JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: February 19, 2015

Title
Judicial Branch Administration: Audit Report for Judicial Council Acceptance

Rules, Forms, Standards, or Statutes Affected
None

Recommended by
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch
Hon. Richard D. Huffman, Chair

John A. Judnick, Senior Manager
Audit Services
Judicial Council and Court Leadership Services Division

Agenda Item Type
Action Required

Effective Date
February 19, 2015

Date of Report
February 6, 2015

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Executive Summary

The Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch (A&E Committee) and Judicial Council staff recommend that the Judicial Council accept the audit report entitled *Audit of the Superior Court of California, County of Madera*. This acceptance is consistent with the policy approved by the Judicial Council on August 27, 2010, which specifies Judicial Council acceptance of audit reports as the last step to finalization of the reports before their placement on the California Courts public website to facilitate public access. Acceptance and publication of these reports promote transparent accountability and provide the courts with information to minimize future financial, compliance, and operational risk.

Recommendation

The A&E Committee and Judicial Council staff recommend that the Judicial Council, effective February 19, 2015, accept the following "pending" audit report:

- Audit report dated June 2014 entitled: *Audit of the Superior Court of California, County of Madera*

This acceptance will result in the audit report progressing from "pending" status to "final" status, and publishing the final report on the California Courts public website.

Previous Council Actions

The Judicial Council at its August 27, 2010, business meeting approved the following two recommendations, which established a new process for review and acceptance of audit reports:

1. Audit reports will be submitted through the Executive and Planning Committee to the Judicial Council. Audit reports will not be considered "final audit reports" until formally accepted by the council.
2. All final audit reports will be placed on the California Courts public website to facilitate public access. This procedure will apply to all audit reports accepted by the Judicial Council after approval of this recommendation.

Since August 2010 audit reports have been submitted to the Judicial Council for acceptance.

Rationale for Recommendation

Council acceptance of audit reports submitted by the A&E Committee through the Executive and Planning Committee is consistent with its policy described above and with its responsibility under Government Code section 77009(h), which states that "[t]he Judicial Council or its representatives may perform audits, reviews, and investigations of superior court operations and records wherever they may be located."

A&E Committee Comments

The A&E Committee reviewed the Madera Superior Court (Court) audit report and recommended this audit report be on consent agenda. The A&E Committee expressed concerns regarding the high number of repeat issues, the lack of performance in accounting practices including not reconciling trust assets or daily cash deposits, cash controls (36 or 34% of the total issues), accounts payable, and domestic violence fee and fine assessment. While these concerns were expressed, the consent recommendation is primarily based on the Court's corrective actions as indicated in the following:

- There are a relatively high number (107) of issues in the report with over half reported in the body of the report as significant but 73 or 70% of the issues reported were corrected at the end of the audit;

- The high risk areas reported in the Management Summary of the report (cash collections, procurement, and accounts payable) had a significant number of issues reported as corrected; and
- While there were a relatively higher than expected number of repeat issues (13), the issues were generally addressed except for certain issues impacted, according to the Court, by resources, expertise, and facility constraints.

Audit Services (AS) discussed the following specific issues from the Management Summary of the audit report and other concerns with the A&E Committee.

- Case management system total fine calculations and distributions are complex and we noted that the Court did not distribute many as prescribed by applicable statutes and guidelines. While the Court lacks staff with sufficient knowledge and understanding of these calculations, it indicated that it will take a more active role in both learning about them and monitoring them for accuracy.
- The Court's adherence to accounting principles and practices were noticeably weak based on the review of standard financial reports and activities, and other areas as noted below. The Comprehensive Annual Financial Report (CAFR) contained significant errors, accruals were not properly done, and other accounting entries were incorrect. The Court has not reconciled trust assets between its case management system and general ledger, offset collection costs on delinquent accounts negatively impacting the Court's fund balance, and has not properly monitored cash transactions such as stop payments, voids and suspended transactions. Additionally, the Court does not assess the Vehicle Code Section 40508.6(a) $10 administrative fee to offset its costs.
- The Court needs to improve its procurement practices as it could not demonstrate that it consistently followed the appropriate procurement requirements to help ensure competitive procurements and did not always create or establish purchase orders within the accounting system to encumber and reserve its available fund balance.
- The Court needs to strengthen its controls over accounts payable as it did not consistently follow policies and procedures associated with the payment processing of invoices and claims. Audit Services noted repeat issues from the prior audit as the Court did not consistently perform the required three-point match (procurement documents to vendor invoice to receiving documents). Additionally, the Court paid claimants without requiring the information and approvals necessary to validate and pay vendor claims.

Audit Services will contact the Court on a periodic basis to follow-up on the status of the correction of the incomplete issues identified in the audit report. The Court must ensure that it monitors the report's issues and corrective actions taken by the Court to ensure that the issues remain corrected and the Court's system of internal controls is not jeopardized. Audit Services will report this status to the Executive Office and the A&E Committee periodically and as appropriate.

Comments and policy implications

The process established for finalizing an audit report has been thoroughly discussed with judicial branch leadership, involves extensive reviews and discussions with the entity being audited. It also allows, at any point in the process, for the entity (trial courts generally) to request an additional review of the draft audit report by the Chief of Staff before the audit report is placed in a pending status and presented to the A&E Committee for review and discussion. Once presented to the A&E Committee, additional comments from the A&E Committee could result in further discussions with the entity being audited before the committee recommends submission of the report to the council for acceptance.

In its review of audit reports, the A&E Committee generally has comments and questions that, in some cases, require additional analysis or discussion with the trial courts. AS ensures that the results of any analysis, comments, and questions are addressed and provided to the A&E Committee.

Additionally, the Judicial Council, in December 2009, adopted rule 10.500 of the California Rules of Court, effective January 1, 2010, which provides for public access to nondeliberative or nonadjudicative court records. Final audit reports are among the judicial administrative records that are subject to this 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, confidential or sensitive information that would compromise the security of the court or the safety of judicial branch personnel is omitted from audit reports. In accordance with auditing standards, disclosure of the omissions is included in the applicable reports.

Alternatives

No alternatives were considered because the recommendation is consistent with approved council policy and with the provisions of Government Code section 77009(h).

Implementation Requirements, Costs, and Operational Impacts

The proposed recommendation imposes no specific implementation requirements or costs, other than disclosure of the attached audit reports through online publication.

Relevant Strategic Plan Goals and Operational Plan Objectives

The recommendation contained in this report pertains to the activities of AS and the role it plays in the judicial branch as an independent appraisal entity. AS's role as an evaluator is important for both the strategic plan and the operational plan of the judicial branch. Specifically, IAS plays an important role as evaluator under Goal II, Independence and Accountability—in particular Goal II.B.4—by helping to "[e]stablish fiscal and operational accountability standards for the judicial branch to ensure the achievement of and adherence to these standards." Additionally, IAS has an important role in fulfilling several of the objectives of the operational plan related to Goal II because its work pertains to the requirement that the branch "maintain the highest

standards of accountability for its use of public resources and adherence to its statutory and constitutional mandates." Part of the role and responsibility of AS also relates to Objective II.B.4 because the audit reports it produces help to "[m]easure and regularly report branch performance."

Attachments

There are no attachments to this report. The following audit report will be placed on the California Courts public website (http://www.courts.ca.gov/12050.htm) after the Judicial Council has accepted it:

1. Audit report dated June 2014 entitled: *Audit of the Superior Court of California, County of Madera.*