

SUPERIOR COURT OF SAN MATEO COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

November 2018



BETTY T. YEE
California State Controller

November 14, 2018

Neal Taniguchi, Court Executive Officer
Superior Court of California, County of San Mateo
400 County Center
Redwood City, CA 94063

Dear Mr. Taniguchi:

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

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

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

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

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Audit Report

Summary

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

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

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

Background

The court operates from five court locations in San Mateo County, California. The court employs 29 judges and approximately 285 staff members to fulfill its operational and administrative activities. The court incurred more than \$41 million in expenditures for the period of July 1, 2016, through June 30, 2017.

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

Per the Judicial Council's *Trial Court Financial Policies and Procedures Manual*, trial courts are subject to rules and policies established by the Judicial Council of California to promote efficiency and uniformity within a system of trial court management. However, each trial court has the authority and responsibility for managing its own operations. All employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority that may be established by the trial court for their positions. California Rules of Court (CRC) and the *Trial Court Financial Policies and Procedures Manual* established under Government Code (GC) sections 77000 through 77013 and adopted under CRC 10.804, specify guidelines and requirements for court governance.

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

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

Objective, Scope, and Methodology

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

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

Specifically, we conducted this audit to determine whether:

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

To achieve our objective, we:

General Procedures

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

Internal Controls

- Reviewed current policies and procedures, organization charts, and the court's website, and interviewed court staff to gain an understanding of the internal control environment;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Evaluated the court's formal written internal policies and procedures;
- Completed internal control questionnaires by interviewing key staff, and observed the business operations for the purpose of evaluating cash-handling and internal accounting controls; and
- Reviewed the court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.

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

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see the table below) to determine whether revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded \$500,000, totaling \$9,302,635 out of \$42,959,817, or 21.7% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% of the selected revenue accounts, consisting of large-dollar-amount transactions within each account sampled, and traced to supporting documentation.

We did not identify any errors in the samples.

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

Revenue Account	Total Revenues	Percentage Total	Total Amount Tested	Percentage Tested
<u>State Financing Sources</u>				
Trial Court Trust Fund	\$ 35,159,991	81.8%	\$ 5,962,747	17.0%
Court Interpreter	1,952,069	4.5%	211,696	10.8%
MOU Reimbursements	877,448	2.0%	294,805	33.6%
Other Miscellaneous	2,411,113	5.6%	2,411,113	100.0%
	<u>40,400,621</u>		<u>8,880,361</u>	
<u>Grants</u>				
AB1058 Commissioner/Facilitator	704,953	1.6%	326,842	46.4%
	<u>704,953</u>		<u>326,842</u>	
<u>Other Financing Sources</u>				
Local Fees	703,899	1.6%	95,432	13.6%
	<u>703,899</u>		<u>95,432</u>	
Other Accounts ¹	1,150,344	2.7%	-	
	<u>1,150,344</u>		<u>-</u>	
Total Revenues	<u>\$ 42,959,817</u>	<u>100.0%</u> ²	<u>\$ 9,302,635</u>	<u>21.7%</u>

¹ Revenue amounts in Other Accounts were not selected for testing.

² Footing difference due to rounding.

Expenditure Substantive Testing

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

- For Operating Expenditures and Equipment, and Special Items of Expenditure, judgmentally sampled a minimum of 10%, or 10 line items, of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation. Tested individual accounts that exceeded \$500,000, totaling \$1,851,863 of \$6,551,011, or 28.3%.
- For Salaries – Permanent Employees, we selected 10 employees out of 260 from a list provided by the court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation to ensure that:
 - Employee time included supervisory approval;
 - Overtime was authorized, approved, and properly supported;
 - Regular earnings were supported by the Wage Table; and
 - Regular earnings were supported by the general ledger.
- For Staff Benefits, we selected the same 10 employees out of 260 from a list provided by the court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation and the general ledger.

We did not identify any errors in the sample.

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

Expenditure Accounts	Total Expenditures	Percentage Total	Total Amount Tested	Percentage Tested
<u>Operating Expenditures and Equipment</u>				
General Expense	\$ 710,830	1.7%	\$ 52,773	7.4%
Security Services	448,202	1.1%	447,827	99.9%
Contracted Services	2,415,384	5.8%	151,182	6.3%
Consulting and Professional Services	993,261	2.4%	424,591	42.7%
Information Technology	<u>1,482,334</u>	3.5%	<u>375,490</u>	25.3%
Total, Operating Expenditures and Equipment	<u>6,050,011</u>		<u>1,451,863</u>	
<u>Special Items of Expenditure</u>				
Other	<u>501,000</u>	1.2%	<u>400,000</u>	79.8%
Total, Special Items of Expenditure	<u>501,000</u>		<u>400,000</u>	
Total Expenditures Selected for Testing	<u>6,551,011</u>		<u>\$ 1,851,863</u>	<u>28.3%</u>
<u>Other Accounts¹</u>				
Total, Other Accounts	<u>1,343,804</u>	3.2%		
<u>Personnel Services²</u>				
Salaries – Permanent	21,635,094	51.5%		
Staff Benefits	<u>12,460,857</u>	29.7%		
Total, Personnel Services	<u>34,095,951</u>			
Total Expenditures	<u>\$ 41,990,766</u>	<u>100%³</u>		

¹ Expenditure amounts in Other Accounts were not selected for testing.

² Personnel Services was tested using a different methodology.

³ Footing difference due to rounding.

Fund Balance Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported based on the legal/budgetary basis of accounting and maintained in accordance with fund accounting principles (see the table below for transaction summary by fund);
- Verified the accuracy of individual fund balances in the court’s financial supporting documentation; and
- Recalculated sampled funds to ensure that fund balances as of June 30, 2017, were accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in the fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 758,899	\$ 1,331,814	\$ -	\$ 2,090,713
Revenues	41,076,051	909,295	974,471	42,959,817
Expenditures	(39,940,963)	(939,620)	(1,110,183)	(41,990,766)
Transfers In	-	299,936	135,712	435,648
Transfers Out	(435,648)	-	-	(435,648)
Ending Balance	<u>\$ 1,458,339</u>	<u>\$ 1,601,425</u>	<u>\$ -</u>	<u>\$ 3,059,764</u>
Percent Change	<u>92.2%</u>	<u>20.2%</u>	<u>0.0%</u>	

We conducted this performance audit under the authority of GC section 77206(h). We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the court’s internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the court’s financial statements.

Conclusion

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

Recommendations section of this report. Specifically, we found that the court:

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

**Follow-up on
Prior Audit
Findings**

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

**Views of
Responsible
Officials**

We provided the court with a preliminary final audit report on October 19, 2018. Neal Taniguchi, Court Executive Officer, responded by letter dated October 26, 2018 (Attachment), agreeing with the audit results. This final audit report includes the court's response.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

November 14, 2018

Findings and Recommendations

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

During our review of the court Traffic Division’s internal controls, we found that the court does not have adequate internal controls over the cash-handling process. The court did not follow its cashiering policies and procedures. Cash collection is one of the major components of reported revenues; therefore, inadequate cash controls could affect the accuracy of reported revenues. We identified deficiencies in the following areas:

- The court maintains no cash receipt log from the prior day verifying the next day opening balance of \$150. Both the cashier and the manager must sign and date a cash receipt log for each verification and receipt.
- Management does not always ensure that cashiers are adequately safeguarding cash. We observed two instances in which staff members did not keep their cash drawer keys secured, and left keys unsecured in register keyholes while not at their stations.
- Management does not provide counter workers with the mail payment totals to be processed. Therefore, there is no verification and reconciliation between the amount received and the amount processed.

GC section 13401(a) (5) states, “Systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved.” The development and implementation of internal control procedures will improve the integrity of financial reporting and help court staff work more effectively in complying with governing statutes and procedures.

Trial Court Financial Policies and Procedures Manual FIN 10.02 establishes uniform guidelines for trial court employees to use in receiving and accounting for payments.

Recommendation

We recommend that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process to ensure the proper reporting of revenues in the financial statements and the safeguarding of cash assets.

Court Response

The court agrees with the recommendation that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process. We are reviewing our compliance with Judicial Council and internal policies and procedures related to cash handling. In the meanwhile, we have reminded cashiers to never leave keys in cash drawers unattended, and will perform random spot checks. In addition, we have started to maintain a cash receipt log for each cash change drawer and have clarified the procedures for handling payments made by mail.

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

During our review of the aging of the court’s trust accounts, we found that the court did not reclassify \$3,238,580 of unclaimed trust accounts that were older than three years. GC section 68084.1(a) and (b) states that owners of trust accounts older than three years should be notified and if the money is not claimed, it becomes the property of the court.

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

Trust Account	Amount Older than June 30, 2014
Civil Trust – Interpleader	\$ 1,420,102
Civil Trust – Other	58,192
Jury Fees	124,760
Traffic	10,712
Civil Trust – Appeal Transcripts	59,348
Civil Trust – Small Claims Judgment	43,710
Partial Payment of Fees	3,252
Civil Unreconciled Trust	1,518,504
Total	<u>\$ 3,238,580</u>

The failure occurred because the court does not have enough sufficiently trained staff members to maintain up-to-date notices for the trust accounts.

GC section 68084.1(a) states:

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

GC section 68084.1(b) states:

At any time after the expiration of the three-year period specified in subdivision (a), the executive officer of the superior court may cause a notice to be published once a week for two successive weeks in a newspaper of general circulation published in the county in which the court is located. The notice shall state the amount of money, the fund in which it is held, and that it is proposed that the money will become the property of the court on a designated date not less than 45 days nor more than 60 days after the first publication of the notice.

Recommendation

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

Court Response

The court agrees with the recommendation that the court establish and implement procedures to train staff to maintain reconciliation and disposition of all trust accounts. The escheatment process can be started for a small portion of the \$3,238,580 that was deposited in trust with the court prior to June 30, 2014. The vast majority of those monies are associated with open cases, and therefore cannot at this moment be escheated by the court. None of the monies are related to restitution payments. Virtually all victim restitution collections are, by judges' orders, payable to the County of San Mateo's revenue services office or the California Department of Corrections and Rehabilitation, not to the court.

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



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF SAN MATEO**
400 COUNTY CENTER
REDWOOD CITY, CA 94063-1655

NEAL I. TANIGUCHI
COURT EXECUTIVE OFFICER
CLERK & JURY COMMISSIONER

Tel: (650) 261-5016
Fax: (650) 261- 5147

October 26, 2018

Lisa Kurokawa, Chief
Local Government Compliance Bureau
Division of Audits
State Controller's Office
3301 C Street, Suite 705
Sacramento, CA 95816

Dear Ms. Kurokawa:

The San Mateo Superior Court received the State Controller Office's preliminary audit report on October 19, 2018. Overall, we agree with the findings and recommendations.

The Court wishes to acknowledge the staff of the State Controller's Office on their professional and efficient audit process with our Court. In particular, we want to note that we found the auditor assigned to us, Philip Orth, to be professional, well organized, courteous, and mindful of the fact that the audit was taking place during the year-end financial closing process for the court.

Below are the court's responses to the two findings and the associated recommendations.

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

The court agrees with the recommendation that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process. We are reviewing our compliance with Judicial Council and internal policies and procedures related to cash handling. In the meanwhile, we have reminded cashiers to never leave keys in cash drawers unattended, and will perform random spot checks. In addition, we have started to maintain a cash receipt log for each cash change drawer and have clarified the procedures for handling payments made by mail.

Finding 2 – Failure to follow up on unclaimed trust accounts

The court agrees with the recommendation that the court establish and implement procedures to train staff to maintain reconciliation and disposition of all trust accounts. The escheatment process can be started for a small portion of the \$3,238,580 that was deposited in trust with the court prior to June 30, 2014. The vast majority of those monies are associated with open cases, and therefore cannot at this moment be escheated by the court. None of the monies are related to restitution payments. Virtually all victim restitution collections are, by judges' orders, payable to the County of San Mateo's revenue services office or the California Department of Corrections and Rehabilitation, not to the court.

Sincerely,

A handwritten signature in blue ink that reads "Neal Taniguchi". The signature is written in a cursive style with a large, looping initial "N".

Neal I. Taniguchi
Court Executive Officer, Clerk & Jury Commissioner
cc: Presiding Judge Susan Irene Etezadi
Steven Chang, Director of Finance

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

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