

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF SAN BERNARDINO**

Audit Report

**VALIDITY OF RECORDED REVENUES,
EXPENDITURES, AND FUND BALANCES**

July 1, 2020, through June 30, 2021



BETTY T. YEE
California State Controller

September 2022



BETTY T. YEE
California State Controller

September 22, 2022

Nancy CS Eberhardt, Court Executive Officer
Superior Court of California, County of San Bernardino
247 West Third Street, 11th Floor
San Bernardino, CA 92415

Dear Ms. Eberhardt:

The State Controller's Office audited the Superior Court of California, County of San Bernardino (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2020, through June 30, 2021.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified accounting errors and internal control deficiencies that warrant the attention of management. Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. This issue is described in the Findings and Recommendations section of the report.

This report is for your information and use. The Court's response to the finding is incorporated into this final report. The Court agreed with our observation and provided a Corrective Action Plan to address the fiscal accounting errors, the control weaknesses, and the recommendation. We appreciate the Court's willingness to implement corrective actions.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Kristine Swensson, Deputy Court Executive Officer
Finance and Public Affairs
Superior Court of California, County of San Bernardino
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
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John Wordlaw, Chief Administrative Officer
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	5
Follow-up on Prior Audit Findings	6
Views of Responsible Officials	6
Restricted Use	6
Schedule 1—Summary of Revenues and Revenue Test Results	7
Schedule 2—Summary of Expenditures and Expenditure Test Results	8
Schedule 3—Summary of Fund Balances and Fund Balance Test Results	9
Finding and Recommendation	10
Attachment—Superior Court’s Comments Regarding Audit Results	

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of San Bernardino (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2020, through June 30, 2021.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified accounting errors and internal control deficiencies that warrant the attention of management. Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. This issue is described in the Findings and Recommendations section of the report.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the California Constitution. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The Judicial Council Governance Policies are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, "The Organization and Government of Courts."

Pursuant to California Rules of Court (CRC) rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual* (FIN Manual), which provides guidance and directives for trial court fiscal management. As required by CRC rule 10.804(a), the FIN Manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines; and it describes an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty,

integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components are the core subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2020-21, the Court reported revenues of \$141,448,390. The Court receives the majority of its revenue from state financing sources. The TCTF provided 77.6% of the Court's revenue. During the audit period, the Court incurred expenditures of \$146,979,402. Payroll-related expenditures (salaries and benefits) comprised 77.8% of total expenditures. The Court employed 1,109 staff members to serve San Bernardino County's population of approximately 2,175,424 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary Fund. The General Fund, Special Revenue Non-Grant Fund, and Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 70343, dated October 26, 2021, between SCO and JCC, and by GC section 77206(h)(2).

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with Government Code, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and recorded accurately in the accounting records; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

The audit period was July 1, 2020, through June 30, 2021.

To accomplish our objective, we performed the following procedures:

General Procedures

- We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2020-21 Budget Act, the Manual of State Funds, applicable sections of Government Code, the California Rules of Court, the JCC's FIN Manual (11th edition, June 2020), and internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Control Procedures

- We reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files to published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 20 revenue items and 31 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of identified errors. Errors were not projected to the intended (total) population.

Revenue Testing Procedures

We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested revenue transactions and account balances in the General Fund and the Non-Grant Special Revenue Fund to determine whether

revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.

- We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the TCTF and the General Fund – MOU [Memorandum of Understanding] Reimbursements account were material. We expanded our testing to include the TCTF – Judges Compensation and TCTF – Court Interpreter accounts. We tested accounts through combined sampling and analytical procedures.
- We tested \$129,978,003 of \$141,448,390, or 91.9% of total revenues.

We identified errors in account balances that resulted from unadjusted differences between revenues earned and accrued in the prior year and remittances received in the current year. The total dollar amount of the error is \$20,194. The details of our finding are provided in the Finding and Recommendation section of this report. Schedule 1—Summary of Revenues and Revenue Test Results presents total revenues by account, the related amounts tested, and the error amounts noted.

Expenditure Testing Procedures

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. Material accounts included payroll-related (salaries and benefits) accounts and non-payroll (Contracted Services) accounts.
- To test payroll-related expenditure accounts, we selected two bi-weekly pay periods occurring in August 2020 and April 2021, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger. We further selected five of 1,109 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and supplemental pay were supported by salary schedules and personnel action forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed to the employees' benefit election forms.
- To test material non-payroll expenditure accounts, we:
 - Selected a sample of 26 expenditure transactions to test key internal controls and the accuracy of recorded transactions;
 - Selected disbursement transactions that we considered individually significant (material), exceeding \$230,000; and

- Vouched expenditures recorded in the general ledger to supporting documents.
- We tested \$1,781,500 of \$146,979,402, or 1.2% of total expenditures.

We found no errors in the recording of transactions. Schedule 2—Summary of Expenditures and Expenditure Test Results presents total expenditures by account and the related amounts tested.

Fund Balance Testing Procedures

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2021, were accurate and in compliance with applicable criteria.

For the funds tested, we noted that the General Fund balance was understated by \$143,335 as of June 30, 2021, because the Court did not record revenues accurately in its accounting records. The details of our finding are provided in the Finding and Recommendation section of this report. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, total balances, changes in fund balances, and error amounts noted.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles. However, we also identified accounting errors that warrant the attention of management. Specifically, we found revenues that were not reported correctly for the fiscal year in which they were earned. We also

found instances of misclassified and duplicate entries in the FY 2020-21 revenue operating accounts. These issues are described in the Finding and Recommendation section of this report.

**Follow-up on
Prior Audit
Findings**

We have not previously conducted an audit of the Court’s revenues, expenditures, and fund balances; therefore, there are no prior audit findings to address in this report.

**Views of
Responsible
Officials**

We issued a draft audit report on June 28, 2022. The Court responded by letter dated August 16, 2022, agreeing with the audit results. This final audit report includes the Court’s response as an attachment.

Restricted Use

This report is solely intended for the information and use of the Superior Court of California, County of San Bernardino; JCC, and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

September 22, 2022

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2020, through June 30, 2021**

Revenue Accounts	Revenues Reported		Revenues Tested		Error Amount ²
	Total ¹	Percentage	Amount ¹	Percentage	
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{3, 4}	\$ 109,695,366	77.6%	\$ 109,695,366	100.0%	\$ -
Improvement and Modernization Fund	273,287	0.2%	-	0.0%	-
Judges' Compensation ⁴	697,196	0.5%	697,196	100.0%	-
Court Interpreter ⁴	5,039,821	3.6%	5,039,821	100.0%	(954,329)
MOU Reimbursements ^{3, 4}	14,887,556	10.5%	14,545,620	97.7%	20,194
Other Miscellaneous	1,264,732	0.9%	-	0.0%	-
Subtotal	131,857,958		129,978,003		(934,135)
<u>Grants</u>					
AB 1058 Commissioner/Facilitator	4,044,369	2.9%	-	0.0%	-
Other Judicial Council Grants	164,494	0.1%	-	0.0%	-
Non-Judicial Council Grants	527,179	0.4%	-	0.0%	-
Subtotal	4,736,041		-		-
<u>Other Financing Sources</u>					
Interest Income	94,382	0.1%	-	0.0%	-
Donations	33	0.0%	-	0.0%	-
Local Fees	1,717,389	1.2%	-	0.0%	-
Non-Fee Revenues	961,272	0.7%	-	0.0%	-
Enhanced Collections	288,085	0.2%	-	0.0%	-
Escheatment	69,017	0.0%	-	0.0%	-
Prior Year Revenue	957,011	0.7%	-	0.0%	954,329
County Program - Restricted	356,512	0.3%	-	0.0%	-
Sale of Fixed Assets	18,000	0.0%	-	0.0%	-
Reimbursement Other	376,905	0.3%	-	0.0%	-
Other Miscellaneous	15,787	0.0%	-	0.0%	-
Subtotal	4,854,391		-		954,329
Total Revenues	\$ 141,448,390		\$ 129,978,003	91.9%	\$ 20,194

¹ Differences due to rounding.

² Material account.

³ Tested account internal controls.

⁴ Revenues over/(under) stated; see Finding 1.

Schedule 2— Summary of Expenditures and Expenditure Test Results July 1, 2020, through June 30, 2021

Expenditure Accounts	Expenditures Reported		Expenditures Tested		Error
	Total ¹	Percentage	Amount ¹	Percentage	Amount ²
<u>Personal Services</u>					
Salaries – Permanent ^{3, 4}	\$ 73,427,023	50.0%	\$ 32,065	0.0%	\$ -
Temporary Help	40,090	0.0%	-	0.0%	-
Overtime ⁴	266,361	0.2%	1,801	0.7%	-
Staff Benefits ^{3, 4}	40,647,872	27.7%	12,210	0.0%	-
Subtotal	114,381,346		46,076		-
<u>Operating Expenses and Equipment</u>					
General Expense	3,358,839	2.3%	-	0.0%	-
Printing	170,771	0.1%	-	0.0%	-
Telecommunications	2,094,845	1.4%	-	0.0%	-
Postage	797,604	0.5%	-	0.0%	-
Insurance	82,514	0.1%	-	0.0%	-
In-State Travel	46,577	0.0%	-	0.0%	-
Out of State Travel	2,373	0.0%	-	0.0%	-
Training	21,152	0.0%	-	0.0%	-
Security Services	1,804,742	1.2%	-	0.0%	-
Facility Operations	4,276,646	2.9%	-	0.0%	-
Utilities	18,654	0.0%	-	0.0%	-
Contracted Services ^{3, 4}	15,850,192	10.8%	1,735,423	10.9%	-
Consulting and Professional Services	125,383	0.1%	-	0.0%	-
Information Technology	3,075,778	2.1%	-	0.0%	-
Major Equipment	601,745	0.4%	-	0.0%	-
Other Items of Expense	66,959	0.0%	-	0.0%	-
Subtotal	32,394,775		1,735,423		-
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	191,395	0.1%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense	11,886	0.0%	-	0.0%	-
Subtotal	203,281		-		-
Total Expenditures	\$ 146,979,402		\$ 1,781,500	1.2%	\$ -

¹ Differences due to rounding

² Expenditures over/(under) stated; no errors are reported

³ Material account

⁴ Tested account internal controls

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2020, through June 30, 2021

Balance ¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Fiduciary Fund	Total
Beginning Balance	\$ 9,284,779	\$ 1,060,175	\$ -	\$ -	\$ 10,344,954
Revenues	133,788,092	2,924,257	4,736,041	-	141,448,390
Expenditures	(137,171,328)	(3,629,583)	(6,178,491)	-	(146,979,402)
Transfers In	-	226,166	1,442,449	-	1,668,615
Transfers Out	(1,668,615)	-	-	-	(1,668,615)
Ending Balance	<u>\$ 4,232,928</u>	<u>\$ 581,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,813,942</u>
Errors Noted					
Revenues ²	\$ 20,194	\$ -	\$ -	\$ -	\$ 20,194
Expenditures	-	-	-	-	-
Totals	<u>\$ 20,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,194</u>

¹ Differences due to rounding.

² Revenues overstated; see the Finding.

Finding and Recommendation

FINDING— Unadjusted Revenues

In our testing of revenue transactions, we noted instances of unadjusted, misclassified, and duplicate entries in the Court's current-year (FY 2020-21) operating accounts.

In four instances, the Court did not adjust its revenue accounts for differences between prior-year (FY 2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year. We also noted two instances of entries that were misclassified to an incorrect revenue account, and a duplicate entry that resulted in a \$19,819 overstatement of current-year program revenue.

All judicial branch trial courts use an accounting system that has automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year opening process. Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, general ledger (GL) Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

A summary of revenue accrual adjustments and posting errors is as follows:

- GL Account Number 834010 (TCTF – Court Interpreter) – The Court received a \$954,329 prior-year reimbursement, but accrued \$1,117,858 in the prior year. The Court incorrectly recorded the \$954,329 in GL Account Number 899910 (Prior Year Revenue Adjustment). Reimbursements should be recorded in the same account of accrual to offset the automated reversal of prior-year accruals that occur in opening account balances with each new fiscal year. As a result of the incorrect entry, the revenue reported in the Court's TCTF – Court Interpreter account was understated by \$954,329, while the Prior Year Revenue Adjustment account was overstated equally at year-end. Although balances presented in each account were incorrect, the overall revenue reported for the Court at year-end was not misstated.
- GL Account Number 831010 (General Fund – AB2695 Service of Process) – The Court received a \$23,135 reimbursement, but accrued \$12,585 in the prior year. The \$10,550 excess should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). The unadjusted difference resulted in a \$10,550 overstatement of current-year program revenue.
- GL Account Number 831013 (General Fund – MOU Reimbursements) – The Court accrued \$10,175 in the prior year that was not received in the current year. The reversal to the account's

opening balance was not offset, and resulted in a \$10,175 understatement of the account's revenue. The shortfall should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). Court representatives also indicated that the prior-year accrual should have been recorded in GL Account Number 832013 (TCTF – Elder/Dependent Adult Abuse) instead of GL Account Number 831013 (General Fund – MOU Reimbursements).

- GL Account Number 832011 (TCTF – Jury) – The Court recorded a \$19,819 duplicate accrual entry that resulted in a \$19,819 overstatement of current-year program revenue.

The exceptions noted above resulted in an overall overstatement of \$20,194 in reported program revenue for the FY 2020-21 operating accounts.

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 (Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current-year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC's Administrative Division staff provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, “Automated Accrual Reversal Process,” of the FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2021.

Note: If an accrual was not recorded at year-end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year accounts are to be used in the subsequent fiscal year.

Policy Number FIN 5.02, section 3.0, “Policy Statement,” of the JCC's FIN Manual (11th edition, June 2020) states:

It is the policy of the trial court to establish an accounting system with a chart of accounts and general ledger that enables the court to record financial transactions with accuracy and consistency. All the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly.

The actual accounts each court utilizes may vary depending on the complexity of operations.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, as described in the JCC's accounting guidance. Differences between amounts actually received in the current year and the amounts accrued in the prior year should be entered in the adjustment accounts. All unaccrued deposits for the prior year should be either entered in, or reclassified to, the adjustment account.

Procedures should also ensure the accuracy of account classifications when recording transactions in the general ledger.

**Attachment—
Superior Court’s Comments Regarding Audit Results**



Superior Court of California
County of San Bernardino

Nancy CS Eberhardt
Court Executive Officer

247 West Third Street, Eleventh Floor
San Bernardino, CA 92415-0302

(909) 708-8747

August 16, 2022

Dear Mr. James:

This letter is in response to the draft audit report for the Superior Court of San Bernardino County (Court) received June 23, 2022. On behalf of the Court, we appreciate the opportunity to partner on the continuous improvement efforts to strengthen internal controls and improve the overall fiscal management of our court. The State Controller's Office (SCO) audit team was responsive, professional, courteous, and flexible, especially given the constraints and challenges experienced by the continuing COVID-19 pandemic.

The following section outlines the Court's responses (see comments in **bold**) for consideration in the final audit report. Again, we share our appreciation and thanks for the professionalism of the SCO audit team and the continued commitment to improved fiscal management of public funds.

FINDING – Unadjusted Revenues (beginning on page 10 of the draft report)

"GL Account Number 834010 (TCTF – Court Interpreter) – The Court received a \$954,329 prior-year reimbursement, but accrued \$1,117,858 in the prior year. When recording the reimbursement, the Court incorrectly posted the \$954,329 in GL Account Number 899910 (Prior Year Revenue Adjustment) instead of GL 834010. Reimbursements should be recorded in the same account of accrual to offset the automated reversal of prior-year accruals that occur in opening account balances with each new fiscal year. As a result of the incorrect entry, the revenue reported in the Court's TCTF – Court Interpreter account is understated by \$954,329, while the Prior Year Revenue Adjustment account is overstated equally at year-end. Although balances presented by each GL account were incorrect, the overall revenue reported for the Court at year-end was not misstated.

Court Response:

The Court agrees that it incorrectly posted the reimbursement in GL 899910 (Prior Year Revenue Adjustment). Reimbursements should be recorded to the same account of accrual to offset the reversal of prior-year accruals, and any unreimbursed accrual differences should be reclassified to the adjustment account.

To remedy this error with specific regard to the Court Interpreter Program (CIP), the Court has implemented several corrective procedures: 1) reinstatement of an internal review process to

review all prior year accrual reversals against their corresponding actual transactions (amounts and GLs). This review will include posting adjusting entries to the prior year GL, as required. In addition, the former process of accruing CIP reimbursements is being re-implemented; therefore, the reversal of revenues/reimbursements will transact in the appropriate GL account and any differences will then be reclassified to the adjustment account. With the newly approved JCC methodology, Court staff was working through these changes along with their GL Leads and with limited resources.

“GL Account Number 831010 (General Fund – AB2695 Service of Process) – The Court received a \$23,135 reimbursement, but accrued \$12,585 in the prior year. The \$10,550 excess should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). The unadjusted difference resulted in a \$10,550 overstatement of current-year program revenue.”

Court Response:

The Court experienced key vacancies in FY 2020-21 due to the COVID pandemic and resulting state budget reductions that impacted trial court funding, which resulted in an \$8 million cut to local funding.

The Court agrees with the error as described and has put several procedures in place during FY 2021-22 to remedy the issue, coupled with the restoration of key staffing to assist with review. The following procedures have been implemented: 1) reinstated review of all accrual entries to post any required corrections or adjusting entries; 2) reinstated a tracking of all AB 2695 claims and receivables due from the Judicial Council (JCC) related to these funds (it should be noted that Judicial Council staff were also impacted by COVID-related staffing shortages and the Court had never previously experienced a significant delay in AB 2695 reimbursements); and 3) the FY 2019-20 amount still due from the JCC was reconciled and the entry will be posted appropriately to GL 899910 (prior year revenue adjustment) as part of FY 2021-22 year-end close.

“GL Account Number 831013 (General Fund – MOU Reimbursements) – The Court accrued \$10,175 in the prior year that was not received in the current year. The reversal to the account’s opening balance was not offset, and resulted in a \$10,175 understatement of the account’s revenue. The shortfall should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). Court representatives also indicated that the prior-year accrual should have been recorded in GL Account Number 832013 (TCTF – Elder/Dependent Adult Abuse) instead of GL Account Number 831013 (General Fund – MOU Reimbursements).”

Court Response

The Court agrees with the error as described and has put several procedures in place during FY 2021-22 to remedy the issue, coupled with the restoration of key staffing to assist with review. The following procedures have been implemented: 1) reinstated review of all accrual entries to post any required corrections or adjusting entries; and 2) monitoring all receivables to ensure accruals match appropriately; including, adding a multi-person review process.

“GL Account Number 832011 (TCTF – Jury) – The Court recorded a \$19,819 duplicate accrual entry that resulted in a \$19,819 overstatement of current-year program revenue.”

Court Response

The Court agrees with the error as described and has put several procedures in place during FY 2021-22 to remedy the issue, coupled with the restoration of key staffing to assist with review. The following procedures have been implemented: 1) reinstated review of all accrual entries to post any required corrections or adjusting entries; and 2) monitoring all receivables to ensure accruals match appropriately.

We appreciate the opportunity to provide additional context and share procedures implement to prevent and safeguard against future issues.

Should you have any questions, please contact Kristine Swensson, DCEO of Finance and Public Affairs at kswensson@sb-court.org or at (909) 708-8744.

Respectfully,

A handwritten signature in black ink, appearing to read 'Nancy CS Eberhardt', written over a horizontal line.

Nancy CS Eberhardt
Court Executive Officer

NE:sb

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