transparency of financial and related activities within the branch. A report on audit results and activities of the past year would allow the Judicial Council to more closely appraise the activities of the branch, provide increased fiscal oversight, and more appropriately monitor the scope of IAS activities as part of the council's governance responsibilities.

When IAS was established in 2001, the audit work it initially performed consisted of attestation¹ work for the superior courts. IAS then undertook Phoenix Financial System readiness reviews, as consultative work to assist the branch and the AOC Finance Division with a major statewide infrastructure initiative.

IAS now performs audit engagements that may have a combination of objectives or may have objectives limited to only some aspects of one type of audit activity. Audit activities may include:

- Financial audits;
- Performance audits;
- Operational audits;
- Attestation engagements;
- Consulting services or reviews; and
- Special investigations.

IAS currently performs comprehensive audits of the superior courts encompassing financial, performance, and operational work on a four-year cycle. Attachment 2 provides a listing of the 58 superior courts with the dates of the last audit and the next planned audit. Based on the staff resources available (see Attachment 3, Staffing History), including an external audit contract that covers 5–6 of the approximately 15 audits performed each year, IAS is primarily limited to performing audits of the superior courts. From a risk measurement standpoint, the superior courts are considered the highest risk area of the branch and therefore the appropriate focus of IAS work.

IAS also regularly provides consulting services and conducts special investigations as considered necessary and as requested by the superior courts. During the past year, these activities encompassed reviews such as the *Review of Executive Compensation and Other Related Matters* at the Superior Court of Placer County, *Review of Sheriff Department Billings for Security Services* at the Superior Court of Fresno County, and *Audit Report on Budgeting Practices* at the Superior Court of San Mateo County. It is anticipated that efficiencies and staffing adjustments

¹ Attestation engagements concern examining, reviewing, or performing agreed-upon-procedures on a subject matter or assertion about a subject matter and reporting on the results.

may allow for IAS to expand its audit work to other branch organizations, such as the appellate courts and the AOC, in the future.

During the past year or so, IAS has moved into a more traditional internal role with respect to the audit activities it performs for the superior courts. Therefore a more traditional governance role is necessary with respect to its reporting of activities and results. This recommendation provides for this in compliance with the audit standards previously discussed.

Reporting of impairment of the independence of IAS to the Judicial Council

Internal audit organizations must be free from external impairments to their independence. Factors external to the audit organization may restrict the work or interfere with the auditors' ability to form independent and objective opinions, findings, and conclusions. IAS, in accordance with auditing standards, must report any impairment to the entity responsible for governance of the audit function. When encountering significant problems or limitations, IAS shall, after working with the appropriate AOC regional administrative director and the Executive Office to try to resolve the problems or issues that have been identified, report the problem or issue to the Judicial Council on an ad hoc basis, as appropriate and necessary. Impairments may include conditions such as:

- Restrictions or limitations imposed on access to records, officials, or individuals needed to conduct the audit;
- External interference or influence that could improperly limit or modify the scope of an audit or threaten to do so, including the exertion of pressure to inappropriately reduce the extent of the work performed;
- Unreasonable restrictions on the timing of an audit, the time allowed to complete the audit, or the issuance of the report; and
- Nonresponse to material audit issues.

Alternatives Considered, and Policy Implications

Comments

We have received only one comment, from a court executive officer who expressed concern regarding placing audit reports on the public Web site as being unnecessary since audit reports are currently available on written request.

Alternatives

Alternatives considered for each recommendation discussed above are:

Submission of audit reports to the Judicial Council. An alternative considered as part of recommendation 1 is to provide the complete audit report to each member of the Judicial Council instead of having the report available on request and submitting the executive summary of the report.

Placement of final audit reports on the public Web site. Two alternatives were considered:

1. Place all audit reports issued to date on the Web site instead of those subsequent to approval of this recommendation.
2. Place all audit reports on the Web site that were completed during the past year or from when the audit program fully transitioned from readiness reviews to comprehensive audits in 2008.

Annual reporting of audit activities to the Judicial Council. No alternatives are submitted for recommendation 3.

Reporting of impairment of the ability of IAS to the Judicial Council. No alternatives are submitted for recommendation 4.

Implementation Requirements, Costs, and Operational Impacts

The proposed recommendations impose no specific implementation requirements or costs. Operational impacts might occur with respect to the delay of audits or the initiation of further audit activities based on direction given by the Judicial Council with respect to the recommendations.

Relevant Strategic Plan Goals and Operational Plan Objectives

The recommendations contained in this report pertain to the activities of Internal Audit Services and the role it plays in the judicial branch. According to the Internal Audit Services Charter, the mission of IAS is to assist the Judicial Council and its staff agency, the Administrative Office of the Courts, and all members of the judicial branch in the effective and efficient discharge of their administrative and operational responsibilities. As such, IAS is an independent appraisal entity or control that examines and evaluates the adequacy and effectiveness of other controls. These activities increase the transparency of the branch and provide for increased accountability in the use of public funds.

Justice in Focus: The Strategic Plan for California's Judicial Branch, 2006–20102, discusses these issues under Goal II, Independence and Accountability. IAS assists in many areas of the strategic plan, but policy statement B4 is clearly one in which IAS's role as an evaluator is key. The policy is to

Establish fiscal and operational accountability standards for the judicial branch to ensure the achievement of and adherence to these standards throughout the branch.

The Operational Plan for California's Judicial Branch, 2008–2011, discusses under Goal II, Independence and Accountability, the requirement of the branch to maintain the highest standards of accountability for its use of public resources and adherence to its statutory and constitutional mandates. Several of the objectives listed are part of the role and responsibility of IAS.

Attachments

1. Internal Audit Services Charter
2. Superior Court Audit Schedule
3. Staffing History



Judicial Council of California Administrative Office of the Courts

INTERNAL AUDIT SERVICES CHARTER

MISSION

The mission of Internal Audit Services is to assist the Judicial Council and its staff agency, the Administrative Office of the Courts, and all members of the judicial branch in the effective and efficient discharge of their administrative and operational responsibilities.

NATURE

Internal auditing is an independent appraisal activity established within an organization as a service to the organization. It is an internal control that examines and evaluates the adequacy and effectiveness of other controls.

Internal auditing is a key tool for the judicial branch to accomplish its goals and objectives; this includes providing assistance to achieve equal access and participation, the appropriate accountability to the public, and the administration of justice in a timely, efficient, and effective manner.

OBJECTIVE AND SCOPE

The objective of internal auditing is to assist judicial branch organizations in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

Internal audit objectives include:

- Providing an independent resource to inquiries and problems raised by the leadership of local courts.
- Planning for the periodic audits of judicial branch organizations.
- Providing appropriate management information to the leadership of the judicial branch (e.g., the Chief Justice, members of the Judicial Council, presiding justices and judges, Administrative Director of the Courts, court executive officers) regarding issues identified and any systemic problems requiring immediate decisions.
- Promoting fiscal operations that are consistent with laws, rules, and practices to ensure cost effective and operational efficiencies and sound financial management.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the

quality of performance in carrying out assigned responsibilities. The scope of internal auditing includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the organization is in compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy and efficiency with which resources are employed; and
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

RESPONSIBILITY AND AUTHORITY

Internal Audit Services was established by the Administrative Office of the Courts to perform audits of the operations of all judicial branch entities and funds. A primary responsibility of Internal Audit Services is to perform and oversee internal audits, reviews, investigations, and special projects of the judicial branch. This responsibility was authorized by Government Code sections 77009(h) and 77206(c). The purpose, authority, and responsibility of Internal Audit Services are defined in this formal written document (charter).

Internal Audit Services can review all policies, plans, procedures, and operations, and has unlimited access to records, properties, and personnel. The function of Internal Audit Services does not, however, relieve members of the judicial branch of their assigned responsibilities.

INDEPENDENCE

Independence is essential to the effectiveness of the internal auditing function. This independence is obtained primarily through organizational status and objectivity.

- Objectivity is essential to the internal audit function. Therefore, the Internal Audit Unit does not develop or install procedures, prepare operations records, or engage in any other activity that might be construed to compromise audit objectivity.

Objectivity is not adversely affected, however, if Internal Audit Services determines and recommends standards of control to be applied in the development of systems and procedures, or provides general consulting services to management.

**THE JUDICIAL COUNCIL OF CALIFORNIA
ADMINISTRATIVE OFFICE OF THE COURTS
INTERNAL AUDIT SERVICES
Staffing History**

AUDIT STAFF	FISCAL YEAR											
	2001 & 2002	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009 - 2010	2010 - 2011	2011 - 2012	2012 - 2013	2013 - 2014
AUTHORIZED	*											
Audit Manager	1	1	1	1	1	1	1	1				
Audit Supervisor			1	1	2	2	2	2				
Senior Auditor					2	2	2	2				
Auditor II	6	6	7	8	4	4	4	4				
Auditor I					5	5	5	5				
OCCM Auditor II		1	2	2	2	2	1	1				
Reimb. Auditor					1							
Secretary I						1	1	1				
	7	8	11	12	17	17	16	16	0	0	0	0
ACTUAL												
Audit Manager	1	1	1	1	1	1	1	1				
Audit Supervisor				1	1	2	2	2				
Senior Auditor				1	1	2	2	2				
Auditor II	6	6	6	6	3	4	4	4				
Auditor I					4	4	4	4				
OCCM Auditor II				1	1	1	1	1				
Reimb. Auditor					0							
Secretary I						1	0	**				
	7	7	7	10	11	15	14	14	0	0	0	0

* Audit contract reduced by 50% to use for additional in-house staff expansion.

** Temp. was in place starting in Aug. 2009