

# **SUPERIOR COURT OF TEHAMA COUNTY**

Audit Report

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

*July 1, 2016, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

November 2018



**BETTY T. YEE**  
California State Controller

November 14, 2018

Kevin Harrigan, Court Executive Officer  
Superior Court of Tehama County  
1740 Walnut Street  
Red Bluff, CA 96080

Dear Mr. Harrigan:

The State Controller's Office audited the Superior Court of Tehama County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

Our audit found no instances of non-compliance. However, we found weaknesses in the court's administrative and internal accounting control system; these weaknesses are described in the Findings and Recommendations section of our report.

The court agreed with our findings, and provided a detailed Corrective Action plan addressing the fiscal control weaknesses and recommendations. We appreciate the court's willingness to implement corrective action.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/as

cc: Angie Kiefer, Court Financial Officer  
Superior Court of Tehama County  
Martin Hoshino, Administrative Director  
Judicial Council of California  
Millicent Tidwell, Chief Deputy Director  
Judicial Council of California  
John Wordlaw, Chief Administrative Officer  
Judicial Council of California  
Zlatko Theodorovic, Chief Financial Officer and Director of Finance  
Judicial Council of California  
Grant Parks, Principal Manager  
Audit Services  
Judicial Council of California  
Daniel Alvarez, Secretary of the Senate  
Office of the Secretary of State  
E. Dotson Wilson, Chief Clerk  
California State Assembly, Office of the Chief Clerk  
Amy Leach, Journal Clerk  
California State Assembly, Office of the Chief Clerk  
Diane F. Boyer-Vine, Legislative Counsel  
Office of Legislative Counsel  
Mark Tollefson, Assistant Program Budget Manager  
California Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of Tehama County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

The court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances. However, we found weaknesses in the court's administrative and internal accounting control system. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed to follow up on unclaimed trust accounts.

## Background

The court operates from one court location in Tehama County, California. The court employs three judges and approximately 42 staff members to fulfill its operational and administrative activities. The court incurred more than \$5 million in expenditures for the period of July 1, 2016, through June 30, 2017.

The court controls the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund. These three funds each had revenues and expenditures in excess of 4% of total revenues and expenditures; all three funds are therefore considered material and significant.

Per the Judicial Council's *Trial Court Financial Policies and Procedures Manual*, trial courts are subject to rules and policies established by the Judicial Council of California to promote efficiency and uniformity within a system of trial court management. However, each trial court has the authority and responsibility for managing its own operations. All 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 that may be established by the trial court for their positions. California Rules of Court (CRC) and the *Trial Court Financial Policies and Procedures Manual* established under Government Code (GC) sections 77000 through 77013 and adopted under CRC 10.804, specify guidelines and requirements for court governance.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review.

We performed the audit at the request of the Judicial Council of California. The authority is provided by Interagency Agreement No. 1034558, dated September 5, 2017, between the SCO and the Judicial Council of California.

## **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.

The audit period was July 1, 2016, through June 30, 2017.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing GC sections 77000 through 77013 requiring that they be properly supported by documentation and recorded accurately in the accounting records;
- Expenditures were properly authorized, adequately supported, accurately recorded in the accounting records, and incurred pursuant to authorizing GC sections 77000 through 77013 requiring consistency with the fund's purpose; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

To achieve our objective, we:

### General Procedures

- Reviewed the court's Governance Policies, the Budget Act, the Manual of State Funds, GC sections 13400 through 13407 and 77000 through 77013, CRC, the *Trial Court Financial Policies and Procedures Manual*, and relevant internal policies and procedures to identify compliance requirements applicable to trial court for revenues, expenditures, and fund balances.

### Internal Controls

- Reviewed current policies and procedures, organization charts, and the court's website, and interviewed court staff to gain an understanding of the internal control environment;
- 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;
- Evaluated the court's formal written internal policies and procedures;
- Completed internal control questionnaires by interviewing key staff, and observed the business operations for the purpose of evaluating cash-handling and internal accounting controls; and
- Reviewed the court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.

We performed the following tests of transactions to assess the court’s adherence with prescribed procedures and to validate and test the effectiveness of controls:

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see the table below) to determine whether revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded \$200,000, totaling \$735,136 out of \$5,075,555, or 14.5% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% of the selected revenue accounts, consisting of large-dollar-amount transactions within each account sampled, and traced to supporting documentation.

We did not identify any errors in the samples.

The following table identifies total revenues by account and related amounts tested:

Revenue Accounts	Total Revenues	Percentage Total	Amount Tested	Percentage Tested
<u>State Financing Sources</u>				
Trial Court Trust Fund	\$ 3,819,606	75.3%	\$ 619,932	16.2%
MOU Reimbursements	232,535	4.6%	41,260	17.7%
	4,052,141		661,192	
<u>Grants</u>				
Judicial Council of California Grant	385,461	7.6%	73,944	19.2%
	385,461		73,944	
Other Accounts <sup>1</sup>	637,954	12.6%	-	
	637,954		-	
Total Revenues	\$ 5,075,555	100.0% <sup>2</sup>	\$ 735,136	14.5%

<sup>1</sup> Other accounts were not selected for testing.

<sup>2</sup> Footing difference due to rounding.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see next page) to determine whether expenditures were incurred pursuant to authorizing Government Code sections consistent with the fund’s purpose, properly authorized, adequately supported, and accurately recorded in the accounting records; and

- For Operating Expenditures and Equipment, judgmentally sampled a minimum of 10% of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation. Tested individual accounts that exceeded \$200,000, totaling \$182,787 of \$1,236,226, or 14.8%.
- For Salaries – Permanent Employees, we selected four employees out of 45 from a list provided by the court for two pay periods in October 2016 and two pay periods in April 2017, and reconciled the amounts to supporting documentation to ensure that:
  - Employee time included supervisory approval;
  - Overtime was authorized, approved, and properly supported;
  - Regular earnings were supported by the Salary Resolution; and
  - Regular earnings were supported by the general ledger.
- For Staff Benefits, we selected the same four employees out of 45 from a list provided by the court for two pay periods in October 2016 and two pay periods in April 2017, and reconciled the amounts to supporting documentation and the general ledger.

We did not identify any errors in the sample.

The following table identifies total expenditures by account and related amounts tested:

<u>Expenditure Accounts</u>	<u>Total Expenditures</u>	<u>Percentage Total</u>	<u>Amount Tested</u>	<u>Percentage Tested</u>
<u>Operating Expenditures and Equipment</u>				
General Expense	\$ 226,246	4.4%	\$ 27,045	12.0%
Contracted Services	774,990	15.0%	83,926	10.8%
Information Technology	<u>234,990</u>	4.6%	<u>71,816</u>	30.6%
Total, Operating Expenditures and Equipment	<u>1,236,226</u>		<u>\$ 182,787</u>	14.8%
<u>Other Accounts<sup>1</sup></u>				
Total, Other Accounts	<u>399,574</u>	7.7%		
<u>Personnel Services<sup>2</sup></u>				
Salaries - Permanent	2,264,256	43.8%		
Staff Benefits	<u>1,268,918</u>	24.5%		
Total, Personnel Services	<u>3,533,174</u>			
Total Expenditures	<u>\$ 5,168,974</u>	<u>100%</u>		

<sup>1</sup> Expenditure amounts in Other Accounts were not selected for testing.

<sup>2</sup> Personnel Services was tested using a different methodology.

Fund Balance Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to

determine whether transactions were reported based on the legal/budgetary basis of accounting and maintained in accordance with fund accounting principles (see the table below for transaction summary by fund);

- Verified the accuracy of individual fund balances in the court’s financial supporting documentation; and
- Recalculated sampled funds to ensure that fund balances as of June 30, 2017, were accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in the fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 934,301	\$ 110,772	\$ -	\$ 1,045,073
Revenues	4,418,691	104,783	552,081	5,075,555
Expenditures	(4,496,332)	(70,662)	(601,980)	(5,168,974)
Transfers In	-	-	49,899	49,899
Transfers Out	(49,899)	-	-	(49,899)
Ending Balance	<u>\$ 806,761</u>	<u>\$ 144,893</u>	<u>\$ -</u>	<u>\$ 951,654</u>
Percent Change	<u>(14%)</u>	<u>31%</u>	<u>0%</u>	

We conducted this performance audit under the authority of GC section 77206(h). We conducted the 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 significant internal controls within the context of the audit objective. We did not audit the court’s financial statements.

**Conclusion**

Our audit found that the court complied with statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances for the period of July 1, 2016, through June 30, 2017. However, we found weaknesses in the administrative and internal accounting control system, which are described in the Findings and Recommendations section of this report. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed to follow up on unclaimed trust accounts.

**Follow-up on  
Prior Audit  
Findings**

This is the first audit performed at the court pursuant to GC section 77206(h); however, the court was audited by the Judicial Council of California's Internal Audit Services in May 2010. That audit identified inadequate controls over the court's cash-handling process, which is an ongoing issue in the current engagement (see Finding 1).

**Views of  
Responsible  
Officials**

We provided the court with a preliminary final audit report on October 26, 2018. Kevin Harrigan, Court Executive Officer, responded by letter dated October 31, 2018 (Attachment), agreeing with the audit results. This final audit report includes the court's response.

**Restricted Use**

This final report is solely intended for the information and use of the Superior Court of California, County of Tehama; the Judicial Council of California; and the 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](http://www.sco.ca.gov).

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

November 14, 2018

# Findings and Recommendations

**REPEAT  
FINDING 1—  
Inadequate internal  
controls over the  
cash-handling process**

During our review of the court’s internal controls, we found that the court does not have adequate internal controls over the cash-handling process. Cash collection is one of the major components of reported revenues; therefore, inadequate cash controls could affect the accuracy of reported revenues.

We identified deficiencies in the following areas:

- Only one employee opens the mail, instead of a two-person team. In addition, the mail-opening responsibilities are not regularly rotated among the staff members; and
- One employee from the accounting department makes daily deposits alone.

GC section 13401(a) (5) states, “Systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved.”

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states that a two-person team should be assigned to open the mail, the two-person team should be rotated regularly, and mail should only be processed when both team members are present.

The *Trial Court Financial Policies and Procedures Manual* (section 13.01, subsection 6.4.2) states:

Courts will maintain adequate security of monies in transit to banks and assure that the delivery is made consistent with safety, court needs, and the requirements of this policy. Following are the different methods to be used for depositing state monies into trial court bank accounts.

- a. Trial Court Employee: A trial court messenger or other assigned employee may deliver bank deposits to the bank, provided that such direct delivery of deposits does not exceed \$3,000 in coin and paper currency, and does not subject trial court employees to the hazard of robbery or compromise their safety, and if:
  - i. The bank does not furnish bank deposit messenger service; or
  - ii. An armored car service is not available or not economically justified.

## Recommendation

We recommend that the court strengthen its controls over the cash-handling process and comply with the policies and procedures outlined in the *Trial Court Financial Policies and Procedures Manual*.

Court Response

The Court agrees. The following adjustments have been and/or will be made to the Court's operations to ensure adequate cash controls. The Court began utilizing a two person team to open the mail on October 22, 2018, and employees opening the mail will be rotated regularly. Also, the Court intends to contract with an armored car vendor to eliminate the need to have an employee making daily bank deposits alone.

**FINDING 2—  
Failure to follow up  
on unclaimed trust  
accounts**

During our review of the aging of the court’s trust accounts, we found that the court did not reclassify \$83,088 of unclaimed trust accounts that were older than three years. GC section 68084.1(a) and (b) states that owners of trust accounts older than three years should be notified and if the money is not claimed, it becomes the property of the court.

Our audit found that the following accounts did not comply with statutory requirements:

<u>Account</u>	<u>Account Name</u>	<u>Amounts older than 6/30/2014</u>
353002	Civil Trust – Interpleader	\$ 28,678
353003	Civil Trust – Other	7,382
353005	Traffic	16,461
353006	Criminal – Other	795
353021	Civil Trust – Interpleader	16,214
353024	Civil Trust – Small Claims Judgment	30
353039	Unreconciled Trust Civil and Criminal	13,528
Total		<u>\$ 83,088</u>

The court overlooked statutory requirements and has not taken any action or published any notices to return these funds to lawful owners.

GC section 68084.1(a) states:

A superior court holding in trust for the lawful owner, in a court bank account or in a court trust account in a county treasury, that remains unclaimed for three years, shall become the property of the superior court if, after published notice pursuant to this section, the money is not claimed or no verified complaint is filed and served....money representing restitution collected on behalf of victims that remains unclaimed for three years shall be deposited either into the State Restitution Fund....or into the general fund of a county that administers a victim services program exclusively for the provision of victim services.

GC section 68084.1(b) states:

At any time after the expiration of the three-year specified in subdivision (a),, the executive officer of the superior court may cause a notice to be published once a week for two successive weeks in a newspaper of general circulation published in the county in which the court is located.

The notice shall state the amount of money, the fund in which it is held, and that it is proposed that the money will become the property of the court on a designated date not less than 45 days nor more than 60 days after the first publication of the notice.

Recommendation

We recommend that the court establish and implement procedures to maintain up-to-date notices for all trust accounts.

Court Response

The Court agrees that action is necessary and will implement procedures to address unclaimed trust in a more timely manner going forward.

Both the Court's judicial officers and staff are firmly dedicated to financial and operational transparency and accountability. As a good steward of public funds, the Court recognizes the importance and value of independent audits and fully supports SCO's continued efforts.

**Attachment—  
Court's Response to Audit Findings**

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**Kevin Harrigan**  
Court Executive Officer  
Clerk of the Court  
Jury Commissioner

**SUPERIOR COURT OF CALIFORNIA  
COUNTY OF TEHAMA**

**Tehama Courthouse**  
1740 Walnut Street  
Red Bluff, CA 96080  
Fax (530) 527-9893



October 31, 2018

Lisa Kurokawa, Chief  
Compliance Audits Bureau  
State Controller's Office, Division of Audits  
3301 C Street, Suite 725A  
Sacramento, CA 95816

Transmitted via email to: [jxzhou@sco.ca.gov](mailto:jxzhou@sco.ca.gov)

Re: Tehama Superior Court Audit for the period of July 1, 2016 through June 30, 2017

Dear Ms. Kurokawa,

The Superior Court of California, County of Tehama (Court) appreciates the opportunity to respond to the draft audit report prepared by the State Controller's Office (SCO). The audit was conducted under the authority of GC 77206(h) and focused on the validity of Court revenues, expenditures, and fund balance during the fiscal year 16-17. The Court has reviewed the Preliminary Final Report and offers the following responses to the audit's two findings and related recommendations.

Finding 1- Inadequate internal controls over the cash-handling process.

Response- The Court agrees. The following adjustments have been and/or will be made to the Court's operations to ensure adequate cash controls. The Court began utilizing a two person team to open the mail on October 22, 2018, and employees opening the mail will be rotated regularly. Also, the Court intends to contract with an armored car vendor to eliminate the need to have an employee making daily bank deposits alone.

Finding 2- Failure to follow up on unclaimed trust accounts.

Response- The Court agrees that action is necessary and will implement procedures to address unclaimed trust in a more timely manner going forward.

Both the Court's judicial officers and staff are firmly dedicated to financial and operational transparency and accountability. As a good steward of public funds, the Court recognizes the importance and value of independent audits and fully supports SCO's continued efforts.

Sincerely,

A handwritten signature in blue ink that reads "Kevin Harrigan". The signature is written in a cursive style with a long horizontal stroke at the end.

Kevin Harrigan  
Court Executive Officer  
Superior Court of California, County of Tehama

cc: Hon. C. Todd Bottke, Presiding Judge, Superior Court of California, County of Tehama  
Mr. Grant Parks, Manager, Internal Audit Services, Judicial Council of California

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250**

**<http://www.sco.ca.gov>**