

III. Open Meeting Discussion and Possible Action Item

Item 1

Performance Audit by the State Dept. of Finance, Office of
State Audits and Evaluations

*Judicial Council of California's Fiscal Compliance for the Fiscal
Year July 1, 2013 through June 30, 2014*

Presenters:

Mr. Zlatko Theodorovic, Finance Director

Ms. Pat Haggerty, Principal Manager, Finance



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Statutory Requirements for Audit

Audit performed in accordance with Government Code section 77206(i)(1)

Compliance with:

- governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances
- for all material and significant funds
- under the administration, jurisdiction, or control of the Council staff for the period **July 1, 2013 through June 30, 2014**



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Audit Objectives

Determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records
- Expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.



Some Key Points

- Performance audit not a financial audit. Therefore no opinion statement. Last audit by DOF May 2011.
- Material and significant – funds with revenues or expenditures over 4% of the total revenues or expenditures, respectively.
- Audit excludes the Supreme Court, Courts of Appeal, and HCRC – accounting transactions handled by JCC Finance but not under control or administration of JCC Finance.
- Oracle financial system data determined by DOF to be sufficiently reliable for the purposes of conducting this audit.
- Audit conducted in accordance with GAGAS.



Audit Results

The revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records, and maintained in accordance with fund accounting principles. (page iv of report)



Audit Fiscal Control Deficiencies

Fiscal control deficiencies identified (page 8 of report):

- A. Employee receivables and payables were not cleared timely.
- B. Vendor payment duties were not adequately segregated.
- C. Deposits were not always allocated timely.
- D. Reconciliations are not properly reviewed.
- E. Some policies and procedures were not documented.



Audit Recommendations and Responses

See Admin. Director letter responding to the report that is an attachment to the report.

A. Timely collect and clear employee receivables and payables. **On-going monitoring**

B. Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file. **Fully implemented.**

C. Ensure deposits are posted to the appropriate account timely. **Ongoing monitoring**



Audit Recommendations and Responses

D. Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations. **Fully implemented.**

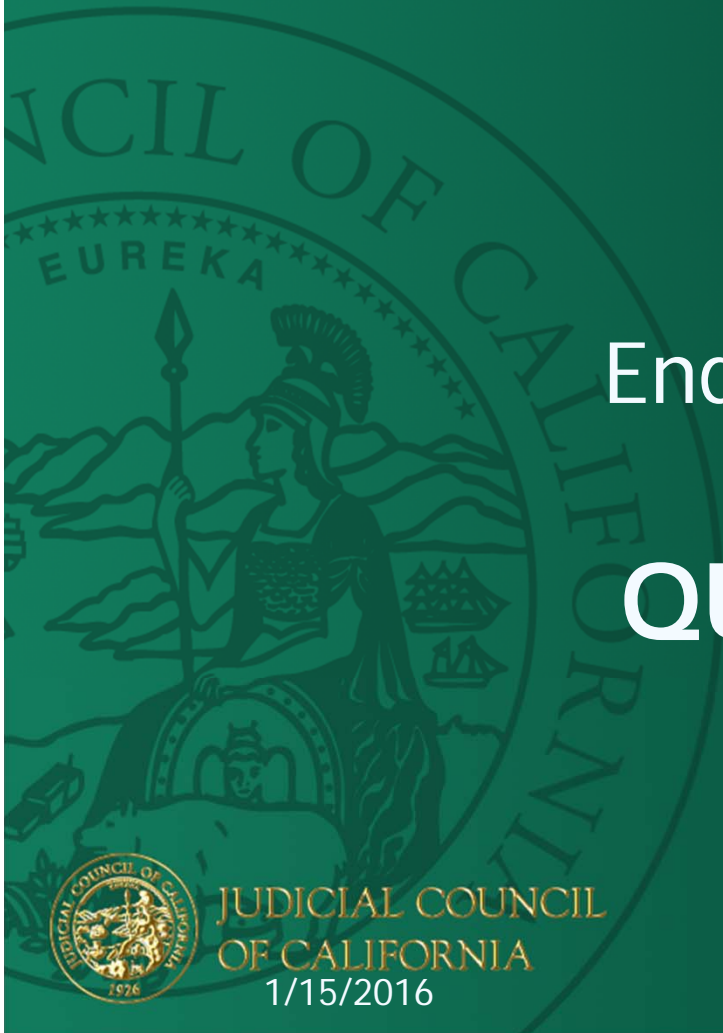
E. Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.

- Nov. 1, 2015 - internal policies and procedures will be developed.
- Nov. 1, 2015 - an art purchases policy will be approved by the Judicial Council. **Update: Dec. 11, 2015 Judicial Council meeting**



End of Presentation

QUESTIONS?



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III. Open Meeting Discussion and Possible Action Item

Item 2

Audit Report by the California State Auditor

Judicial Branch Procurement: Although the Judicial Council Needs to Strengthen Controls Over its Information Systems, Its Procurement Practices Generally Comply With Applicable Requirements

Presenters:

Mr. Zlatko Theodorovic, Director, Finance

Ms. Pat Haggerty, Principal Manager, Finance

Mr. Michael Derr, Principal Manager, Information Technology



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Audit Objectives

Eight objectives (page 9 and 10 of report)

1. Judicial Branch Contracting Manual – determine if consistent with requirements of the Calif. Judicial Branch Contract Law
2. Prior audit – determine implementation status of prior recommendations
3. Reliability of data – determine reliability of data used on contract reporting
4. Judicial Council Local Contracting Manual – Determine if manual conforms to judicial contracting manual
5. Internal Controls – assess and determine compliance of internal controls over contracting and procurement practices
6. Payment practices – assess and determine compliance with internal controls.
7. Split contracts – evaluate to determine whether contracts were inappropriately split to avoid necessary approvals or competitive bidding requirements
8. Credit card transactions – review appropriateness of transactions



Audit Results

- The Judicial Council of California Has Improved Its Procurement and Vendor Payment Practices
- The Judicial Council Uses a Competitive Procurement Process When Required
- The Judicial Council Follows Its Payment Process
 - The Judicial Council's Local Contracting Manual Contains All Required Information
 - Although Its Procurement Information is Now Available in a Useful Electronic Format, the Judicial Council Still Needs to Strengthen Controls Over Its Information Systems



Audit Recommendations and Responses

See Admin. Director letter responding to the report's two recommendations that is an attachment to the report.

1. The Judicial Council should update its judicial contracting manual to include the required minimum fuel economy standard for the judicial branch's vehicle purchases. **Finance Memo issued and manual to be updated effective July 1, 2016).**



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Audit Recommendations and Responses

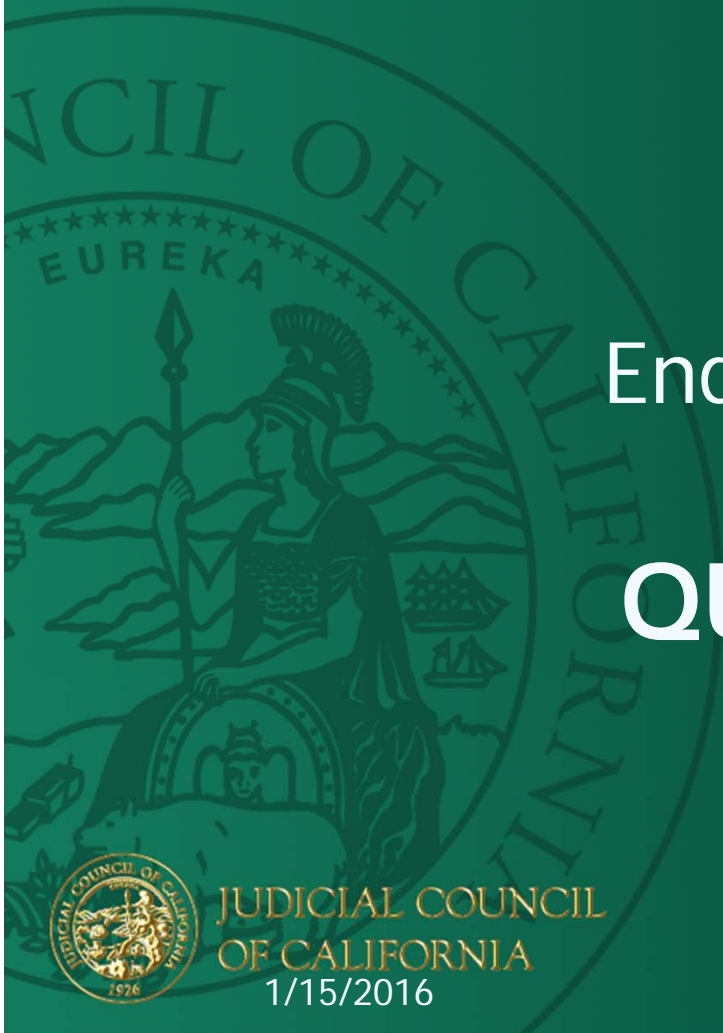
2. The Judicial Council should develop a corrective action plan by February 29, 2016, to address the recommendation from our December 2013 report related to the controls over its information systems. Plan should encompass full implementation of the JC's framework of information systems controls by June 2016. **Plan in preparation for JC IT advisory committees to review by Feb. Additional funding key to any full and timely implementation. Governor's budget proposal includes some money.**

The Judicial Council should continue to provide guidance and routinely follow up with the superior courts to assist with their effort to make the necessary improvements to their information systems controls. **On-going.**



End of Presentation

QUESTIONS?



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