



Audit of the Superior Court of California, County of Monterey

OCTOBER 2023



Judicial Council of California

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Superior Court of California, County of Monterey

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EXECUTIVE SUMMARY

Introduction

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

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

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

Summary of Audit Results

Our audit found that the Superior Court of California, County of Monterey (Court) demonstrated compliance with many of the Judicial Council's requirements evaluated during the audit, and should be commended for its receptiveness to suggestions for further improvement. Table 1 below presents a summary of the audit's results, including references to any audit findings discussed in the body of the report, 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 finding—were communicated separately to the Court's management in written form.

Table 1 Audit Results – At A Glance – California Superior Court, County of Monterey

Areas and Sub-Areas Subject to Review		Tested	Reportable Audit Findings		
			# of Findings	Finding Reference(s)	Court's View
Cash Handling					
1	Daily Opening Process	Yes	1	2022-1-01	Agrees
2	Voided Transactions	Yes	✓		
3	Manual Receipts	Yes	✓		
4	Mail Payments	Yes	✓		
5	Internet Payments	Yes	✓		
6	Change Fund	Yes	2	2022-6-01; 02	Agrees
7	End-Of-Day Balancing and Closeout	Yes	✓		
8	Bank Deposits	Yes	✓		
9	Other Internal Controls	Yes	✓		
Procurement and Contracts					
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	2022-15-01	Agrees
16	Other Internal Controls	Yes	✓		
Payment Processing					
17	3-Point Match Process	Yes	✓		
18	Payment Approval & Authority Levels	Yes	✓		
19	Special Rules - In-Court Service Providers	Yes	✓		
20	Special Rules - Court Interpreters	N/A	-		
21	Other Items of Expense	Yes	✓		
22	Jury Expenses	Yes	✓		
23	Allowable Costs	Yes	✓		
24	Other Internal Controls	Yes	✓		
Fine & Fee Distributions					
25	Distribution Calculations	Yes	✓		
Fund Balance					
26	Year-End Encumbrances	Yes	✓		
27	Use of "Held on Behalf" Funds	Yes	✓		
JBSIS Case Filing Data					
28	Validity of JBSIS Data	Yes	✓		
Grant Award Compliance					
29	AB 1058 Program	Yes	✓		
Enhanced Collections					
30	Enhanced Collections	Yes	✓		

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

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

The Court demonstrated consistent adherence with many of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated good compliance in the areas of reporting year-end encumbrances and in meeting AB 1058 grant requirements. For example, our review of the Court's fund balance found that the Court properly supported the encumbrances it reported on its final FY 2020-21 calculation form with valid contracts for goods or services not received by June 30, 2021. In addition, the Court properly supports its timekeeping and other expenses that it charges to the AB 1058 grant program.

However, our audit did identify four 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 four findings are identified in Table 1 under the column "Reportable Audit Findings" and include reference numbers to assist the reader in locating and viewing in further detail the specific findings and the Court's perspective.

One particular area of focus for the Court as it considers opportunities for improvement should include strengthening its controls over its change fund. Specifically, the Court does not require individuals who are not the change fund custodian to count its change funds totaling \$500 or more on a monthly basis in accordance with FIN Manual requirements. When the Court does not have a practice of having its change funds totaling \$500 or more counted on a monthly basis by individuals who are not the change fund custodian, it risks not knowing for an extended period of time if one of its change funds is short funds. The Court indicated it agreed with our finding and recommendation in this area and that it had implemented corrective action between July 2022 and August 2022.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on February 4, 2022, and completed its fieldwork in January 2023. Audit Services shared the draft audit findings with the Court starting on June 2, 2022, and received the Court's final official responses on October 19, 2022. Overall, the Court agreed with the findings and its specific responses are included in the body of the report after each finding.

BACKGROUND ON THE COURT’S OPERATIONS

The Superior Court of California, County of Monterey (Court) operates three court facilities in the cities of Marina, Monterey, and Salinas. 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 Monterey Superior Court and Average of all Superior Courts

Statistic	Monterey Superior Court	Average of All Superior Courts				
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts	All 58 Courts
Financial Highlights (Fiscal Year 2022-23)						
Total Revenue	\$ 32,071,562	\$ 3,516,596	\$ 14,926,999	\$ 56,356,321	\$ 283,441,690	\$ 58,298,424
Total Expenditures	\$ 31,528,938	\$ 3,218,159	\$ 14,532,808	\$ 55,423,780	\$ 255,806,509	\$ 54,050,955
Staff Salaries & Benefits As a % of Total Expenditures	\$ 25,280,107 80.2%	\$ 2,037,590 63.3%	\$ 10,635,517 73.2%	\$ 42,045,871 75.9%	\$ 206,241,699 80.6%	\$ 42,432,330 78.5%
Judicial Officers and Staff (2023 Court Statistics Report)						
Judges	19	2	8	30	142	30
Commissioners/Referees	2	-	1	4	21	4
Non-Judicial Staff (approx.)	202	16	84	289	1,312	282
Total	223	18	93	323	1,475	316
New Case Filings (Fiscal Year 2021-22)						
Appeal Filings	121	9	74	130	154	81
Civil Filings						
Civil	3,744	263	1,895	8,108	54,067	10,062
Family Law	3,283	240	1,477	5,137	25,312	5,265
Juvenile Delinquency	799	27	130	539	1,303	357
Juvenile Dependency	144	30	171	547	3,486	676
Mental Health	766	15	225	1,359	8,343	1,545
Probate	523	58	325	986	4,623	997
Small Claims	434	31	216	891	6,244	1,151
Criminal Filings						
Felonies	2,544	200	1,169	3,686	13,675	3,208
Misdemeanors / Infractions	38,581	3,282	16,654	55,404	239,708	52,647
Total	50,939	4,155	22,336	76,787	356,915	75,989

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts 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 August 2, 2023, 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. Monterey Superior Court is a cluster 3 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Monterey (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit’s objectives. The period covered by this audit was generally limited to fiscal year (FY) 2020-21, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

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

	Audit Objective	Method
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"> ▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling. ▪ 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. 	We obtained information from the Court regarding the types and average volume of collections at each of its payment collection locations. For selected locations, we observed the Court’s practice for safeguarding and accounting for cash and other forms of payments from the public. For example, we reviewed and observed the Court’s practice for appropriately segregating incompatible duties, assigning cash drawers to cashiers at the beginning of the day, reviewing and approving void transactions, safeguarding and accounting for manual receipts, opening and processing mail payments, controlling access to change funds, overseeing the end-of-day balancing and closeout process, and preparing and accounting for the daily bank deposits.
3	Determine whether the Court demonstrated appropriate control over its non-personal services spending activities. Specifically, our review included the following:	We reviewed the Court’s assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services,

	<ul style="list-style-type: none"> ▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual. ▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules. 	<p>receiving the goods, and paying for the goods or services.</p> <p>We also judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none"> • Was properly authorized and approved by authorized court management. • Adhered to competitive bidding requirements, when applicable. • Had contracts, when applicable, that contained certain terms required to protect the Court’s interests. <p>We selected a sample of 40 FY 2020-21 payments pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none"> • 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. • Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix. • The payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810. • The payments to in-court service providers adhered to applicable Judicial Council policies. <p>(Note: We did not review court interpreter claims as the Audit Committee suggested we suspend reviewing these types of claims to allow courts time to develop procedures to address previously reported systemic audit findings related to court interpreter service claims.)</p>
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4	<p>Determine whether the Court properly calculates fine and fee distributions for certain selected case types.</p>	<p>We reviewed the Court’s process for updating and controlling access to its distribution tables.</p> <p>We also reviewed the Court’s calculations and distributions of fines, penalties, fees, and assessments for certain high volume or complex case types.</p>
5	<p>Determine whether the Court properly classifies its year-end encumbrances for the most recent completed fiscal year.</p> <p>Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.</p>	<p>We obtained the Court’s Year-End Encumbrance Calculation Worksheet for the most recently completed fiscal year at the time of our testing (FY 2020-21) and traced and verified year-end encumbrances to supporting records and the Phoenix accounting system.</p> <p>We obtained any Judicial Council-approved requests 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	<p>Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).</p>	<p>We obtained an understanding of the Court’s process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (FY 2019-20), we performed the following:</p> <ul style="list-style-type: none"> • Obtained the relevant case filings data the Court reported to JBSIS and reconciled the reported new case filings counts to its underlying records of cases that support each reported case filing count, by case type, to validate that the Court accurately reported its case filings count data. • 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.

7	<p>Determine whether the Court spent AB 1058 grant awards from the Judicial Council in compliance with the grant award requirements.</p>	<p>We selected one month from fiscal year 2020-21 for each of the Child Support Commissioner and Family Law Facilitator grant awards and obtained the invoices submitted to the Judicial Council to determine whether the Court had sufficient records to support the expenditures charged to the grant. For example, for personnel service costs charged to the grant award, we reviewed the payroll records and employee timesheets to verify the costs and time charged to the grant. We interviewed selected employees to determine how they track and report the time they charged to the grant. We also reviewed other operating costs and expenditures charged to the grant award to determine whether the costs were supported, allowable, and allocable to the grant.</p>
8	<p>Determine whether Enhanced Collection’s revenue is funding only collections activities.</p>	<p>We obtained the Court’s Collection Report Template for fiscal year 2020-21 and determined whether the Court’s collection program met the minimum requirements for a comprehensive collection program as defined in state law. We identified and analyzed the revenues, expenditures, and transfers ins/outs for Fund 120007 (Enhanced Collections) to verify that Enhanced Collections revenue was used only to fund collections activities. For example, for personnel service costs charged to collections activities, we reviewed employee timesheets to verify the costs and time charged to the enhanced collection program. We interviewed selected employees to determine how they track and report the time they charged to collections activities. We also reviewed other operating costs and expenditures charged to determine whether the costs were supported, allowable, and allocable to collections activities.</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 October 27, 2023, and approved it for public release.

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

Audit Staff

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

Michelle O’Connor, Senior Auditor (auditor in charge), CPA, CFE, CGFM

Sandra Gan, Senior Auditor, CPA

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SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING

The Court Should Strengthen Its Controls Over Certain Payment Collection Processes

Background

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

Results

Overall, the Court demonstrated compliance in many of the areas we evaluated during the audit. Specifically, the Court demonstrated sound management practices in the areas of its void transactions, end-of-day balancing and closeout process, and bank deposit process.

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

Finding Reference	Subject Area
2022-1-01	Daily Opening Process – Verification of Beginning Cash
2022-6-01	Change Fund – Periodic Counts
2022-6-02	Change Fund – Accountability

FINDING REFERENCE: 2022-1-01

DAILY OPENING PROCESS – VERIFICATION OF BEGINNING CASH

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.2 BEGINNING DAILY BALANCE:

- Cashiers who receive money at the beginning of each day must count and verify receipt of their assigned individual beginning cash funds in the presence of their supervisor or his or her designee, and both must sign and date a cash receipt log for each such verification and receipt.

CONDITION

The Court does not require both the designated supervisor and cashier to sign and date a log to demonstrate their mutual count and verification of the beginning cash funds. Specifically, for all four payment locations reviewed, the Court only requires the cashier to sign the starting cash log to verify their cash funds at the beginning of the day. However, the FIN Manual requires the supervisor to participate in this process and sign the cash receipts log.

According to the Salinas Courthouse location manager, the Court's current practice is based on instructions from its Finance division. The Marina Courthouse payment location manager stated that this has been the Court's practice and that cashiers' cash funds are both counted and verified by either a manager, lead, or supervisor at the end of the previous day. Finally, for both payment locations at the Monterey Courthouse, the manager stated she was unaware of the current FIN Manual requirements.

Having two people verify and sign the cash receipts log at the start of each day helps to establish accountability and resolve discrepancies (if any) with the beginning cash bags/drawers that were secured at the end of the previous day. For example, if the beginning cash balance is less than the amount expected per the previous day's close, the lack of a supervisor in the beginning cash count might result in the cashier being inappropriately blamed for the shortage when the problem might have been with the previous day's closeout process.

The FIN Manual requires both the designated supervisor and the cashier to sign the log at the beginning of each day to ensure continuous accountability over cash funds. Following the FIN Manual's requirements help to protect the integrity of both the Court and all its cash handling employees.

RECOMMENDATION

To ensure clear accountability and to protect the integrity of its cash handling employees, the Court should require designated supervisors to count and verify the amount of each cashier's beginning cash funds, and to sign and date a cash receipt log for each such verification before cashiers commence their daily payment collection duties.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. Consistent with the court's current practices for the end of the business day, the bookkeeper at each location, for the start of the business day, will verify the amount of each cashier's beginning cash funds and document the amount in a cash receipt log signed and dated by the bookkeeper. This would be in addition to the cashier's verification and documentation of the starting cash funds.

Response provided on 8/22/2022 by: Colin Simpson, Chief Financial Officer

Date of Corrective Action: September 2022

Responsible Person(s): Lucille Jose, Finance Manager

FINDING REFERENCE: 2022-6-01

CHANGE FUND – PERIODIC COUNTS

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND:

8. A trial court employee, other than the individuals responsible for making change from the Cash Change Fund, should count the Cash Change Fund in accordance with the following schedule and report the count to the fiscal officer.

Size of Cash Change Fund	Frequency of Count
Less than \$200	Annually
\$200 to \$499.99	Quarterly
\$500 or more	Monthly

CONDITION

The Court does not require individuals who are not the change fund custodians to periodically count its change funds on a monthly basis for change funds over \$500. According to the Finance Division, it performs quarterly audits of each payment location's change fund. Based on court records provided at the time of our review in March 2022, the Salinas Courthouse location had its last periodic change fund count in November 2021 for its \$600 change fund. The Marina Courthouse location, with a change fund of \$1,100, had its last periodic change fund count in December 2021. Finally, the Monterey Courthouse location had its last periodic change fund count in October 2021 for its \$500 change fund. The Court stated it was not aware of the FIN Manual requirements. The FIN Manual requires courts to have individuals—other than the change fund custodians—count change funds at least monthly for change funds of \$500 or more. As a result of its current practice, the Court may not know for an extended period of time if one of its change funds is short funds.

RECOMMENDATION

To reduce the risk of prolonged unaccountable change fund shortages or overages, the Court should ensure that an individual other than the custodian counts and verifies its change funds at the frequency specified in the FIN Manual, such as monthly for its \$1,100, \$600, and \$500 change funds.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. To supplement the court's current practice of daily dual verification of the change fund amount by the custodian and a court staff member who does not have cash handling responsibilities, our Finance staff auditor who performs our quarterly audits at each location will perform an audit of the change funds for the Salinas and Monterey locations as part of the unscheduled site audits. Based on an assessment of the change needs for the Salinas and Monterey locations, we reduced their change fund amounts to \$400, effective July 2022. Concerning the Marina location, the staff auditor will make monthly change fund audits in accordance with TCFPPM requirements.

Response provided on 8/22/2022 by: Colin Simpson, Chief Financial Officer

Date of Corrective Action: July and August 2022

Responsible Person(s): Lucille Jose, Finance Manager

FINDING REFERENCE: 2022-6-02
CHANGE FUND – ACCOUNTABILITY

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND:

6. The court executive officer or his or her designee must appoint a custodian for each Cash Change Fund that is \$500 or more at any separately managed trial court location. The custodian is responsible for the safekeeping, replacement, disbursement, and accounting for the assigned Cash Change Fund. A copy of this policy must be given to the custodian to ensure that he or she understands the requirements for the Cash Change Fund.

CONDITION

The Salinas Courthouse, which has a \$600 change fund, and the Monterey Courthouse, which has \$500 change fund, do not have a change fund custodian appointed by the CEO or his or her designee to oversee these change funds, as required by the FIN Manual. Instead, these locations' cash change funds are generally maintained by the managers and supervisors. According to the Court's Finance Division, the lack of an official designation of the change fund custodian was an oversight on the Court's part. The FIN Manual requires the CEO or designee to appoint a custodian for each change fund that is \$500 or more who is not a cashier. As a result, the locations are at risk of staff inappropriately using the change funds as no one individual at the location is responsible for the change fund and is thus without clear accountability.

RECOMMENDATION

To ensure that the cash in each change fund remains reasonably secure and fully accounted for, the Court should appoint a single custodian for each of its cash change funds.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The change fund for the Salinas and Monterey locations has been reduced to \$400 based on the assessed needs at those sites. Regarding the Marina Courthouse location, the CEO formally appointed the previously designated change fund custodian via the Change Fund Custodian Form. As needed, any changes to the assigned custodian role will be documented through the Change Custodian Form.

Response provided on 8/22/2022 by: Colin Simpson, Chief Financial Officer

Date of Corrective Action: August 2022

Responsible Person(s): Lucille Jose, Finance Manager

PROCUREMENT AND CONTRACTS

The Court Complies with Most Applicable Requirements for Procuring Goods and Services, But Should Ensure it Has Established Clear Contract Terms

Background

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

Results

The Court demonstrated compliance in various of the procurement areas we evaluated during our audit, including demonstrating good management practices overall in the areas of authorization and authority levels, soliciting competitive procurements, and in entering into leveraged purchase agreements.

Nevertheless, we identified one audit finding that we believe requires the Court’s corrective action. The finding pertains to the following specific area of procurement:

Finding Reference	Subject
2022-15-01	Contract Terms

FINDING REFERENCE: 2022-15-01
CONTRACT TERMS

CRITERIA**JUDICIAL BRANCH CONTRACTING MANUAL, CHAPTER 8, 8.3 (A) CONTENT OF CONTRACTS:**

JBEs must include legally required terms in their contracts and should include other terms that the JBE determines are necessary to protect the JBE and mitigate the risks associated with the contract.

Sample language for terms and certifications required to be included in JBE contracts is available from the Judicial Council, together with templates for complete contracts.

Use of these sample provisions and templates is optional. Each JBE may modify the provisions or templates or use its own forms. JBEs may also use a Vendor-provided form contract provided the final contract includes appropriate terms and meets applicable legal requirements.

- **Contract elements**

Each contract must identify the contracting parties. Contracts typically consist of three major elements:

- Statement of Work (SOW), including the schedule of performance;
- Pricing and payment; and
- Other terms and conditions.

Each of these elements must be clearly defined so that the JBE's needs are met, and the contractor and the JBE understand their performance obligations.

- Each major element is described below, including typical subject matters that are frequently grouped together in contract sections regarding the specific element. However, contract provisions are not required to be in any specific location in the contract. For example, a topic listed below as part of a typical

1. **Statement of Work (SOW)**

The SOW describes the goods to be purchased and/or the services to be performed. The JBE must include a detailed description of the goods to be delivered or the services to be performed, together with any deliverables required and conditions of performance, if applicable. The contract must specify (as applicable): (i) when goods are to be delivered, (ii) when services are to be performed (start date and end date), (iii) when deliverables must be provided to the JBE, and (iv) when other contract milestones must be completed.

2. **Pricing and Payment**

The price the JBE will pay for goods and services under a contract must be clearly stated. The contract should clearly specify the basis for compensation and the terms of payment, such as: lump sum (one-time payment), firm fixed price, unit price, labor rate, or other specific basis.

3. **Terms and Conditions**

The contract must include specified rights and obligations of either party that are not included in the SOW or the pricing and payment section, including additional provisions that apply to performance under the contract, as applicable.

FIN MANUAL, FIN 8.01, 6.3.2 DOCUMENT MATCHING:

1. At the scheduled time and depending on the court's invoice payment cycle, an accounts payable employee will match the vendor invoices to all appropriate supporting documentation. The court will adopt the "three-point match" procedure to process vendor invoices.
2. A three-point match procedure consists of matching a vendor invoice to a purchase agreement and to proof of receipt and acceptance of goods or services. For example:
 - a. All details of the invoice, including a description of the goods and services ordered, quantities involved, unit prices billed, and other applicable charges, must be matched to the details and terms and conditions of the court's purchase agreements or contracts.
 - b. All invoice details, including a description of the goods or services ordered and quantities invoiced must be matched to the details of packing slips, shipping orders, receiving reports, or other forms of acknowledgement of delivery of products or completion of work by an authorized court employee.
3. Vendor invoices shall not be processed for payment without completing the three-point match procedure. If one element is missing (e.g., if there is no evidence of receipt of goods or services), the accounts payable employee should contact the responsible court employee to obtain the appropriate documents or secure a signature of approval.

CONDITION

For two of the 25 procurement transactions reviewed, the Court did not execute written contracts or agreements stipulating the agreed-upon services and pricing. Specifically, for the two court reporter transactions we reviewed, accounts payable staff paid court reporters without any written contract or court authorization specifying the \$1,200 to \$1,300 daily rate the court reporters claimed and that the Court paid. According to the Court, it has not historically maintained written agreements with contract court reporters, nor has it formally documented the court reporter rate in its local court policies. Without written contracts, POs, agreements, or authorizations that specify the expected scope of work, term, and pay, court accounts payable staff cannot fully perform the required three-point match. As a result, the Court risks paying for unauthorized goods or services or being overcharged without any basis for disputing such work or charges.

RECOMMENDATION

To protect its best interests, the Court should institute a practice of executing written contracts and agreements prior to receiving goods and/or services. Further, it should ensure these contracts and agreements include clear and complete terms that are in its best interest. Specifically, prior to executing contracts or agreements, it should establish and include in its contracts and agreements clear descriptions of the goods or services expected from the vendor and the associated pricing so that both the vendor and Court know what is expected and what it will pay. This will help to ensure it continues to receive best value goods and services. Finally, by instituting a practice of executing written contract or agreement with clear pricing terms on file for each of its procurements, and by providing these contracts or agreements to its accounts payable staff, the

Court can ensure that its accounts payable staff are able to fully perform the required three-point match and verify the accuracy of vendor invoices prior to payment approval and processing.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court is in the process of entering into written agreements with its contract court reporter service providers and will be issuing an RFP for those services in the coming months.

Response provided on 10/19/2022 by: Colin Simpson, Chief Financial Officer

Date of Corrective Action: October 2022 and January 2023

Responsible Person(s): Dylan Ward, Financial Analyst

PAYMENT PROCESSING

The Court Complied with Applicable Payment Processing Requirements

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.

Results

Our review found that the Court complied with applicable requirements in the payment processing areas we evaluated during our audit. Specifically, the Court demonstrated sound management practices in the areas of payment authorizations, jury expenses, and allowable costs.

FINE AND FEE DISTRIBUTIONS

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

Background

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

Results

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

FUND BALANCE

The Court Appropriately Supported Its Year-End Encumbrances

Background

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

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

Results

Our review found that the Court complied with the requirements for reporting year-end encumbrances. Specifically, the Court supported the encumbrances it reported on its final FY 2020-21 calculation form with valid contracts for goods or services not received by June 30, 2021.

Finally, we found the Court had excess funds held on its behalf at the end of FY 2019-20 and at the end of FY 2020-21. Our review found that the Court complied with the requirements to spend its held funds for the purposes previously approved by the Judicial Council.

JBSIS CASE FILING DATA

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

Background

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

Results

Our review found that the Court's records materially supported the new case filing counts and data it reported to the Judicial Council's Office of Court Research through JBSIS for fiscal year 2019-20.

GRANT AWARD COMPLIANCE

The Court Followed Appropriate 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.

Results

Our review of its grant administration practices found that the Court followed appropriate grant accounting and administrative procedures and demonstrated material compliance with the Child Support Services grant and the Family Law Facilitator grant (AB 1058 program components) terms and conditions.

ENHANCED COLLECTIONS

The Court Appropriately Recovered Costs for its Enhanced Collections Program

Background

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

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

Results

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