



Audit of the  
Superior Court of California,  
County of Colusa

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JUNE 2018



JUDICIAL COUNCIL  
OF CALIFORNIA

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AUDIT SERVICES

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**Superior Court of California, County of Colusa**

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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

We found that the Superior Court of California, County of Colusa (Court) should be commended for demonstrating compliance with most of the Judicial Council's requirements evaluated during the audit, and for court management's overall responsiveness in taking immediate corrective action to improve its policies, procedures, and practices during the audit. Table 1 below presents a summary of the audit's results, including references to any audit findings discussed in the body and a summary of the Court's agreement or disagreement with the noted findings. Other matters such as isolated or minor non-compliance—which in our professional judgement do not rise to the level of a reportable audit finding—were communicated separately to the Court's management in written form.

Table 1 Audit Results – At a Glance – California Superior Court, County of Colusa

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	Handwritten Receipts	Yes	1	2017-3-01	Agree
4	Mail Payments	Yes	✓		
5	Internet Payments	Yes	✓		
6	Change Fund	Yes	✓		
7	End-Of-Day Balancing and Closeout	Yes	✓		
8	Bank Deposits	Yes	✓		
9	Other Internal Controls	Yes	✓		
<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	1	2017-15-01	Agree
16	Purchase Cards	Yes	✓		
17	Other Internal Controls	Yes	✓		
<b>Payment Processing</b>					
18	3-Point Match Process	Yes	✓		
19	Payment Approval & Authority Levels	Yes	✓		
20	Special Rules - In-Court Service Providers	Yes	1	2017-20-01	Agree
21	Special Rules - Court Interpreters	Yes	1	2017-21-01	Agree
22	Other Items of Expense	Yes	✓		
23	Jury Expenses	Yes	✓		
24	Travel Expense Claims	Yes	2	2017-24-01; 02	Agree
25	Business-Related Meals	N/A	-		
26	Petty Cash	N/A	-		
27	Allowable Costs	Yes	✓		
28	Other Internal Controls	Yes	✓		
<b>Fine &amp; Fee Distribution</b>					
29	CMS-Calculated Distributions	Yes	1	2017-29-01	Agree
30	Manually-Calculated Distributions	N/A	-		
<b>1% Fund Balance Cap</b>					
31	Calculation of the 1% Cap	Yes	✓		
32	Use of "Held on Behalf" Funds	N/A	-		
<b>JBSIS Case Filing Data</b>					
33	Validity of JBSIS Data	Yes	✓		
<b>Grant Award Compliance</b>					
34	AB 1058 Program	No	-		
<b>Other Areas</b>					
35	[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 not applicable, recently reviewed by others, or no transactions 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 the Court with an opportunity to highlight additional areas for potential review depending on available audit resources.

The Court demonstrated consistent adherence to most compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated strong compliance in the areas of cash handling and procurement. For example, our review found that, overall, the Court's cash handling processes were sound. Specifically, the Court's daily opening process, end-of-day balancing and closeout, and daily bank deposits, were performed in accordance with the FIN Manual without incident. Although the Court does not have written local desktop procedures for staff to follow in performing their cash-handling duties and functions, the Court's small size allows peer-to-peer training to adequately inform staff of their responsibilities. In addition, the Court's attention to detail and its thorough review process further ensures payments are collected and deposited correctly. Similarly, our review of its procurement practices found that the Court follows the JBCM and uses the most appropriate procurement approach for each of its purchases. Specifically, the Court's CEO and supervisory staff discuss each purchase and the JBCM requirements to determine whether it should be a competitive or a non-competitive procurement. As a result, except for not having written contracts for some services, we found that the Court used sound procurement practices.

Our audit did identify seven 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 seven 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. For example, one particular area of focus for the Court as it considers opportunities for improvement should include correcting the errors in its automated case management system (CMS) that prevent the accurate calculation and distribution of certain fines, penalties, and assessments to the appropriate funds and entities. Specifically, our testing found that the Court's CMS did not correctly calculate and distribute some of the fines and penalty assessments for 15 of the 23 distributions reviewed. According to the Court, all the calculation and distribution errors occurred because its CMS is not currently configured correctly. The Court stated that it contacted its CMS vendor and anticipates the modifications necessary to ensure its CMS correctly calculates and distributes all fines and assessments to occur by July 2018. Until the Court reconfigures and corrects its CMS, it risks continuing to not accurately calculate and distribute the fines, penalties, and assessments it collects and will, as a result, distribute less than required to some entities and more than required to other entities.

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

Audit Services initiated its audit of the Court on September 5, 2017, and completed fieldwork on November 13, 2017. Audit Services shared the draft audit findings with Court's officials on April 17, 2018, and received the Court's final official responses on May 8, 2018. The Court agreed with the findings and its specific responses for each are included in the body of the report.

## BACKGROUND ON THE COURT'S OPERATIONS

The Superior Court of California, County of Colusa (Court) operates one facility in the city of Colusa. 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 Colusa Superior Court and Average of all Superior Courts

Statistic	Colusa 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 2016-17)</b>						
Total Revenue	\$ 2,444,101	\$ 2,250,083	\$ 10,582,305	\$ 41,232,247	\$194,113,750	\$ 43,247,805
Total Expenditures	\$ 2,268,659	\$ 2,214,461	\$ 10,478,487	\$ 41,316,417	\$194,616,764	\$ 43,294,681
Staff Salaries & Benefits As a % of Total Expenditures	\$ 1,153,292 50.8%	\$ 1,481,300 66.9%	\$ 7,931,905 75.7%	\$ 31,481,920 76.2%	\$157,192,180 80.8%	\$ 34,297,139 79.2%
<b>Judicial Officers and Staff (2017 Court Statistics Report)</b>						
Judges	2	2	8	27	128	29
Commissioners/Referees	-	-	1	4	22	5
Non-Judicial Staff (approx.)	15	17	84	276	1,253	288
Total	17	19	93	307	1,403	322
<b>New Case Filings (Fiscal Year 2015-16)</b>						
<b>Appeal Filings</b>	7	11	63	141	391	116
<b>Civil Filings</b>						
Civil	154	289	1,927	8,063	57,178	11,346
Family Law	144	270	1,808	6,952	28,299	6,585
Juvenile Delinquency	59	36	251	1,260	2,449	745
Juvenile Dependency	37	40	212	669	4,060	859
Mental Health	15	20	122	616	2,485	564
Probate	34	46	252	918	3,299	809
Small Claims	26	65	391	1,871	13,998	2,724
<b>Criminal Filings</b>						
Felonies	1,052	474	2,228	4,960	33,795	7,238
Misdemeanors / Infractions	9,661	5,164	24,006	86,524	375,819	86,660
<b>Total</b>	11,189	6,415	31,260	111,974	521,773	117,646

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 information is from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of April 18, 2018, and may not agree with other reports as this data is subject to continuous updates.

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. Colusa Superior Court is a cluster 1 court.

## AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Colusa (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 2016-17, but certain compliance areas noted below required that we review earlier periods. 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 handwritten 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, including purchase card 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, claim payments, travel expense claim reimbursements—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, including 10 purchase card 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 payments pertaining to various purchase orders, contracts, or in-court services, and 10 travel expense claims, 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>• Whether the payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810.</li> <li>• Whether the payments for in-court service providers, travel expense claims, and business meals adhered to applicable Judicial Council policies.</li> </ul> <p>Note: The Court did not have a Petty Cash fund and business-related meal expenditures. Therefore, testing the</p>
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		use of petty cash and business-related meal transactions was not applicable.
4	Determine whether the Court properly calculates fine and fee distributions for certain selected case types.	<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 assessments for certain high volume or complex case types.</p>
5	<p>Determine whether the Court properly calculates its one percent fund balance cap 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 final <i>1% Fund Balance Cap Calculation Form</i> for the most recently completed fiscal year at the time of our testing (fiscal year 2015-2016), and performed the following:</p> <ul style="list-style-type: none"> <li>• Verified significant calculations and balance amounts.</li> <li>• Traced and verified significant inputs on the form (such as year-end encumbrances) to supporting records and the Phoenix accounting system.</li> </ul> <p>We obtained any Judicial Council-approved request by the Court to hold excess prior year fund balances. To the extent that the Court had and spent any of these held funds, we verified that such spending was limited for the purposes previously approved by the Judicial Council.</p>
6	Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).	<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 (fiscal year 2015-2016), we performed the following:</p> <ul style="list-style-type: none"> <li>• Obtained the relevant JBSIS case filings data the Court reported to the Judicial Council and reconciled the case filings counts it reported to its underlying records of case numbers supporting each reported case filing count, by case type, to validate</li> </ul>

		<p>that the Court accurately reported its case filings count data.</p> <ul style="list-style-type: none"> <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 the Court spent significant grant awards from the Judicial Council in compliance with the grant award requirements.</p>	<p>During the planning phase of the audit, the Court informed us that the California Department of Child Support Services (DCSS) recently completed an audit of its AB1058 program grants. Therefore, we did not review the Court’s grant accounting and administrative procedures, and its compliance with grant terms and conditions.</p>

**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 June 19, 2018, 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 Robert Cabral, Manager:

Dawn Tomita, Senior Auditor (auditor in charge)

Jerry Lewis, Auditor

Joe Meyer, Auditor, CPA, CIA

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

## CASH HANDLING

### **The Court Generally Followed Required Cash Handling Procedures, But Can Strengthen Its Control and Oversight of Manual Receipts**

#### **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 Superior Court of California, County of Colusa (Court) should be commended for demonstrating compliance in many of the cash handling areas we evaluated during the audit. Specifically, the Court demonstrated sound management practices in the areas of its daily opening process, void transaction processing, and end-of-day balancing and closeout process.

Nevertheless, we identified one audit finding that we believe requires the Court's attention and corrective action. This finding pertained to the following specific area of cash handling:

Finding Reference	Subject Area
2017-3-01	Handwritten Receipts – Receipts Log

#### **FINDING REFERENCE: 2017-3-01**

#### *HANDWRITTEN RECEIPTS – RECEIPTS LOG*

#### **CRITERIA**

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS:

4. Manual receipt book acquisition and control.
  - c. When acquired, the trial court will inspect the books to ensure all receipts are complete and in numerical sequence. The trial court Fiscal Office will log the books in a Manual Receipt Book log that will contain information on each book that includes:
    - i. The book number
    - ii. The numerical sequence of receipts (from and to receipt numbers) for each book
    - iii. The date issued to a court facility location supervisor
    - iv. The court facility and supervisor the book was issued to, and
    - v. The date the book was returned from the court facility location supervisor.
6. Court facility supervisor or designee issuance of manual receipt book to cashiers
  - a. The supervisor or designee must maintain control and oversight of the manual receipt books. When the cashiering system and/or case management system is not available to process

automated receipts, the supervisor or designee will retrieve and issue books of pre-numbered receipts to cashiers. Manual receipt books should only be used when the cashiering system and/or case management system is down.

- b. The supervisor or designee issuing the pre-numbered manual receipt books must monitor and maintain an accounting of the receipt books including:
- the receipt book(s) issued;
  - to whom the receipt book(s) was issued;
  - the date issued;
  - the person returning the book(s);
  - the date the books are returned (should be end of same day); and
  - the receipt numbers used within each book.

### **CONDITION**

The Court does not track—such as through a log or other internal listing—all unissued, issued, and returned manual receipt books. In addition, the Court has not designated a supervisor with responsibility for oversight, such as for ensuring the Court’s manual receipt books are properly secured when not in use and are consistently fully accounted for. According to the Court, it was unaware that it needed to maintain an accounting of its manual receipt books. The Court explained that its daily process includes shutting down its CMS during the last 15 minutes of each workday so that cashiers can close and leave work on time, and having cashiers continue taking payments from the public until closing and issuing manual receipts while the CMS is down. The Court prefers that cashiers maintain their individual receipt books because this is less time consuming and less susceptible to human error than issuing the receipt books at the end of each day. Therefore, the Court issues a manual receipt book to each cashier and they keep these books in their locked drawers until the receipts are fully used. Once the receipts in their books are completely used, cashiers return the books to fiscal services and receive a new unused receipt book.

However, by allowing its cashiers to regularly use manual receipt books—without oversight and an accounting for which manual receipts have been issued, by whom, and when—the Court unnecessarily exposes itself to risk that cashiers may use manual receipts inappropriately without prompt detection by the Court’s management. The FIN manual establishes mandatory control requirements for courts regarding their manual receipt books, given the potential for their misuse and ability to help cashiers conceal fraudulent activity.

### **RECOMMENDATION**

The Court should strengthen its control and oversight of its manual receipt books as follows:

- Develop and implement a process that includes using a log to account for all its unissued, issued, and returned manual receipt books. At a minimum, the Court’s manual receipt book log should include the information required by the FIN Manual.
- Designate a supervisor to be responsible for securing and maintaining control and oversight of its manual receipt books when not in use. Also, consider implementing a process to periodically inventory and monitor its manual receipt books to ensure that it can fully account for all its receipt books and receipts and their appropriate use.

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

The court agrees with the issues identified regarding handwritten receipts. As a result of this finding Colusa Superior Court has drafted and implemented a new handwritten receipt process and procedure that was finalized on 5/8/2018 (effective on 5/9/2018). This process and procedure accounts for logging of handwritten receipt books when received, checking out and tracking handwritten receipt use on a daily basis, and the securing of handwritten receipts. Active receipt books will be logged by the on-duty supervisor when checked out/checked in (similar to cash tills) to ensure control and oversight when books are not in use.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** 5/9/2018

**Responsible Person(s):** Cynthia Otero, Erika F. Valencia

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## PROCUREMENT AND CONTRACTS

### The Court Should Ensure Written Contracts are In Place for All Contracted 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 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.

The Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of initiating procurements, authorization and authority levels, and in soliciting competitive and non-competitive procurements.

Nevertheless, we identified one audit finding that we believe requires the Court's corrective action. The finding pertained to the following specific area of procurements:

Finding Reference	Subject
2017-15-01	Procurement – Contract Terms

#### **FINDING REFERENCE: 2017-15-01**

#### *PROCUREMENT – CONTRACT TERMS*

#### **CRITERIA**

#### **FIN MANUAL, FIN 7.01, 3.0 POLICY STATEMENT:**

The trial court must execute a written contract when entering into agreements for services or complex procurements of goods. It is the responsibility of every court employee authorized to

commit trial court resources to apply contract principles and procedures that protect the interests of the court.

**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 description of 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 description of 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.

**FIN MANUAL, FIN 8.01, 6.3.3 REVIEW FOR ACCURACY OF INVOICE:**

1. To ensure that payments are made according to contract specifications, terms of applicable contracts or purchase agreements shall be compared to the invoice for accuracy.

**CONDITION**

The FIN Manual requires courts to execute written contracts when entering into agreements for services; however, for three of the 25 procurement transactions reviewed (and for one of the accounts payable transactions we reviewed) the Court did not have contracts in place.

Specifically, our review noted the Court had paid:

- \$3,000 per month to a vendor for janitorial services even though the contract had expired.
- More than \$15,000 to a probate investigator without a contract that spells out the scope of work, term of the agreement, and the agreed-upon compensation rate.
- More than \$36,000 to one court interpreter—and more than \$12,500 to another—each without an agreement that documented the Court's prior authorization of the agreed-upon travel time, mileage, and payment rate.

According to court staff, they were unaware as to why contracts or court authorizations were not in place prior to these vendors' commencement of work. Nevertheless, the Court indicates that it is currently competitively procuring new investigative and janitorial services and expects these two contracts to be in place before the end of fiscal year 2017-18. With regards to contract court interpreters, the Court stated that it did not enter into contracts because contract court interpreters are excluded from the JBCM's requirements and the JBCM supersedes the FIN Manual procurement and contract sections.

The Court is correct in that the JBCM does not address court interpreters; however—as noted in our audit finding—the FIN Manual does. Audit Services recognizes the potential for confusion arising from procurement and contracting requirements existing in both the FIN Manual and the JBCM. Nevertheless, courts still need written purchase agreements or contracts to comply with the document matching procedures required by the FIN Manual prior to the issuance of payment. In addition, Audit Services believes it is a sound and reasonable business practice for courts to clearly document the details of the agreed-upon terms and conditions prior to the vendor's commencement of work. Absent such a written agreement—which could be as short as a one-page form—the Court may have little to no basis to resolve subsequent disputes over the services provided, the interpreters' billing rates, or the amounts paid.

### **RECOMMENDATION**

To ensure its interests are fully protected, the Court should execute written contracts when securing services, including the services of in-court service providers, such as contact court interpreters. These contracts could be short one-page contracts that, at a minimum, identify the scope of services, the term of the agreement, and the agreed upon compensation. Contracts for in-court services may also define the Court's process for assigning work and issuing court authorizations, contractor responsibilities for preparing and submitting claims, and payment processing procedures.

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

The Court agrees with these assessments. At the time of this response, bids for both janitorial services and probate investigator services were released and completed. An award has been issued for probate investigator services. The Court is reissuing the bid for janitorial services due to lack of response, an award and subsequent contract will be executed upon completion of the bid. The Court will implement short form interpreter contracts for interpreters by 6/1/2018.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** Fully corrected by 7/1/2018

**Responsible Person(s):** Jason B. Galkin, Erika F. Valencia, Cynthia Otero

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## PAYMENT PROCESSING

### **The Court Could Better Demonstrate that Payments to In-Court Service Providers are Properly Authorized and Supported, and Travel Expense Claim Reimbursements are Complete and Approved by Appropriate Levels**

#### **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.

In addition, trial court judges and employees may be required to travel as a part of their official duties, and may occasionally conduct official court business during a meal period. Courts may reimburse their judges and employees for their reasonable and necessary travel expenses, within certain maximum limits, incurred while traveling on court business. Courts may also reimburse their judges and employees, or pay vendors, for the actual cost of providing business-related meals when certain rules and limits are met.

The Court demonstrated compliance many of the payment processing areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of its three-point match process, payment approval, and allowable costs.

Nevertheless, we identified four audit findings in the payment processing area that we believe requires the Court's corrective action. These findings pertained to the following specific areas of payment processing:

<b>Finding Reference</b>	<b>Subject</b>
2017-20-01	Special Rules, In-Court Service Providers
2017-21-01	Special Rules – Court Interpreters
2017-24-01	Travel Expense Claims – Completeness
2017-24-02	Travel Expense Claims – Approvals

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**FINDING REFERENCE: 2017-20-01**  
*SPECIAL RULES, IN-COURT SERVICE PROVIDERS*

**CRITERIA**

FIN MANUAL, FIN 8.02, 6.1 CLAIMS PAYMENT PROCESS, 6.1.1 INTRODUCTION:

1. The trial court regularly uses the services of a variety of skilled professionals in conducting its operations. The services of court appointed counsel, investigators, psychiatrists, court reporters, interpreters, mediators, arbitrators, and others are needed on an ongoing basis. These service providers submit claims for payment to the trial court that must be processed through accounts payable.
2. The basis for a claim is created when the court authorizes services to be provided by an individual or business. The claims payment process assures that proper documentation accompanies each claim and that approval for payment is obtained from authorized staff. At the end of the process, three main functions of accounts payable are completed: 1) supporting documents are reviewed and approved, 2) warrants are issued, and 3) accounting entries are recorded.

FIN MANUAL, FIN 8.02, 6.8 RECONCILIATION OF CLAIMS:

After Accounts Payable has received and recorded a claim, it must be reconciled to the court authorization for the services provided and the service provider's invoice. The claim should be reviewed against the court authorization to verify the appointment, rates, and any hour or dollar limits that may apply. The invoice should be reviewed against the court authorization for the rates and hours charged, and other costs incurred. The correctness of unit price extensions and totals should also be reviewed. Previous claims for the same matter should also be reviewed to assure that limits are not exceeded.

FIN MANUAL, FIN 8.01, 6.3.3 REVIEW FOR ACCURACY OF INVOICE:

3. To ensure that payments are made according to contract specifications, terms of applicable contracts or purchase agreements shall be compared to the invoice for accuracy.

**CONDITION**

The Court did not have written court authorizations that detail the appointment, payment rates, and any hour or dollar limits for three of the six in-court service provider claims reviewed. These court authorizations are like work orders issued from a master contract before the services are provided and that identify the specific work assignment and that may provide for any increases in contract or standard rates or costs that are justified due to unusual circumstances. Specifically, all three in-court services claims did not have written contracts and two were for contract court interpreter services that also did not have written court authorizations, while the third claim for investigative services had a court authorization but did not specify the payment rate or any hour or cost limits. According to the Court, it does not have written court authorizations for the interpreter claims because it believed the Judicial Council interpreter claim forms that document the services provided and rate paid were sufficient. However, these claim forms are prepared by interpreters to request payment after they provide services, they are not the same as the court authorizations that preauthorize the services and payment rates or costs before services begin.

After our review, the Court instituted a pre-service-approval process for interpreter services that exceed the standard Judicial Council interpreter payment rates.

Nonetheless, without complete written court authorizations for in-court services, the Court cannot perform the FIN Manual required document matching and claim reconciliation procedures before processing claims for payment. Specifically, without written court authorizations, court accounts payable staff cannot match the in-court service provider claims to their corresponding court authorizations. Therefore, they cannot also properly reconcile and verify the pre-authorized appointment, rates, and hours, as well as court pre-authorization of payment rates that exceed standard rates or any other extraordinary costs claimed by in-court service providers before processing their claims for payment. As a result, the Court risks paying for unauthorized in-court services and overpaying for services when the amounts claimed exceed any undocumented negotiated rates, costs, or limits.

### **RECOMMENDATION**

To ensure court accounts payable staff have the documents they need to consistently verify the accuracy of in-court service provider claims prior to payment, the Court should consider implementing and consistently using a process such as the following:

- The Court could issue one-page court authorizations to in-court service providers for specific work assignments, detailing the agreed upon appointment, payment rates, and any hour or dollar limits prior to these in-court services contractors providing services to the Court.
- The Court could then forward copies of these court authorizations to its in-court services coordinators and accounts payable staff for their files and later reference.
- When in-court service providers complete assignments and submit claims for payment, in-court services coordinators could verify the claims, acknowledge receipt and acceptance of the services provided, and forward the claim and acknowledgement to court accounts payable staff.
- Court accounts payable staff could then retrieve from their files the court authorizations associated with the claims and use them to complete the required document matching and claim reconciliation procedures before processing the claims for payment.

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

The Court agrees that its current process for independent contractor interpreters is in need of updating. As a result, the Court is in the process of implementing a short form agreement for all interpreters to be executed prior to services being provided. Additionally, the Court will forward these completed agreements to the Court Fiscal Services Analyst so that claims can be verified against agreement terms and also verified by the Court Operations Manager in their capacity as interpreter coordinator (to confirm services claimed were indeed performed). This will help ensure validity and verification of interpreter claims.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** 6/1/2018

**Responsible Person(s):** Jason B. Galkin, Erika F. Valencia, Cynthia Otero

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**FINDING REFERENCE: 2017-21-01**  
*SPECIAL RULES – COURT INTERPRETERS*

**CRITERIA**

FIN MANUAL, FIN 8.02, 6.6 COSTS:

Before incurring any unusual expense that exceeds a limit set by the court, service providers must obtain the court's authorization by submitting a written request. The request shall be supported by written justification setting forth the need for the cost and an itemized estimate of the proposed expenditure.

FIN MANUAL, FIN 8.02, 6.7 COSTS EXCEEDING NORMAL RATES:

1. In some instances, costs higher than the limits set by the trial court may be justified. Before incurring costs that exceed court-designated limits, service providers must obtain the court's authorization by submitting a written request. The request must be supported by written justification for the higher cost and an itemized estimate of the proposed expenditure. A copy of the court authorization approving the higher costs must be submitted with the claim for reimbursement.
2. In no event shall costs exceeding trial court limits be incurred without the prior written approval of the court.

JUDICIAL COUNCIL OF CALIFORNIA, PAYMENT POLICIES FOR CONTRACT COURT INTERPRETERS, PAYMENT POLICIES:

Mileage reimbursement

Actual mileage is reimbursed when the interpreter travels 60 miles or more roundtrip from his or her place of business (address used for tax purpose). The rate of reimbursement is the rate as authorized by the state. Extraordinary travel costs such as airfare may be reimbursed only with advanced approval of the court executive officer, or his or her designee.

Unusual circumstances

An amount above the daily rate, and/or a cancellation fee may be provided under unusual circumstances. Unusual circumstances are defined as follows:

- There are limited or no available interpreters in the needed language; and
- The alternative is to continue the proceeding.

A trial court and the interpreter may negotiate an amount for travel time in unusual circumstances.

**CONDITION**

For the two contract court interpreter claims reviewed, the Court paid interpreters above the Judicial Council's established rates without documenting (1) the unusual circumstances for doing so; and (2) the Court's pre-approval of the rate to be paid. Specifically, the Court paid one certified Spanish language interpreter the Judicial Council's full-day rate of \$282 for certified interpreters for one hour of interpreting services, or \$125 more than the Judicial Council's

established half-day rate of \$157. The Court paid the other certified Spanish language interpreter \$300 for a full day of interpreting services, or \$18 more than the Judicial Council's full-day rate of \$282. In addition, the Court paid both interpreters a total of \$157 for travel time. The Court paid these amounts without any explanation of the unusual circumstances that prompted it to pay the higher rates or for travel time, which the Judicial Council policy requires for both interpreter payments higher than the Judicial Council established rates and travel time payments. The Court also paid one of these interpreters \$25 for roundtrip mileage of less than 60 miles, even though the Judicial Council payment policies provide reimbursement for mileage when travel is 60 miles or more roundtrip.

According to the Court, it did not keep a record of the unusual circumstances or agreed-upon higher payment rates because it had no other option than to pay the higher rates in order to obtain the interpreter services when they were needed. Audit Services agrees with the Court that there will be times when it must pay above the Judicial Council's established rates; however, documenting the unusual circumstances and its pre-approval of the higher rates helps to mitigate the risk that the Court may otherwise routinely or inappropriately pay above the Judicial Council's established rates. Further, documenting the unusual circumstances—such as its unsuccessful attempts to obtain interpreters at the established rate—positions the Court to demonstrate that it is attempting to follow Judicial Council policy when possible.

To its credit, the Court has now instituted a pre-service approval process for when interpreters will exceed the Judicial Council's established payment rates. According to the Court, such a process now consists of an email exchange between the operations manager and the CEO detailing the need for interpreter services, the rates, and some information regarding the circumstances, and will include a request for approval by the CEO. Once approved, the operations manager will inform the interpreter that the Court has approved them to provide the services in question. Although the Court indicated that it is still tweaking this process to make it simultaneously efficient and address the concerns raised by the audit, the process it has placed into use should allow it to document the agreed-upon rate prior to the interpreter commencing work.

## **RECOMMENDATION**

To ensure its accounts payable staff pay contract court interpreter rates and costs that exceed the rates set by the Judicial Council and the Court only when pre-authorized and approved, the Court should do the following:

- Consistently document the unusual circumstances and pre-authorization for contract court interpreter services that cost more than the Judicial Council's standard rates and/or include costs for travel time.
- Document and approve in advance, any estimated extraordinary travel costs and limits it agrees to pay the contract court interpreter.
- Consider documenting these unusual circumstance explanations, higher rate authorizations, and extraordinary cost approvals in its recently established pre-service-approval process by using a one-page court authorization document that is issued to the contract interpreter and shared with accounts payable staff for use in executing their payment processing procedures.

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

The Court agrees that its current process for independent contractor interpreters is in need of updating. As a result, the Court is in the process of implementing a short form agreement for all interpreters to be executed prior to services being provided. The Court has already instituted an internal protocol for negotiating and approving rates that exceed the Judicial Council set rates. The Court has also implemented a practice of reviewing all available interpreters to ensure that the Court is paying the most competitive rates for interpreters when there is a need, thus creating a record that substantiates variances from the Judicial Council rates when required.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** 6/1/2018

**Responsible Person(s):** Jason B. Galkin, Erika F. Valencia

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**FINDING REFERENCE: 2017-24-01***TRAVEL EXPENSE CLAIMS - COMPLETENESS***CRITERIA**

FIN MANUAL, FIN 8.03, 6.4.1 SUBMITTAL OF TRAVEL EXPENSE CLAIMS (TEC):

1. Judges and employees who incur reimbursable business travel costs must submit a completed TEC form

FIN MANUAL, FIN 8.03, 6.4.2 ALLOWABLE EXPENSES:

1. The following types of expenses are allowable and reimbursable for trial court business travel:
  - e. Meals. Trial court judges and employees may be reimbursed for meals consumed during business travel. Meals to be reimbursed should be itemized as breakfast, lunch or dinner. The maximum allowable reimbursement for each meal is established by the Judicial Branch Travel Guidelines.

FIN MANUAL, FIN 8.03, 7.0 ASSOCIATED DOCUMENTS, JUDICIAL BRANCH TRAVEL GUIDELINES, MEALS:

Actual costs are reimbursable up to the limits stated below for continuous travel of more than 24 hours.

Breakfast – Up to \$8.

Lunch – Up to \$12.

Dinner – Up to \$20.

Meal reimbursement for one-day trips is taxable and reportable income unless travel included an overnight stay. Lunch may not be claimed on trips of less than 24 hours. For continuous travel of less than 24 hours, actual expenses up to the above limits are reimbursable if:

- Travel begins one hour before normal work hours – Breakfast may be claimed.

- Travel ends one hour after normal work hours – Dinner may be claimed.

### **CONDITION**

For all nine of the travel expense claim (TEC) forms reviewed, the Court did not require claimants to provide on the TEC form all the key information required by the FIN Manual. Specifically, missing from the TEC forms included information that is needed to fully assess the accuracy, necessity, and reasonableness of the claimed business travel expenses, such as the claimant's residence and headquarters addresses, travel start and end times, and the business purpose of the trip. For example, without both the assigned headquarters and residence address, reviewers cannot assess whether the personal mileage expenses reflect the lesser of the mileage from home or headquarters to the business destination. Similarly, without travel start and end times, reviewers do not have the information they need to properly assess whether the claimed meals are appropriate.

According to the Court, instead of using the TEC form suggested in the FIN Manual, its long-term practice has been to use its local Claim/Authorization for Release of Funds form (claim form) to approve travel expenses. However, this local claim form does not require all the key information needed to properly assess the propriety of the expenses being claimed for reimbursement. When travelers do not provide, and reviewers do not require, the information needed on their TEC forms to properly assess the propriety of the requested travel expense reimbursements, the Court exposes itself to higher risk that it may reimburse claims for inappropriate expenses or for non-business-related purposes.

For example, for four of the nine TEC forms reviewed that included meal expenses, the Court paid meal expenses for travel that did not meet the time frames required for allowable meal expenses. Specifically, the Court reimbursed travelers for their claimed lunch expenses on all four of the TEC forms even though the travel was less than 24 hours. In addition, it reimbursed some dinner expenses on two other TEC forms that indicate overnight travel; however, the TEC forms did not provide the travel start and end time information that reviewers need to assess and determine whether the travel was within the times specified by the Judicial Branch travel guidelines for allowable meal expenses. According to the Court, it was unaware that incidental or lunch expenses could not be claimed for travel of less than 24 hours. As a result, the Court reimbursed travelers for meal expenses that are not allowed, and reimbursed other meal expenses without verifying that the travelers incurred the expenses within the times required for reimbursement.

### **RECOMMENDATION**

To ensure it complies with the required travel expense reimbursement policy and procedures, and to ensure its travel expenses are an appropriate and necessary use of public funds, the Court should do the following:

- Require all court employees and officials who travel on court business to provide complete TECs that include the information and documentation necessary—such as the assigned headquarters address, residence address, destination address, times of travel, and business purpose of the trip—for reviewers to properly assess and approve allowable travel expenses,

- Consider providing additional travel rules training for both those who travel on court business and those who are responsible for reviewing and approving TEC forms, and
- Instruct approving supervisors and reviewers to question travelers about any missing information that is needed to fully evaluate the appropriateness of claimed expenses. The supervisors and reviewers should annotate the TEC forms, when necessary, with any additional information that is needed to clarify and demonstrate the propriety of the claimed travel expenses.

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

The Court agrees that its process and procedure regarding TEC approvals was in need of improvement. As a result, the Court has implemented and distributed a local policy and procedure regarding Travel Reimbursements. This was distributed to all staff and judges on May 1, 2018. This process and procedure states, among other items, the mandatory information required to be completed for a TEC. Additionally the new process and procedure designates the appropriate approval authority to review TEC forms for completeness. Finally, the process and procedure includes a copy of the JCC Travel Guidelines, links to the corresponding section of the FIN, and the most up to date version of the JCC TEC form.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** 5/1/2018

**Responsible Person(s):** Jason B. Galkin, Cynthia Otero

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### **FINDING REFERENCE: 2017-24-02**

#### *TRAVEL EXPENSE CLAIMS – APPROVALS*

### **CRITERIA**

FIN MANUAL, FIN 8.03, 6.4.1 SUBMITTAL OF TRAVEL EXPENSE CLAIMS (TEC):

1. Judges and employees who incur reimbursable business travel costs must submit a completed TEC form, which:
  - a. Is approved and signed by the judge's or employee's appropriate approval level.

### **CONDITION**

The appropriate level supervisor did not approve four of the nine TEC forms reviewed. Specifically, the CEO approved the four TEC forms submitted by judges. However, the appropriate approval-level supervisors for judges are the Presiding Judge (PJ) or Assistant Presiding Judge (APJ). If the claimant is the PJ, then the approver would be the APJ. If the claimant is a visiting judge, then the approver should be the host-court PJ or APJ. According to the Court, it believed its delegation of authority from the PJ to the CEO to approve expenditures allowed the CEO to approve TEC forms submitted by judges.

However, the FIN Manual makes a distinction between appropriate approval level for a judge and a court employee. In Audit Services' view, if there were questions or concerns regarding a judge's TEC, the Court's CEO or a lower-level employee may feel uncomfortable making further inquiries and potentially would be less likely to disallow expenses claimed by judges. For

example, the Court reimbursed training fees of \$150 on one TEC form submitted by the PJ, but did not require the PJ to submit a receipt for the training expenses claimed. According to court staff, they are not in the habit of questioning expenses claimed by the PJ. We are raising this issue with the Court because we see a potential control weakness with court employees approving judicial officers' TEC forms.

### **RECOMMENDATION**

To increase the likelihood that travel expense claims submitted by judges are thoroughly reviewed, and challenged when appropriate, the Court should consider requiring that all TEC forms submitted by judges be approved by the PJ or a designated judicial officer. Such a process might entail court employees highlighting potential problems with a judicial officer's TEC, which would be submitted to the designated judicial officer for final review and approval.

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

The Court agrees that its process and procedure regarding TEC approvals was in need of improvement. As a result, the Court has implemented and distributed a local policy and procedure regarding Travel Reimbursements. This was distributed to all staff and judges on May 1, 2018. This process and procedure states, among other items, that claims for judicial officers are to be submitted for approval by the Presiding Judge. Additionally, claims from the Presiding Judge are to be submitted for approval by the Assistant Presiding Judge.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** 5/1/2018

**Responsible Person(s):** Jason B. Galkin, Cynthia Otero

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## FINE AND FEE DISTRIBUTIONS

### The Court Needs to Update Its CMS to Calculate Correct Fine and Fee Distributions

#### 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 fees, fines, penalties, 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 (CMS) to accurately calculate and distribute most fines, penalties, assessments, and fees collected to the appropriate funds and entities.

Nevertheless, we identified one audit finding in the fine and fee distribution area that we believe requires the Court's corrective action. This finding pertained to the following specific area of CMS distributions:

Finding Reference	Subject
2017-29-01	CMS – Calculated Distributions

#### **FINDING REFERENCE: 2017-29-01**

*CMS – CALCULATED DISTRIBUTIONS*

#### **CRITERIA**

FIN MANUAL, FIN 10.01, 6.1 TRIAL COURT UCF AND CRIMINAL AND TRAFFIC COLLECTION ACTIVITIES:

1. In addition to providing justice to the citizens of California, the trial court is also responsible for the collection and processing of fees, fines, forfeitures, restitution, penalties and assessments associated with traffic, civil, or criminal cases.
2. Payments collected by the trial court are in turn distributed to a number of recipients as defined by codes established by the state legislature.
9. It is the responsibility of the trial court to assure the accurate distribution of the funds that it collects.

FIN MANUAL, FIN 10.01, 6.10 CRIMINAL AND TRAFFIC CASE MANAGEMENT SYSTEM REVENUE DISTRIBUTION:

1. Each payment received by the trial court is ultimately distributed according to a schedule established by the Legislature.

2. The court must assure that:
  - a. The state schedule for revenue distribution is accurately entered in the court's case management system.
  - b. The state schedule is consistently followed by every court location either through centralized input that serves all locations or by separately entering and verifying data entry for each location.

## CONDITION

Our review of its fine, penalty, and assessment calculations and distributions for selected case types found that the Court did not always calculate and distribute collections consistent with applicable state laws. Specifically, the Court did not configure its case management system (CMS) to correctly calculate and distribute some or many of the fines and penalty assessments for 15 of the 23 distributions reviewed. Our review covered variations of 19 distinct case types and code violations under the Vehicle Code (VC), Penal Code (PC), Health and Safety Code (HSC), and Fish and Game Code. Although not a complete listing of all the variances noted and communicated to the Court, a few examples of the systemic calculation and distribution errors found include the following:

- For city of Colusa arrests for which the PC 1463.002 city and county split of the base fine applies, the Court is not consistently distributing the applicable share of the base fine to the city and to the county. Specifically, for 4 of the 7 distributions reviewed which were city of Colusa arrests for certain VC violations and for which the PC 1463.002 city and county split of the base fine applies, the Court distributed 100 percent of the base fine amount to the city. However, for city of Colusa arrests, PC 1463.002 requires the Court to distribute 87 percent of the base fine (after any base fine reductions) to the city of Colusa and 13 percent to the county. According to the Court, its CMS is currently not consistently configured to distribute the correct share of the base fine to the city and county.
- We also noted that the Court is assessing a State Restitution fine that is less than the minimum required by law. Specifically, for all four cases reviewed with a misdemeanor conviction, the Court imposed a State Restitution fine of only \$140, or \$10 less than the minimum fine required by PC 1202.4(b)(1) for misdemeanor convictions. This lower assessment also led to a shortage of the GC 68090.8 two percent State Automation fund transfer. State law previously set this fine at \$140 for misdemeanor convictions, but increased it by \$10 in January 2014 to \$150. The Court indicates that when the fine increased, its vendor may have incorrectly coded its CMS to distribute this \$10 increase to the Court as an installment fee instead of coding the CMS to increase the State Restitution fine by \$10 to \$150.
- In another example, the Court is not assessing two HSC fees (fines) that apply to convictions of certain drug-related violations. Specifically, for the HSC case reviewed, the Court did not assess the HSC 11372.5 \$50 criminal laboratory analysis fee that is required of every person convicted of certain drug-related violations of the HSC or the Business and Professions Code. Similarly, it did not assess the HSC 11372.7 \$150 drug program fee that is required of each person convicted of certain drug-related violations of the HSC and whom the Court determines is able to pay. Not assessing these two fees—which the State Controller's Office (SCO) revenue distribution guidelines indicate are treated as fines—causes the Court to also

not assess, collect, and distribute a total of \$820 per case of other State and local penalties and assessments that are calculated based on fines. As a result, the Court is calculating and distributing less than required to the State and county to help fund various programs. According to the Court, the distribution tables in its CMS are not correctly accounting for these HSC fees.

- The Court is also not always distributing applicable amounts to the county's Emergency Medical Services fund on certain traffic school cases. Specifically, for two red-light and two speeding cases reviewed that were disposed with traffic school, the Court did not distribute from the TVS fee the local penalty amounts that would apply to the GC 76104 EMS fund as required by VC 42007(b)(2). In addition, for the two red-light cases disposed with traffic school, the Court also did not distribute from the TVS fee the additional penalty amounts that would apply to the GC 76000.5 Maddy EMS fund as required by VC 42007(b)(2). As a result, certain TVS fees deposited with the county are not properly designated to fund their intended local emergency medical services programs. In October 2012, the SCO reported this issue in its audit of the Court's fine and fee distributions. According to the Court, upon review of the SCO audit and the tickets that were submitted to its CMS vendor to resolve these issues, it appears the issues were not fully resolved in all impacted violations.

According to the Court, all the calculation and distribution errors found occurred because its CMS is not currently configured correctly. The Court stated that its CMS tables will require additional modifications to ensure correct calculations and distributions of all fines and assessments. Until these CMS tables are reconfigured and corrected, the Court will continue to incorrectly assess and collect some fines and penalties and will therefore distribute less than required to some entities and more than required to other entities. As a result, the Court is at risk of continuing to not accurately calculate and distribute the fines, penalties, and assessments it collects for an undetermined period of time.

### **RECOMMENDATION**

To ensure the Court accurately calculates and distributes the funds it collects, the Court should do the following:

- As soon as possible, partner with its CMS vendor to modify or reconfigure the CMS tables to correctly calculate and distribute all fines, penalties, and assessments,
- Perform follow up reviews to ensure the corrections are working properly, and
- Develop a process to periodically monitor its calculations and distributions of collections to ensure they remain accurate.

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

The Court agrees with this finding and has already initiated with its Case Management System vendor to perform the necessary adjustments. A ticket was opened with the Court's CMS vendor on 5/3/2018 summarizing the issues identified during the audit. This ticket also provided copies of the distribution worksheets that identified all the variances and potential issues.

**Response provided on 5/8/2018 by:** Jason B. Galkin, Court Executive Officer

**Date of Corrective Action:** Current estimated time of completion is July 2018 for all distribution issues identified to be corrected in CMS. It is possible that corrective action may be completed prior to this date.

**Responsible Person(s):** Jason B. Galkin in collaboration with Court CMS Vendor

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## ONE PERCENT FUND BALANCE CAP

### The Court Appropriately Supported Its 1% Fund Balance Cap Calculations

#### Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed one percent of its prior fiscal year operating budget. To assist in ensuring compliance with this requirement, the Judicial Council requires courts to prepare and submit a final *1% Fund Balance Cap Calculation Form* (calculation form) approximately six months after the end of the fiscal year, which calculates the amount of fund balance that a court may carry over into the next fiscal year. Courts self-report the inputs on the calculation form, such as year-end expenditures, expenditure accruals, and encumbrances.

In addition, should a court need to retain funds that exceed its one percent 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.

Our review found that the Court complied with the requirements for its 1% fund balance cap calculations. Specifically, we reviewed the inputs on its final FY 2015-16 calculation form and found that the Court used expenditure amounts that agreed to its accounting records. In addition, the Court supported the encumbrances it reported on its final FY 2015-16 calculation form with valid contracts for goods and services not received by June 30, 2016. Finally, we did not review its use of any excess funds because the Court did not request such funds be held on its behalf.

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## **JBSIS CASE FILING DATA**

### **The Court Reports Accurate Case Filing 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 maintained sufficient documentation to support the JBSIS filings data it submitted to Office of Court Research. Overall, the Court's process for JBSIS reporting helped ensure case counts are fully supported by its records and consistent with the rules established in the JBSIS Manual.

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## **GRANT AWARD COMPLIANCE**

### **External Auditors Recently Reviewed the Court's Grant Accounting and Administrative Procedures**

#### **Background**

Grant fund awards may substantially benefit a trial court's ability to serve the public. At the same time, the acceptance of grant funds may also represent an area of risk to the court because the grant money received by the court is provided for specific purposes and under conditions that apply to its use. Noncompliance with the terms of significant grant awards may result in the Court losing access to this grant funding in future years, or may result in the Court repaying funds spent inappropriately.

Courts are responsible for separately accounting for its receipt and spending of grant funds in Phoenix by using the appropriate grant coding. Courts are also responsible for following applicable federal, state, or Judicial Council rules when administering grant funds. These rules may pertain to performance reporting, financial reporting, personnel time tracking, among other areas.

During our initial audit planning process, the Court informed us that the California Department of Child Support Services (DCSS) recently completed an audit of the Court's administration of its AB1058 program grants. Although, as of May 2018, DCSS had not yet issued its final audit report, Audit Services did not see any added value in duplicating these audit efforts. Therefore, Audit Services did not perform an additional review of the Court's grant accounting and administrative procedures, and compliance with the AB1058 program grant award requirements.

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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 any other areas.

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