



Audit of the
Superior Court of California,
County of Placer

SEPTEMBER 2017



JUDICIAL COUNCIL
OF CALIFORNIA

LEADERSHIP SERVICES DIVISION

AUDIT SERVICES

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Superior Court of California, County of Placer

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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 Placer (Court) should be commended for demonstrating compliance with many of the Judicial Council's requirements evaluated 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 indicating the Court's agreement or disagreement with the findings noted.

Table 1 Audit Results – At A Glance

Audit Results - At A Glance

California Superior Court, County of Placer

			Reportable Audit Findings			Minor or Isolated Non-Compliance	
			# of Findings	Finding Reference(s)	Court's View	# of Issues	Log Reference(s)
Cash Handling							
1	Daily Opening Process	Yes	✓				
2	Voided Transactions	Yes	✓				
3	Handwritten Receipts	Yes	✓			1	Log-3-01
4	Mail Payments	Yes	4	2016-4-01; 02; 03; 04	Partially Agree	2	Log-4-01; 02
5	Internet Payments	Yes	✓				
6	Change Fund	Yes	✓			3	Log-6-01; 02; 03
7	End-Of-Day Balancing and Closeout	Yes	✓			2	Log-7-01; 02
8	Bank Deposits	Yes	✓			3	Log-8-01; 02; 03
9	Other Internal Controls	Yes	✓			2	Log-9-01; 02
Procurements							
10	Procurement Initiation	Yes	1	2016-10-01	Agree		
11	Authorization & Authority Levels	Yes	✓				
12	Competitive Procurements	Yes	✓			2	Log-12-01; 02
13	Non-Competitive Procurements	Yes	1	2016-13-01	Agree		
14	Leveraged Purchase Agreements	No	-				
15	Contract Terms	Yes	✓				
16	Purchase Cards	Yes	1	2016-16-01	Agree		
17	Other Internal Controls	Yes	1	2016-17-01	Agree	1	Log-17-01
Payment Processing							
18	3-Point Match Process	Yes	✓			3	Log-18-01; 02; 03
19	Payment Approval & Authority Levels	Yes	1	2016-19-01	Agree		
20	Special Rules - In-Court Service Providers	Yes	1	2016-20-01	Agree		
21	Special Rules - Court Interpreters	Yes	✓			2	Log-21-01; 02
22	Other Items of Expense	Yes	✓				
23	Jury Expenses	Yes	✓				
24	Travel Expense Claims	Yes	1	2016-24-01	Agree	1	Log-24-01
25	Business-Related Meals	Yes	✓			4	Log-25-01; 02; 03; 04
26	Petty Cash	N/A	-				
27	Allowable Costs	Yes	✓				
28	Other Internal Controls	Yes	✓				
Fine & Fee Distribution							
29	CMS-Calculated Distributions	No	-				
30	Manually-Calculated Distributions	No	-				
1% Fund Balance Cap							
31	Calculation of the 1% Cap	Yes	✓				
32	Use of "Held on Behalf" Funds	N/A	-				
JBSIS Case Filing Data							
33	Validity of JBSIS Data	No	-				
Grant Award Compliance							
34	AB 1058 Program	No	-				
Other Areas							
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 (FIN Manual), the Judicial Branch Contracting Manual (JBCM), or California Rules of Court, but may also include other JCC 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. 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 consistently demonstrated adherence to a number of different 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 budgetary reporting on limitations to its fund balance (1% cap). For, example, our review of the Court's 1% fund balance cap calculation and reporting process found that its process was sound. Specifically, the Court's process includes updating its open encumbrances when preparing for year-end close, confirming the accuracy of its Phoenix open encumbrance report, and updating the report if necessary. It then uses the Phoenix open encumbrance report, after year-end accruals and adjustments, to identify its open encumbrances at year-end and reports these amounts on its 1% fund balance cap calculation form. As a result of the Court's sound process, we were able to trace the year-end encumbrances reported on its 1% cap calculation form to a list of open encumbrances, and trace selected encumbrances to valid purchase orders or contracts for which the Court had not yet received goods or services as of the end of the fiscal year.

Our audit did identify 11 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 11 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. One particular area of focus for the Court as it considers opportunities for improvement should include improving its controls over the processing payments received through the mail or the drop box. Specifically, the Court does not use a two person team to open mail payments and does not maintain a log to create a record of the non-cash payments received in the mail or in the drop box. When mail and drop box payments are not properly safeguarded and accounted for, the Court faces increased risk that these payments may become lost or stolen. Payments received by mail are fundamentally a high-risk process given that the paying member of the public is neither present during the transaction nor is guaranteed to receive a receipt. Further, payments received via the Court's drop box are similar to payments received by mail, with the exception that drop box payments lack postage. The Court explained that it did not establish additional safeguards and records for mail and drop box payments due to limited staff resources and its belief that the mail payment processing procedures in the FIN Manual are discretionary. Although the Court is correct that the FIN Manual does not require two person teams to open the mail (as it is a suggested practice) or maintain a log of drop box payments (as it is not discussed in the FIN Manual), strengthening its controls in these areas are worthy of the Court's consideration. For example, the Court may wish to consider whether it would be feasible to divert all mail and drop box payments to a single location where staffing resources are sufficient to implement the Judicial Council's suggested controls.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on January 20, 2017, and completed fieldwork on April 14, 2017. Audit Services shared the draft audit findings with Court's officials on July 5, 2017, and received the Court's official response on August 15, 2017. The Court generally agreed with most of 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 Placer (Court) operates in the three cities of Roseville, Auburn, and Tahoe City, serving a county population of over 350,000. 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; hire court employees; approve 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 Placer Superior Court and Average of all Superior Courts

	Placer Superior Court	Average of All Superior Courts					All 58 Courts
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts		
Financial Highlights (Fiscal Year 2016-17)							
Total Revenue	\$ 20,932,341	\$ 2,250,083	\$ 10,582,095	\$ 41,232,247	\$192,680,334	\$ 43,025,298	
Total Expenditures	\$ 20,381,332	\$ 2,214,461	\$ 10,478,487	\$ 41,316,417	\$190,788,607	\$ 42,700,657	
Staff Salaries & Benefits As a % of Total Expenditures	\$ 14,036,115 68.9%	\$ 1,481,300 66.9%	\$ 7,931,905 75.7%	\$ 31,481,920 76.2%	\$151,726,969 79.5%	\$ 33,449,089 78.3%	
Judicial Officers and Staff (2016 Court Statistics Report)							
Judges	10	2	8	27	127	29	
Commissioners/Referees	5	-	1	4	23	5	
Non-Judicial Staff (approx.)	105	17	85	269	1,250	286	
Total	120	19	94	300	1,400	320	
New Case Filings (Fiscal Year 2015-16)							
Appeal Filings	23	10	58	141	398	116	
Civil Filings							
Civil	5,653	289	1,913	8,063	57,178	11,341	
Family Law	3,313	270	1,793	6,926	28,299	6,574	
Juvenile Delinquency	437	36	249	1,260	2,449	744	
Juvenile Dependency	429	40	211	669	4,064	859	
Mental Health	363	19	121	612	2,517	568	
Probate	430	46	251	918	3,297	809	
Small Claims	909	65	390	1,871	13,998	2,724	
Criminal Filings							
Felonies	4,722	474	2,253	4,949	33,808	7,247	
Misdemeanors / Infractions	29,382	5,164	23,915	86,504	375,861	86,627	
Total	45,661	6,413	31,154	111,913	521,869	117,609	

Source: Financial and case filing reports 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 July 21, 2017, 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. 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. Placer Superior Court is a cluster 2 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Placer (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 time 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

	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, Audit Services made inquiries and obtained local procedures to further understand the Court’s 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 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"> ▪ Determine whether the Court’s procurement transactions, including purchase card transactions, complied with the applicable requirements in the Judicial Branch Contracting Manual requirements or the Trial Court Financial Policies and Procedures Manual. ▪ 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. 	<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 the transaction:</p> <ul style="list-style-type: none"> • Was properly approved by authorized Court management. • Adhered to competitive bidding requirements, when applicable. • Whether the contract contained applicable terms required to protect the Court’s interests. <p>We selected a sample of 40 payments pertaining to various contracts, purchase orders, or in-court services, 14 travel expense claims, and four business-related meal expenses, 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 in accordance with contract terms prior to payment. • Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix. • Whether the payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810. • Whether payments for in-court service providers, travel expense claims, and business meals adhered to applicable Judicial Council policies.
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4	<p>Determine whether the Court properly calculates fine and fee distributions for certain selected case types.</p>	<p>During our planning for the audit the Court informed us that the State Controller’s Office completed a review of the Court in December 2015 and found no errors. As a result, the Court requested and Audit Services agreed to eliminate testing in this area.</p>
5	<p>Determine whether the Court properly calculates its one percent fund balance cap for the most recent 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"> • Verified significant calculations and balance amounts. • Traced and verified significant inputs on the form (such as year-end encumbrances) to supporting records and the Phoenix accounting system. <p>We obtained any Judicial Council-approved request by the Court to hold excess prior year fund balances. To the extent that the Court spent these funds, we verified that such spending was limited for the purposes previously approved by the Judicial Council. The Court did not spend any “excess / held” funds during the period of our review.</p>
6	<p>Determine whether the Court accurately reports case filing data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).</p>	<p>Audit Services did not conclude on the completeness and accuracy of the Court’s JBSIS case filing data. Specifically, we reviewed the Court’s JBSIS case filing data to gain an understanding of the reporting process and to develop and refine our audit approach to be used at other Superior Courts.</p>
7	<p>Determine whether the Court spent significant grant awards from the Judicial Council in compliance with the grant award requirements.</p>	<p>We determined whether the Court had any significant grant activity during the fiscal year 2016-17. The Court has a grant agreement with the Judicial Council pertaining to the AB 1058 program. Under this program, the Judicial Council provides the Court with funding that originally comes from the California Department</p>

		of Child Support Services (DCSS). We noted that DCSS completed a review of the Court in the fall of 2016, so Audit Services elected not to pursue further testing in this area.
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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 the non-personal service types of 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 time 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 19, 2017, 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)
Joe Azevedo, Senior Auditor
Mami Nakashita, Auditor

SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING PROCEDURES

The Court Generally Followed Required Cash Handling Procedures, But Can Improve Its Handling and Processing of Mail Payments

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

Nevertheless, we identified four 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
2016-4-01	Mail Payments – Mail Opening Process
2016-4-02	Mail Payments – Non-Cash Payments
2016-4-03	Mail Payments – Cash Payments
2016-4-04	Mail Payments – Miscellaneous

FINDING REFERENCE: 2016-4-01

MAIL PAYMENTS – MAIL OPENING PROCESS

CRITERIA

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (2):

To provide for the strongest protection of trial court assets and to protect the integrity and reputation of the trial court, a team approach should be used to maintain accountability for payments received through the mail. When processing mail payments, the court should adhere to the following procedures:

- a. A two-person team should be assigned to open the mail (or alternatively, one person can open the mail and create the Payment Receipts log if the person is recorded on video and the video is retained for at least 6 months.)

- b. Mail should only be processed when both team members are present (or alternatively, one person starts the process by sequentially numbering the envelopes and recording the envelope number and sender's name in the Payment Receipts log. When available, the second person opens the mail, and completes the Payment Receipts log for each envelope identified by the first person.)

CONDITION

Our observation of the Court's mail payment processing practices at its four payment collection locations found two locations that did not follow a two-person team approach when opening payments received through the mail. In addition, these two locations did not, as an alternative, follow the FIN Manual's guidance when electing to assign only one employee to perform this task. Specifically, the main courthouse Traffic location and the Tahoe City location did not use a two-person team approach when opening payments received through the mail. The Court explained that it did not follow the two-person team approach specified in the FIN Manual—or the suggested alternative approach—because the locations have limited staff and it believed the FIN Manual mail payment processing procedures to be discretionary. Although the Court is correct, the FIN Manual recognizes that payments received by mail is an area of high-risk—since the payer is neither present during the transaction nor is guaranteed to receive a receipt—and the FIN Manual procedures cited above are intended to mitigate or at least reduce the risk of lost or stolen payments.

RECOMMENDATION

To ensure the safe, secure collection, and accurate accounting of all payments received through the mail, the Court should either consider implementing and consistently following a two-person team approach when opening and logging mail payments, or implementing the alternative procedures suggested in the FIN Manual. The Court might also consider sending all mail payments to a location that has adequate staffing to follow the FIN Manual's suggested guidance.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Partially agree. The court acknowledges that it does not use a two person team to open mail payments at the two locations described. The court will, as suggested, review its practices at the Traffic location. This review will analyze whether the level of risk warrants the added effort to combine this mail with the court's non-traffic mail, which is opened by a two person team. The court acknowledges the added risk posed by the one-person team at the Tahoe City location. This location has three total staff in the clerk's office and the court simply does not have the resources to assign two individuals to this function. While there may be a time in the future when the court uses exclusively electronic case files, which would allow for routing all mail to the Roseville location for processing and digitization, the added inefficiency and potential for court delays if documents and payments are delivered to Roseville for Tahoe City cases outweighs the potential risk posed by the one-person team at this time.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 01/01/2018

Responsible Person(s): Vicki Nissen, Finance Manager

FINDING REFERENCE: 2016-4-02

MAIL PAYMENTS – NON-CASH PAYMENTS

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.4 CHECK/MONEY ORDER/CASHIER CHECK HANDLING PROCEDURES, (3):

3[9]. The trial court must restrictively endorse all checks, warrants, money orders, and other negotiable instruments immediately upon receipt and acceptance.

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (3):

To provide for the strongest oversight and monitoring of payments received through the mail, courts should maintain a Payments Receipt Log. Without a Payment Receipts Log, courts have no record to reference or research should a mail payment become lost or stolen. The following method should be used for processing payments received through the mail:

- a. Payments received through the mail should be listed on a Payments Receipts Log sheet.
- b. The Payments Receipts Log sheet should include the following information:
 - i. Case or docket number;
 - ii. Name of the person making the payment;
 - iii. Cash, check, and money order amount;
 - iv. Check or money order number;
 - v. Date received in the mail; and
 - vi. Name of the person opening the mail and the person recording the payment on the Payments Receipt Log.

CONDITION

The Court did not consistently restrictively endorse mail check payments immediately upon receipt and did not log non-cash mail payments, leaving it with a higher risk of lost or stolen payments. Specifically, at one of the four payment collection locations reviewed, the Tahoe City location, staff did not restrictively endorse the checks immediately upon opening the mail to protect the Court's interests should the checks become lost or stolen. In addition, at all four payment collection locations, Court staff did not use a Payment Receipts Log to record and track the non-cash payments, such as checks and money orders, received through the mail or the drop-box.

According to the Court, it chose to implement the Payment Receipts Log only for cash mail payments due to limited staff resources and because the FIN Manual indicates that use of the Payment Receipts Log is discretionary. Although the Court is correct, it is unclear how the Court can effectively monitor whether non-cash payments received through the mail or the drop-box are processed in a timely manner without such a log, or how such payments that go

unprocessed for significant periods of time are tracked and reported to the Court's management as required by the FIN Manual.

RECOMMENDATION

To ensure the safe, secure collection, and accurate accounting of all payments received through the mail, the Court should consider taking steps to ensure that all staff restrictively endorse checks immediately upon receipt and consistently use a Payment Receipts Log, or similar tracking document, to establish a record of all the payments, cash and non-cash, received through the mail or drop-box. The Court should consider both providing additional training to staff, as necessary, and performing periodic reviews to ensure the FIN Manual procedures are consistently followed in practice. The Court might also consider sending all mail payments to a location that has adequate staffing to follow the FIN Manual's suggested guidance.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Partially Agree. Specifically,

- The court agrees that all checks should be restrictively endorsed upon receipt. The court will provide additional training to the management and staff at the Tahoe location to ensure this process is followed.
- The court agrees that it does not enter non-cash payments onto a Payment Receipts Log. The court appreciates the auditors' suggestions for reducing potential risks. However, the added effort and expense of logging non-cash payments is not feasible given current funding levels. The court agrees it would be an ideal process, but it is simply not possible to implement these recommendations, given current funding levels, without sacrificing service delivery to the public.
- The court will evaluate the need for periodic mini-internal audits to confirm processes are being followed.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 9/15/2017 for Restrictive Endorsement; 1/1/2018 for Evaluation of Periodic Mini-Internal Audit

Responsible Person(s): Vicki Nissen, Finance Manager

FINDING REFERENCE: 2016-4-03

MAIL PAYMENTS – CASH PAYMENTS

CRITERIA

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (1):

Checks and money orders received through the mail should be processed (i.e., including immediately restrictive endorsement for deposit in the court bank account, entered into the court's receipting system and deposited to the appropriate bank account) on the day they are received. Any exceptions are to be brought to the attention of a supervisor, placed under dual control, and processed as soon as practicable. Money received through the mail will be deposited

and entered in the court's cashiering system and/or automated case management system on the day received.

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (2):

- d. To maintain separation of duties, team members opening and logging mail payments should not also enter the mail payments in the court's cashiering system and/or automated case management system, if possible.

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (3):

To provide for the strongest oversight and monitoring of payments received through the mail, courts should maintain a Payments Receipt Log. Without a Payment Receipts Log, courts have no record to reference or research should a mail payment become lost or stolen. The following method should be used for processing payments received through the mail:

- a. Payments received through the mail should be listed on a Payments Receipts Log sheet.
- b. The Payments Receipts Log sheet should include the following information:
 - i. Case or docket number;
 - ii. Name of the person making the payment;
 - iii. Cash, check, and money order amount;
 - iv. Check or money order number;
 - v. Date received in the mail; and
 - vi. Name of the person opening the mail and the person recording the payment on the Payments Receipt Log.
- f. After the payments have been entered into the cashiering system and/or automated case management system, a system report should be reconciled against the Payments Receipt Log sheet to ensure that all payments were entered.

CONDITION

At one of the four locations we observed—the main courthouse Civil, Family Law, and Criminal location—court staff did not record dates on the Payment Receipt Log indicating when cash payments were received. As a result, staff at this location could not demonstrate—and we could not verify—that the Court promptly entered the four cash payments reviewed (from the Payment Receipt Log) into its CMS system by the next business day. However, the Court was able to demonstrate that all four payments were entered in its CMS system.

At another location—the main courthouse Traffic location—court staff could not demonstrate that they reconciled the Payment Receipt Log (showing only cash payments received) to the Court's cashiering reports to ensure all cash payments were entered in CMS. This location also allows cashiers who process payments received over the counter to also process payments received by mail, leaving open the opportunity for a type of fraud called "lapping."

RECOMMENDATION

The Court should take steps to ensure all court staff working in payment collection locations complete all key information on the Payment Receipts Log and take steps to ensure that cash payments received are entered into its CMS system by the next business day. Such steps might include additional training for court staff and periodic monitoring by court management to ensure cash receipts received by mail are appropriately logged and promptly processed. Further, the Court should avoid having the same employee act as a cashier for both over-the-counter transactions and for processing payments received by mail. Finally, the Court might also consider sending all mail payments to a location that has adequate staff to follow the FIN Manual's suggested guidance.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court acknowledges that the Payment Receipts Log was not completed correctly for cash transactions and that the Traffic Unit staff was not proactively reconciling the log to the case management system. Additional training will be provided to management and staff responsible for opening mail payments to address this issue. The court will also, consistent with other findings in this report, consider whether to implement a mini-internal audit process to verify compliance with its established policies. The court understands there is some added risk of a clerk processing in-person and mail payments. Due to staffing, however, and because the court rotates clerks through cashier functions, the court does not agree that the added risk rises to the level to necessitate changes to the current process.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 9/15/2017 for Payment Receipts Log corrections; 1/1/2018 for Evaluation of Periodic Mini-Internal Audit

Responsible Person(s): Vicki Nissen, Finance Manager

FINDING REFERENCE: 2016-4-04

MAIL PAYMENTS - MISCELLANEOUS

CRITERIA

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (3):

To provide for the strongest oversight and monitoring of payments received through the mail, courts should maintain a Payments Receipt Log. Without a Payment Receipts Log, courts have no record to reference or research should a mail payment become lost or stolen. The following method should be used for processing payments received through the mail:

- g. Any payment that cannot be processed will be attached to the Payments Receipt Log sheet and appropriately safeguarded in the safe until the payment can be processed the next business day.

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (4):
To provide for strong oversight and monitoring of payments not processed on the day they were received in the mail, courts must adhere to the following steps:

- a. Trial court staff responsible for processing payments must review on a daily basis all payments that are held over from a previous day's work to determine if any of the held payments can be processed. This requirement can be met by reviewing the held Payments Receipt Log sheets and associated payments to determine if the payment can be processed.
- b. The supervisor/manager responsible for the trial court staff that process payments must identify and log any payment that has been held for more than five (5), fifteen (15) and thirty (30) calendar days without being processed. The log must specify the reason why the payment cannot be processed. The log must identify any cash payment being held in suspense for more than five (5), fifteen (15) and thirty (30) calendar days.
- c. The supervisor/manager responsible for the trial court staff that process payments must provide a report at least on a monthly basis, to the Court Executive Officer and the Court Fiscal Officer and/or to his or her written designee, that lists by age (length of time held) any payment that has been held for more than fifteen (15) and thirty (30) calendar days without being processed. The report must provide the following details, if known, for each payment being held:
 - i. Case or docket number;
 - ii. Name of the person mailing the payment;
 - iii. Payment amount;
 - iv. Check number (if applicable);
 - v. Date received in the mail; and
 - vi. Reason why payment cannot be processed.

CONDITION

At one of the four payment collection locations we observed—the main courthouse Civil, Family Law, Criminal location—court staff did not secure the unprocessed mail payments in a safe or lockable drawer overnight. Assigned court staff open and sort the mail in a designated area and place the mail, including mail payments, in designated bins for processing. Although staff organize any unprocessed mail payments by the date received, they are not secured in a safe or lockable drawer overnight. When the Court does not secure unprocessed payments overnight, it heightens the risk of theft or loss of these payments.

In addition, court staff at two locations—the main courthouse Civil, Family Law, Criminal location and the Historic courthouse location—did not have a process to monitor and log payments received through the Court's drop box and that remained unprocessed for five or more calendar days. As a result, supervisors or managers from both locations do not report to the CEO or CFO on at least a monthly basis regarding those drop box payments not processed within 15 or within 30 calendar days. Although the FIN Manual provides procedures that are specific to payments received by mail, and does not otherwise discuss drop box payments, both forms of

payment are fundamentally similar with the exception that one lacks postage. Payments that are not processed timely are at greater risk of being lost or stolen, and the mail payment processing procedures that the FIN Manual provides are designed to mitigate this risk and elevate matters to senior management when payments go unprocessed for extended periods of time.

RECOMMENDATION

The Court should require all employees who handle payments, including mail and drop-box payments, to secure any unprocessed payments overnight, such as in a safe or lockable drawer. Further, court staff should use a Payment Receipts Log to record and track both mail and drop-box payments, and to facilitate the identification and reporting to court executive management of payments that have gone unprocessed for several days.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Partially agree. The court does not dispute the facts as stated nor the method proposed to reduce the level of risk. The court will modify drop box processes to combine the non-cash payments received through the drop box with those delivered via the mail. The court will evaluate the current process for storing unprocessed non-cash payments to determine if there are ways to reduce the level of risk. The chronic underfunding of the court, however, results in the need to prioritize work and can result in the significant backlog of work, often measured in weeks or months rather than days. Due to the volume of pending work, placing these items in a drawer or safe may not be feasible, but will be evaluated. The court will also expand and improve the reporting requirements of managers to the Court Executive Officer regarding payment processing delays.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 10/1/2017 for drop box payment process; 11/1/2017 for improved reporting to the Court Executive Officer; 1/1/2018 for evaluation of storage of pending payments;

Responsible Person(s): Vicki Nissen, Finance Manager and Joseph Ford, Assistant Court Executive Officer

PROCUREMENT AND CONTRACTS

The Court Should Strengthen Its Efforts to Ensure All Procurements Are Properly Authorized and that Non-Competitive Bid Requirement Are Met

Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. Thus, 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 procurement requests. The authorized court manager is responsible for verifying 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, trial court employees 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 authorization and authority levels, competitive procurements, and in establishing clear contract terms.

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

Finding Reference	Subject
2016-10-01	Procurement Initiation
2016-13-01	Non-Competitive Procurements – Sole Source
2016-16-01	Purchase Cards – Per-Transaction Limits
2016-17-01	Other Internal Controls – Authorization Matrices

FINDING REFERENCE: 2016-10-01

PROCUREMENT INITIATION

CRITERIA

JUDICIAL BRANCH CONTRACTING MANUAL, CHAPTER 2, 2.1 FORMULATING THE PROCUREMENT APPROACH, C (1):

Internal review and approvals: Consider the following:

- Have the proper approval signatures been obtained to conduct the procurement in conformance with the Judicial Branch Entity's Local Contracting Manual?

LOCAL CONTRACTING MANUAL FOR THE PLACER SUPERIOR COURT,
ATTACHMENT 1, SECTION II. REQUISITION FORMS, Step 2 and Step 3:

(excerpt) Step 2: Once the requisition form is completed the requester shall sign and date the requisition form and forward it to their supervisor for approval. The supervisor will review the documents for completeness and necessity. Once satisfied that the document is complete and of its necessity, the supervisor shall sign and date the requisition form and forward it to the Court's Purchasing Officer. If the requester is a supervisor/manager, then they shall sign off as the requisitioner and forward to the Operations Director, Assistant CEO or CEO for approval; the approved requisition will be forwarded to the Court's Purchasing Officer.

(excerpt) Step 3: It is the responsibility of the Court's Purchasing Officer to work with the Court's financial unit and CEO to provide adequate funding that will allow for the Purchase Order to be processed without over expending the general ledger account, or reject the purchase document if no alternative funding source is available.

FIN MANUAL, FIN 6.01, 6.3 PURCHASE REQUISITION PREPARATION AND APPROVAL, (1):

1. A written or electronic purchase requisition is used to initiate all procurement actions. The requestor identifies the correct account code(s) and verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the trial court employee responsible for approving the requisition. After performing an assessment of the need verifying that the correct account code(s) are specified, and assuring that funding is available, the *requisition* is forwarded to the trial court's buyer.

FIN MANUAL, FIN 6.01, 6.10 ADMINISTRATION AND DOCUMENTATION, (2):

2. A properly documented procurement file for purchase orders and/or contracts provides an audit trail from the initiation of the requirement to the delivery of goods. The file provides a complete basis for informed decisions at each step of the acquisition process. A well-documented file also supports the actions taken, provides information for later review and facts in the event of litigation or an investigation. Depending on the nature and value of the procurement, procurement files must contain:

- a. Approved purchase requisition.

CONDITION

Our review of the Court's process for initiating procurements found that for five of the 23 procurements reviewed, the Court could not provide a signed and dated requisition form approving and authorizing the initiation of the procurement prior to the start of the procurement process. Also, for two of the procurements reviewed, the requisition form was completed and approved after the procurement of the goods and services, rather than before. In addition, for one of the two court reporter claims reviewed, the Court could not provide an approved requisition or court authorization document approving the procurement of the court reporter services. Thus, the Court was not able to demonstrate that it consistently procures goods and services after obtaining proper authorization to initiate the procurement and after verifying that sufficient funds are available.

RECOMMENDATION

The Court should take steps to ensure it obtains and documents in its procurement files the approval of purchase requisitions prior to the start of the purchasing activity, regardless of whether the activity is a competitive or non-competitive procurement.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will review and revise its Local Contracting Manual to more clearly define the procurement initiation process. The court will also review its use of court reporters at the Tahoe location to determine the appropriate procurement method going forward.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 11/1/2017

Responsible Person(s): Jake Chatters, Court Executive Officer

FINDING REFERENCE: 2016-13-01

NON-COMPETITIVE PROCUREMENTS – SOLE SOURCE

CRITERIA

FIN MANUAL, FIN 6.01, 6.10 ADMINISTRATION AND DOCUMENTATION, (2):

2. A properly documented procurement file for purchase orders and/or contracts provides an audit trail from the initiation of the requirement to the delivery of goods. The file provides a complete basis for informed decisions at each step of the acquisition process. A well-documented file also supports the actions taken, provides information for later review and facts in the event of litigation or an investigation. Depending on the nature and value of the procurement, procurement files must contain:

- b. Rationale for method of procurement (quotes, sealed bid, proposal, etc.).

FIN MANUAL, FIN 6.01, 6.11 SOLE SOURCE PROCUREMENTS, (2):

2. Justification of the rationale for sole source procurements should pre-date the actual procurement, must be documented thoroughly and carefully in the event an audit or investigation is performed during or after the procurement. Documentation justifying a sole source procurement should include:
 - a. The effort made to solicit competitive bids or proposals, if any.
 - b. A summary outlining the reason for the sole source, based on the allowable exceptions set forth in paragraph 1 above.
 - c. Cost information in sufficient detail to support and justify the cost of the contract as reasonable and fair.
 - d. Cost information for similar services and differences that should be noted and explained.
 - e. Special factors affecting the cost under the contract.
 - f. An explanation of why the trial court believes the cost is appropriate.

CONDITION

Our review of selected procurement transactions found that for two of the 23 procurements reviewed, the Court could not provide documents to justify the non-competitive sole source selection of the vendor. Although the JBCM is applicable to these procurements, the JBCM sole source request requirements that apply to these procurements are in substance similar to those outlined above in the FIN Manual. In addition, two of the 23 procurements reviewed were for court reporter services, one from the main courthouse and one from the Tahoe City courthouse. However, for the one court reporter services reviewed from the Tahoe City courthouse, the Court could not provide a contract or agreement for the court reporter services. Consequently, we could not determine whether this procurement was a competitive solicitation. When the Court purchases goods or services without using competitive bidding and instead enters into a contract with a singular or sole-source service provider, it skips key steps in its vendor selection process. Steps such as soliciting bids and evaluating vendors—or documenting its rationale for a sole source procurement—helps the Court demonstrate its commitment to transparency and to obtaining the best value for the goods or services it purchases with public funds.

RECOMMENDATION

The Court should take steps to ensure it documents its justification for not competitively bidding goods or services before continuing with the procurement process.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will review its practices related to court reporter services at the Tahoe location and determine the appropriate procurement mechanism. Further, the court agrees that sole source documentation should, and will, be completed when a sole source is used for procurements. The court will review and update its Local Contracting Manual, in response to this and other findings of this audit, and conduct additional training to ensure compliance with the applicable sole source provisions.

Response provided on 9/4/2017 by:

Jake Chatters, Court Executive Officer

Date of Corrective Action: 11/1/2017

Responsible Person(s): Jake Chatters, Court Executive Officer

FINDING REFERENCE: 2016-16-01

PURCHASE CARDS – TRANSACTION LIMITS

CRITERIA

JUDICIAL BRANCH CONTRACTING MANUAL, CHAPTER 9, 9.2 PURCHASE CARD PROGRAMS, B (3):

Purchase cards may only be used for purchases with a maximum of \$1,500 per transaction. A suggested daily limit of \$5,000 should also be set for purchase card use. Alternative procedures should be documented, incorporated into the court’s Local Contracting Manual, and distributed to court personnel.

CONDITION

Three of the ten purchase card transactions reviewed exceeded the JCBM’s \$1,500 per-transaction limit. Specifically, two of these transactions—\$1,643 for a laptop and \$2,367 for another laptop—were charged to a card with a court-established \$6,000 per-transaction limit. The third transaction—\$3,795 for a training course for the Court’s Information Security manager—was charged to a card that also exceeded its court-established \$2,000 per-transaction limit. The Court explained that these charges exceeded the Judicial Branch Contracting Manual (JBCM) required \$1,500 per-transaction limit because it established alternative per-transaction limits—a \$2,000 per-transaction limit on two of its cards and a \$6,000 per-transaction limit on its third card—but did not document these higher limits in its Local Contracting Manual. The Court provides purchase cards to certain staff so that these individuals can make purchases directly from vendors. By documenting in its Local Contracting Manual, as required by the JBCM, its alternative transaction limits and daily limits for its purchase card program, the Court can improve transparency and awareness among its staff for how purchase cards are to be used and their limitations.

RECOMMENDATION

To increase transparency to the public and to reduce the risk that court staff may exceed its alternate purchase card limits, the Court should update its Local Contracting Manual to incorporate its alternative per-transaction limits for its purchase cards. In addition, to ensure that it is using public funds appropriately, the Court should implement a process for court staff to document the authorization and justification for when it is necessary to exceed the per-transaction limits established by the Court for its purchase cards.

COURT’S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will review and revise its Local Contracting Manual to address alternative per-transaction limits of purchasing cards and define a process to formally documented authorization if limits will be exceeded.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 11/1/2017

Responsible Person(s): Jake Chatters, Court Executive Officer

FINDING REFERENCE: 2016-17-01

OTHER INTERNAL CONTROLS – AUTHORIZATION MATRICIES

CRITERIA

FIN MANUAL, FIN 1.02, 6.2 RESPONSIBILITIES, (2):

The Presiding Judge and Court Executive Officer will establish internal controls over financial reporting to assure that:

- f. The trial court has established a system of authorization to provide effective management control over its assets, liabilities, revenues and expenditures. Specific levels and scopes of authority must be established for executives, managers, supervisors, and staff, with dollar limits where appropriate, in areas such as procurement, contract approval, payment authorization, etc. Any dollar limit established must fit within the overall approval framework established by rule of court and this manual.
- g. An authorization matrix listing the scope and levels of authority for various trial court employees has been created and maintained by the court. The authorization matrix must be updated as responsibilities change, and no less frequently than annually. The authorization matrix must be reestablished each time a new presiding judge is elected. The matrix must be provided to court, county, and accounting service providers for reference as necessary. This matrix must also be provided to internal and external auditors upon request.

FIN MANUAL, FIN 1.03, 6.3.3 CONTROL ACTIVITIES:

5. Proper Authorization and Documentation

- a. The court must establish a system of authorization to provide effective management control over its assets, liabilities, revenues and expenditures. The specific levels and scope of authority of executives, managers, supervisors, and staff, with dollar limits where appropriate, must be established and documented. That documentation will be provided to applicable court, county, and accounting service provider personnel, and to the Judicial Council of California, for reference.
- b. When processing transactions, evidence of authorization must be maintained in the accounting files to document that:
 - i. Proper authorizations are obtained.
 - ii. Authorizations are issued by court employees acting within the scope of their authority.
 - iii. Transactions conform to the terms of the authorizations.

CONDITION

Our review found that the Court allowed unauthorized personnel to approve procurements. Specifically, of the 15 procurements reviewed where a requisition form was completed, the requisition forms for two procurements were approved by the human resources manager, who is not listed on the Court's purchase authorization matrix. The Court stated that these two

procurements were approved by a court manager who was not listed on its authorization matrix because it has not updated and approved its procurement and payment authorization matrices since 2013. According to the Finance Manager, the Court has had the same Presiding Judge since 2009 and, therefore, felt that it did not need to update the matrices. However, the FIN Manual requires the Court to update its authorization matrix at least annually. When the Court does not maintain current and accurate authorization matrices, it risks having unauthorized personnel approve procurements or authorize payments.

RECOMMENDATION

To ensure that only authorized court personnel approve requisition forms initiating procurements and authorize payments within the scope of their assigned level of authority, the Court should implement a process to update and approve its authorization matrices at least annually, and disseminate these matrices to procurement and accounting staff who need this information to ensure that they process only properly authorized procurements and payments.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree, the court will review and revise the Court Local Contracting Manual and the Authorization Matrix for approving a procurement.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 11/1/2017

Responsible Person(s): Jake Chatters, Court Executive Officer

PAYMENT PROCESSING

The Court Should Strengthen Its Efforts to Demonstrate that All Payments Are Properly Authorized and Supported

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, in-court service provider claims, and court-appointed counsel. 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 purchase 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 areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of its three-point match process, special items of expense, business-related meals, and allowable costs.

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

Finding Reference	Subject
2016-19-01	Payment Approval and Authority Levels – Approval Matrix
2016-20-01	Special Rules – In-Court Service Providers Authority & Authorization
2016-24-01	Travel Expense Claims

FINDING REFERENCE: 2016-19-01

PAYMENT APPROVAL AND AUTHORITY LEVELS – APPROVAL MATRIX

CRITERIA

FIN MANUAL, FIN 8.01, 6.2.3 PAYMENT AUTHORIZATION:

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.
3. The authorization matrix shall be updated on an annual basis or as required by changes in personnel.
4. Copies of the authorization matrix shall be provided to the trial court accounts payable department and to the accounts payable department of the outside accounting service provider.

FIN MANUAL, FIN 8.01, 6.4 PAYMENT APPROVAL, (2):

Designated court officials shall act within the scope of their authority when approving invoices for payment. If the dollar amount or nature of a purchase exceeds an individual's authority, the next level of authority shall be consulted and appropriate approval secured before releasing the invoice for payment.

CONDITION

Although the Court has a list of court officials authorized to approve certain invoices for payment, the list does not specify a dollar limit that each official is authorized to approve. As a result, court officials could approve invoice payments for amounts greater than the reasonable scope of their authority. The FIN Manual foresees, as indicated above, that a court official's authority to approve invoice payments will not be unlimited, but will be subject to certain dollar limits.

RECOMMENDATION

To ensure that court officials act within the scope of their authority when approving invoices for payment, the Court should establish and document a dollar limit that each official is authorized to approve.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will add invoice approval limits to the Local Contracting Manual. Due to the size of the organization, and the need to maintain separation of duties, the court will consider

requiring a second signature in situations where the only individual with a high enough invoice approval also approved the contract or purchase order.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 11/1/2017

Responsible Person(s): Jake Chatters, Court Executive Officer

FINDING REFERENCE: 2016-20-01

SPECIAL RULES – IN-COURT SERVICE PROVIDERS

CRITERIA

FIN MANUAL, FIN 8.02, 6.3 COMPLETE CLAIM DOCUMENTATION, (1):

The documentation required to pay a claim consists of a court-approved claim form that includes at least the following information:

- d. The case number and name.

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.

CONDITION

Our review of the Court's payments to in-court service providers found that for four of the six in-court service provider claims reviewed—which totaled over \$5,200—the Court could not demonstrate that its accounts payable staff verified the claim to a court authorization document that delineates the services, pay rates, and any limits it authorized prior to delivery of the services. This occurred because the accounts payable staff did not have the respective court authorizations on file. When the Court does not ensure that accounts payable staff have the proper court authorization documents they need to verify the in-court service claims against the authorized services, rates, and any limits, it runs the risk of overpaying for the services provided. In addition, one of these claims—which totaled \$1,675—did not include the case numbers and names for which the claimant provided services. As a result, because the Court cannot determine for which case it is making a payment, it risks making duplicate payments to the same or a different in-court service provider for the same services.

RECOMMENDATION

To ensure that the Court pays the proper amounts for the goods or services it receives, it should take steps to strengthen its process for approving payments to its in-court service providers. For

instance, the Court should ensure that accounts payable staff receive and have on file the authorization documents that delineate the services, pay rates, and limits the Court authorized prior to delivery of the services, and that they need to verify that all claims agree to their respective authorization documents. To ensure the Court does not make duplicate payments to in-court service providers, court staff should review to ensure that the claims contain all the required information, including the case number and name, prior to approving and forwarding the claim to accounts payable for payment processing.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will review processes related to rates and approvals for in-court service providers when rates are not defined in policy or are an exception to rates defined in policy. Additional training will be provided to accounts payable staff to ensure they verify the required information before processing payments.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 9/15/2017

Responsible Person(s): Vicki Nissen, Finance Manager

FINDING REFERENCE: 2016-24-01

TRAVEL EXEPENSE CLAIMS

CRITERIA

FIN MANUAL, FIN 8.03, 6.3.2 PERSONAL VEHICLE MILEAGE, (2):

2. Trial court judges and employees submitting claims for reimbursement for personal vehicle use should note the following:

- b. When travel commences from home, and the traveler is authorized to use his/her personal vehicle to travel to a business destination other than the traveler's regular place of work, reimbursed mileage will be calculated from the traveler's designated headquarters or home, whichever results in the lesser distance, to the business destination. If the traveler departs from the last business destination directly to the traveler's home, mileage reimbursement will be calculated from the last business destination to the traveler's designated headquarters or home, whichever results in the lesser distance. If the first or last business destination is closer to home than the regular place of work, no mileage reimbursement will be allowed.

JUDICIAL BRANCH TRAVEL RATES AND 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

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.
- Lunch may not be claimed on trips less than 24 hours.

FIN MANUAL, FIN 8.03, 6.4.1 SUBMITTAL OF TRAVEL EXPENSE CLAIMS, (1):

Judges and employees who incur reimbursable business travel costs must submit a completed TEC form, which:

- e. Notes the business purpose of the trip.

CONDITION

Our review found travel expense claims where the traveler did not complete all the information on the claim form, making it difficult to evaluate the appropriateness of claimed expenses. Overall, we found exceptions with nine of the ten claims reviewed and some individual claims had multiple exceptions. Specifically, we noted the following:

- For six claims, neither the traveler nor accounts payable staff provided documentation to substantiate the number of miles claimed by the traveler. Further, for three of these six, the mileage claimed was not the lesser distance from headquarters/home and the business travel destination. Finally, for two of these six claims, the travelers did not provide their home address on the claim so that reviewers could verify appropriate mileage.
- For three claims where the traveler was reimbursed for meal expenses while traveling, the traveler did not provide start and end times for the travel. As a result, it is not clear how the Court determined whether the claimed meal expenses were appropriate based on the duration of travel.
- For two claims, the traveler did not explain the purpose for the trip and how it related to the Court's business.

When travelers do not provide, and reviewers do not require, the information needed on their travel claim forms to properly assess the propriety of the requested expense reimbursements, the risk exists that the Court could reimburse claims for inappropriate expenses or for non-business-related purposes.

RECOMMENDATION

The Court should consider providing additional training for both those who travel on court business and those who are responsible for reviewing and approving travel claims. Further, the Court should consider requiring court employees to attach a map or other evidence of the distance travelled to support their claimed mileage.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree. The court will conduct additional training for those who travel and those who approve travel claims to ensure compliance with the existing Travel Policies and Procedures.

Response provided on 08/15/2017 by: Jake Chatters, Court Executive Officer

Date of Corrective Action: 9/15/2017

Responsible Person(s): Jake Chatters, Court Executive Officer and Vicki Nissen, Finance Manager

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.

During the initial audit planning process, Audit Services noted that the Court received an audit from the State Controller's Office in December 2015. The SCO audit revealed no findings and did not make any recommendations to the Court. As a result, Audit Services elected to forgo testing of the Court's fine and fee calculations and distributions.

ONE PERCENT FUND BALANCE CAP

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. The intent of the legislation was to prevent trial courts from accumulating significant fund balances that could instead be spent on court operations. To assist in ensuring compliance with this requirement, the JCC 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, when courts exceed their respective 1% fund balance cap, they may request approval from the JCC to hold the 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 JCC approves the court’s request, the JCC may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with the held on behalf of funds. As a part of the JCC-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.

The Court complied with the requirements for its 1% fund balance cap calculations. Specifically, we reviewed the encumbrances the Court reported on its final FY 2015-16 1% fund balance cap calculation form and found that valid agreements supported the encumbrances for goods and services not received by June 30, 2016. Also, although the Judicial Council approved the Court’s request to hold approximately \$211,350 in FY 2013-14 excess fund balance funds on its behalf for two projects—a new case management system and installation of a telephonic appearance system—the Court did not have any associated expenditures for us to review at the time of our audit.

GRANT AWARD COMPLIANCE

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 a 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 courts losing access to this grant funding in future years, or may result in courts 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 the planning stages for the audit, Audit Services identified the only significant grant pertaining to the Court related to the AB 1058 program. The Court receives funding through a grant agreement with the Judicial Council to support the work of Child Support Commissioners and Family Law Facilitators. The Judicial Council originally receives this money from the California Department of Child Support Services (DCSS). Audit Services noted that DCSS completed a review of the Court in the fall of 2016. As a result, Audit Services elected to forgo additional testing of the Court's grant compliance activities.

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 compliance with any other areas.

APPENDIX A

MINOR OR ISOLATED NON-COMPLIANCE

**Superior Court of California,
County of Placer**

The appendix lists the minor or isolated instances of non-compliance that Audit Services discussed with court management. Audit Services' conclusions as to whether a particular item is a minor or isolated instance of non-compliance (and not otherwise reported in the Schedule of Findings) is based on our professional judgment and our consideration of the circumstances associated with the item, such as the limited frequency of the noncompliance or the small dollar amount of the error, as determined through our testing and analysis.

Audit Services will follow-up on the status of the Court's planned corrective action on those matters reported in the Schedule of Findings. Matters that are presented as discussion items in this appendix are included only for the benefit of the Court as additional information.

Minor instances of non-compliance are identifies as "Log-x-xx" within the "Ref No." column for cross-reference purposes only.

AREA REVIEWED		REF NO.	ISSUE	COURT RESPONSE
Cash Handling				
1	<i>Daily Opening Process</i>		No Issues Noted.	
2	<i>Voids by Central Location</i>		No Issues Noted.	
3	<i>Handwritten Receipts by Central Location</i>	Log-3-1	Court Finance does not maintain a log of handwritten receipt books issued to its Historic and Tahoe Courthouse locations.	Agree. Court Finance will retain a log of all receipt books issued/kept at all locations.
4	<i>Mail Payment Processing</i>	Log-4-1	For one of five mail payments reviewed, the Court was not able to locate the payment in the CMS system and was unable to explain the disposition of the cash mail payment, although less than \$1.	Agree. The Court Finance Manager will remind all unit managers of the need to properly document all cash mail payments regardless of value.
		Log-4-2	At one of the four payment collection locations, although the clerk stores unprocessed payments in a lockable drawer at the end of the day, there is no review process for unprocessed drop box payments.	See response Audit Issues memorandum reference 2016-4-4.
5	<i>Internet Payments</i>		No Issues Noted.	
6	<i>Change Fund</i>	Log-6-1	At one of four payment collection locations, although the court manager secures the change fund in the safe located in the manager's office, the Court does not count this change fund at the end of each day. In addition, the Court could not provide a JCC-approved alternative procedure that allows it to count its change fund only when used.	Agree. Although this location does count the change fund at the end of a day when a transaction occurs, the court will prepare and submit an alternative procedure for this practice.
		Log-6-2	At one of four payment collection locations, the Court could not provide documentation showing the last time someone other than staff at this location, such as the HQ Finance staff, counted the change fund located at this location.	Agree. As part of the alternative procedure request for Log-6-1, the court will add a process for HQ finance staff to count the change at the remote location.
		Log-6-3	At one of four payment collection locations, the Court uses the Cashier Over/Short fund to make change, which is not an appropriate use of the over/short fund that should be used to account for cashier overages and shortages. Instead, the Court should maintain a separate change fund to make change for cashiers.	Agree. The court will segregate the change fund from the over/short fund.

	AREA REVIEWED	REF NO.	ISSUE	COURT RESPONSE
7	<i>End-of-Day Balancing and Closeout</i>	Log-7-1	At one of the four payment collection locations, although we observed the court manager at this location review and verify the cashier's collections to the CMS daily closeout reports, the manager did not sign and date the CMS daily closeout reports to demonstrate this supervisory review and verification of the cashier's closeout.	Agree. Management will be reminded to sign the CMS daily till reports.
8	<i>Bank Deposits - Cash Handling Location</i>	Log-8-1	At one payment collection location, the cashiers prepare their own deposits, as well as prepare their deposits prior to supervisory review and verification of the daily closeout process. The Court could not provide a JCC-approved alternative procedure allowing these alternative procedures.	Agree. Due to the small number of staff at this remote location, the court will submit an alternative procedure.
	<i>Bank Deposits - Central Location</i>	Log-8-2	The Finance account clerk who handles cash when preparing the daily deposit also performs the incompatible activity of handling cash when verifying the cashier closeout.	Agree, however, no action can be taken, Court resources do not allow for separation of deposit preparation from cashier close out activities. Two account clerks and two technicians participate in close out duties. Two account clerks prepare the daily deposit.
9	<i>Other Internal Controls</i>	Log-9-1	At one of four payment collection locations, the safe combination has not changed in the past six years. As a result, court employees who terminated employment know the safe combination.	Agree. The court will change the combination.
		Log-9-2	Court Finance does not recognize cashier overage revenues and shortage expenditures at least quarterly pursuant to the FIN Manual.	Agree. The court will recognize overages and shortages quarterly.

AREA REVIEWED		REF NO.	ISSUE	COURT RESPONSE
Procurements				
10	<i>Procurement Initiation</i>		No Issues Noted.	
11	<i>Authorization and Authority Levels</i>		No Issues Noted.	
12	<i>Competitive Procurement</i>	Log-12-1	Of the seven competitive procurement transactions reviewed, the Court could not provide a copy of the Notice of Intent to Award for one of the competitive procurements. The Court asserted that it relied on its Shared Procurement Services partner to keep a copy of the notice, but its partner failed to keep a copy.	Agree. The court previously relied on a partner to maintain the copy. The court now retains a copy of all procurement documents to prevent confusion.
		Log-12-2	Of the seven competitive procurement transactions reviewed, the Court did not retain documents showing it evaluated the lone bid it received for one competitive procurement. As a result, it could not demonstrate that the lone bid met the minimum requirements and specifications outlined in the RFP.	Partially agree. The court did evaluate the bid to ensure the specifications were met. However, the court did not retain documentation of this review in the procurement file.
13	<i>Non-Competitive Procurement</i>		No Issues Noted.	
14	<i>Leveraged Procurement Agreements</i>		None Reviewed.	
15	<i>Contract Terms</i>		No Issues Noted.	
16	<i>Purchase Cards</i>		No Issues Noted.	
17	<i>Other Internal Controls</i>	Log-17-1	For three of the 23 procurement transactions reviewed, the Court could not provide the purchase order that the automated accounting system requires to encumber and reserve fund balance in the accounting system. These three procurements were for court reporter services.	Agree. The court will review its process for issuing contracts and/or purchase orders for court reporters at its Tahoe location.

AREA REVIEWED	REF NO.	ISSUE	COURT RESPONSE
Payment Processing			
18	<i>Three-point match</i>	Log-18-1 For four of the 39 paid invoices/claims reviewed, the Court could not demonstrate how it matched and agreed the invoice/claim to the terms in an agreement or other procurement order or authorization document. As a result, we also could not verify that the invoice agrees to the terms in any such agreement or procurement document.	Agree. The court will remind management and finance staff of the established policies for payment processing.
		Log-18-2 One of the 39 payment transactions reviewed was to reimburse 12 employees for their cell phone expenses per the Court's local cell phone reimbursement policy. However, the cell phone plan bills the accounting office used to make the FY 2016-17 reimbursements were outdated. The bills were outdated because employees did not submit new bills annually as required by the Court's cell phone reimbursement policy. In addition for one reimbursement, the amount reimbursed was overstated as the family plan charge was not correctly divided by the number of participants on the plan. Conversely, for another reimbursement, it was understated as a share of the family plan charge was not included in the reimbursement calculation.	Agree. The court will remind management and finance staff of the established policies for cell phone reimbursement.
		Log-18-3 For two of 35 applicable paid invoices/claims reviewed, the Court could not demonstrate that it matched and agreed the invoice to proof that it received acceptable goods or services.	Agree. The court will remind management and finance staff of the established policies for payment processing.
19	<i>Review and Approval Prior to Payment</i>	No Issues Noted.	
20	<i>Special Rules - In-Court Service Providers</i>	No Issues Noted.	

AREA REVIEWED	REF NO.	ISSUE	COURT RESPONSE
21	<i>Special Rules - Court Interpreters</i>	Log-21-1 For all three court interpreter claims reviewed, the Court paid daily rates that were higher than the rates provided in the JCC policy for contracted court interpreters. In addition, the Court also paid for interpreter travel time. However, the Court could not demonstrate CEO or designee pre-approval of the higher daily rates, nor the unusual circumstances for the travel time pay per JC policy.	Partially agree. The court does not dispute that it paid claims above the JCC suggested contracted rates. The court disagrees, however, that these rates establish a maximum for interpreter contract payments. The court will, however, review its interpreter policies and determine if clarifications are needed to document CEO, or designee, approval of rates above the JCC suggested rates.
		Log-21-2 For two of the three court interpreter claims reviewed, the Court could not demonstrate how it verified that the mileage it paid was accurate. Specifically, the claimant provided only a P.O. Box on the claim instead of a business address. As a result, we could not independently verify whether the Court paid appropriate mileage.	Agree. The court will remind management and finance staff of the established policies for payment processing.
22	<i>Other Items of Expense</i>	No Issues Noted.	
23	<i>Jury Expenses</i>	No Issues Noted.	
24	<i>Travel Expense Claims</i>	Log-24-1 In addition, for another travel expense claim, the employee claimed incidental expenses on the first day of travel. However, travel rules do not allow incidental expenses until after the first 24 hours of travel.	Agree. The court will remind management and finance staff of the established policies for travel expense claims.
25	<i>Business-Related Meals</i>	Log-25-1 The Court recorded the food items it purchased for the Employee of the Month recognition events in General Ledger Account (GL) #9220632 - Awards. However, these food items were for a group meal to recognize an individual for his or her work-related accomplishments on behalf of the Court or in connection with a purpose that is part of the Court's mission. Thus, GL #921702 - Meeting & Conference: Meals & Food would be the more appropriate GL account to record this expense item. The Court indicates it will reclassify these expenses before fiscal year-end.	Agree. Starting in FY1718, these expenses will be booked to the correct GL account.

AREA REVIEWED		REF NO.	ISSUE	COURT RESPONSE
		Log-25-2	For all four business meal expenses reviewed, although consistent with the Court's employee recognition program, the group business meals associated with these recognition events were not requested on a business-related meal expense form, or on an equivalent email that contained the pertinent information, such as the purpose of event, number of attendees, start and end times, etc., about the group meal, and that the PJ or CEO approved in advance of the event.	Agree to disagree. These expenses were granted pursuant to established court policy, as mentioned by the auditors.
		Log-25-3	For all four business meal expenses reviewed, the email initiating or requesting the food items for the group does not include a start time, end time, and duration of the meal, nor does it include PJ or CEO approval of the group meal, nor of an exception to the three hour meeting rule.	Agree to disagree. These expenses were granted pursuant to established court policy, as mentioned by the auditors.
		Log-25-4	When selecting its employee of the month, the Court uses a random draw process rather than a deliberative evaluation, scoring, and selection process to select the winning employee for its employee of the month recognition program. As a result, the Court's recognition program makes awards by chance rather than based solely on performance.	Partially agree. The court does not see an issue with random draw for eligible employees. However, the court does agree that eligibility review is not currently documented. The court will review the process for reviewing submitted nominations to ensure eligibility is reviewed and documented. In this way, only those nominees who meet the nomination criteria will proceed to random drawing.
26	<i>Petty Cash</i>		Not Applicable.	
27	<i>Allowable Costs</i>		No Issues Noted.	
28	<i>Other Internal Controls</i>		No Issues Noted.	
Fine and Fee Distribution				
29	<i>CMS-Calculated Distributions</i>		Not Reviewed.	
30	<i>Manually-Calculated Distributions</i>		Not Reviewed.	

AREA REVIEWED		REF NO.	ISSUE	COURT RESPONSE
One Percent Fund Balance Cap				
31	<i>Calculation of the One Percent Fund Balance Cap</i>		No Issues Noted.	
32	<i>Use of Excess Fund Balance Held on Behalf of the Court</i>		No Expenses to Review.	
JBSIS Case Filing Data				
33	<i>Validity of Court-Reported JBSIS Case Filing Data</i>		Not Reviewed.	
Grant Compliance				
34	<i>AB 1058 Program</i>		Not Reviewed.	
Other Areas				
35			Not Reviewed.	