



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

www.courts.ca.gov/auditcommittee.htm
auditcommittee@jud.ca.gov

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING WITH CLOSED SESSION AGENDA

Open to the Public Unless Indicated as Closed (Cal. Rules of Court, rule 10.75(c)(1))

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

OPEN PORTION OF THIS MEETING IS BEING RECORDED

Date: June 28, 2019
Time: 12:15 – 1:15 PM
Public Call-In Number: 1-877-820-7831; Public Listening Code 4045700

Meeting materials for open portions of the meeting will be posted on the advisory body web page on the California Courts website at least three business days before the meeting.

Agenda items are numbered for identification purposes only and will not necessarily be considered in the indicated order.

I. OPEN MEETING (CAL. RULES OF COURT, RULE 10.75(C)(1))

Call to Order and Roll Call

Opening Comments by the Chair and Vice-Chair

Presenter(s)/Facilitator(s): Hon. Judge Rosenberg—Chair; Hon. Presiding Justice
Siggins—Vice Chair

Approval of Minutes

Approve minutes of the March 28, 2019, Audit Committee meeting.

II. PUBLIC COMMENT (CAL. RULES OF COURT, RULE 10.75(K)(2))

Written Comment

In accordance with California Rules of Court, Rule 10.75(k) (1), written comments pertaining to any agenda item of a regularly noticed open meeting can be submitted up to one complete business day before the meeting. For this specific meeting, comments should be e-mailed to auditcommittee@jud.ca.gov or mailed or delivered to Judicial Council of California, Audit Services, 455 Golden Gate Avenue, 5th Floor, San Francisco, California 94102 attention: Audit Services. Only written comments received by 12:15 pm on June 27th, 2019 will be provided to advisory body members prior to the start of the meeting.

III. INFORMATION ONLY ITEMS (NO ACTION REQUIRED)

Info 1

Report from Audit Services

Overview of Audit Services' work in progress as well as a summary of external audits being performed by other governmental agencies.

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

Info 2

General Discussion by Members of the Committee

Open discussion by committee members regarding any topic within the scope and purview of the Advisory Committee for Audits and Financial Accountability for the Judicial Branch.

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

IV. DISCUSSION AND POSSIBLE ACTION ITEMS (ITEMS 1-6)

Item 1

Annual Audit Plan – Fiscal Year 2019-20 (Action Required)

Review and approve the proposed audit plan for fiscal year 2019-20, including the scope of the audits and the courts selected for audit.

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

Item 2

External Audit Report – State Controller's Office (Action Required)

Review and approve for posting the State Controller's recent audit report concerning the Judicial Council of California. The State Controller is required to audit the Judicial Council's adherence to state rules concerning the revenues, expenditures, and fund balances under its control, per Government Code, Section 77206(i).

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

V. ADJOURNMENT

Adjourn to Closed Session

VI. CLOSED SESSION (CAL. RULES OF COURT, RULE 10.75(D))

Item 3

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of Riverside Superior Court's administration of Court Innovations Grant Program, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

Item 4

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of San Benito Superior Court, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Robert Cabral, Manager – Judicial Council's Audit Services

Item 5

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of San Francisco Superior Court, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Robert Cabral, Manager – Judicial Council's Audit Services

Item 6

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of Santa Cruz Superior Court, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Robert Cabral, Manager – Judicial Council's Audit Services

VII. ADJOURNMENT

Adjourn the meeting



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MINUTES OF OPEN MEETING WITH CLOSED SESSION

March 28, 2019

12:15 p.m. - 12:45 p.m.

Conference Call

Advisory Body Members Present: Hon. David Rosenberg, Hon. Peter Siggins, Hon. Susan Matcham, Mr. Kevin Lane, Mr. Kevin Harrigan, Ms. Tania Ugrin-Capobianco, Mr. Phil Jelichich (non-voting advisory member)

Advisory Body Members Absent: Hon. Mary Ann O'Malley, Ms. Sherri Carter

Others Present: Mr. Grant Parks, Mr. Robert Cabral, Ms. Linda Romero-Soles, (CEO – Merced Superior Court), Ms. Keri Brasil (CFO – Merced Superior Court)

OPEN MEETING

Call to Order and Roll Call

The chair called the meeting to order at 12:15 p.m., and took roll call. Judge Rosenberg thanked members of this Committee and Audit Services staff.

Approval of Minutes

Judge Matcham moved to approve the minutes of February 8 meeting and March 5, 2019 action by email. Mr. Harrigan seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

No public comments were received for this meeting.

DISCUSSION AND ACTION ITEMS

Info Item 1

Report from Audit Services

Mr. Parks informed that Auditors spent February and March auditing the 4th DCA and the San Benito Superior Court. Currently Audit Services' staff are working on a review of the Court Innovations Grant project at Riverside Superior Court (e.g. kiosk project). Mr. Parks also announced, at the Chair's direction, that the committee would be going to a standard quarterly meeting schedule, with additional special meetings on an as needed basis. The State Controller's Office (SCO) is finalizing its work on auditing the revenues, expenditures, and fund balances under the

Judicial Council's control. Finally, at the audit committee's direction, Audit Services issued audit advisory on court procurement practices.

Info Item 2.

General Discussion by Members of the Committee

Mr. Parks informed the audit committee that clerks of the Courts of Appeal are asking for additional assistance on completing their efforts to review the FIN Manual for applicability to an Appellate Court Manual. Mr. Parks stated he will pass on this request to the Judicial Council's Branch Accounting and Procurement staff.

Action Item 1

Budget Change Proposal (BCP) - Concept (Action Required)

Under the Judicial Council's rules, whenever a budget change proposal goes forward for inclusion in the annual budget act, it needs to first be approved by the applicable advisory committee. Mr. Parks presented a BCP Concept for fiscal year 2020-21, seeking additional funding to support the SCO's ongoing audits of the trial courts pursuant to Government Code, Section 77206(h). The audits evaluate whether the trial courts complied with the State's fiscal rules for the revenues, expenditures, and fund balances under their control. Existing law requires each court to pay the costs of these audits themselves. Rather than having each court pay, the BCP concept seeks additional spending authority through the budget act to both fund these audits and to allow Judicial Council to make payment to SCO on the courts' behalf. This way, the trial courts financial position will not be adversely affected while also facilitating greater fiscal accountability and compliance with state law.

Action: Ms. Ugrin-Capobianco moved to approve the recommended BCP concept (seconded by Judge Matcham). The motion passed by unanimous voice vote of the committee members present.

Action Item 2

External Audit Report – State Controller's Office (Action Required)

This audit of the Sonoma Court is the final of six pilot audits performed by the SCO under Government Code, Section 77206(h). Overall, the SCO concluded that the Court had complied with the State's rules but reported a few findings in areas of cash handling and procurement. The SCO auditors also raised issues pertaining to unclaimed trust amounts and the public noticing requirements before such funds can become the property of the Court.

Action: Mr. Harrigan moved to approve this report for posting (seconded by Ms. Ugrin-Capobianco). The motion passed by unanimous voice vote of the committee members present.

A D J O U R N M E N T

There being no further open meeting business, the meeting was adjourned to closed session at 12:30 p.m.

C L O S E D S E S S I O N

Item 3

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report of the 4th District of the Courts of Appeal, per Rule of Court 10.63(c)(1).

Action: Ms. Ugrin-Capobianco moved to approve this report for posting (seconded by Mr. Harrigan). The motion passed by unanimous voice vote of the committee members present (Mr. Lane from 4th DCA abstained).

Item 4

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report for Merced Superior Court's administration of Court Innovations Grant Program, per Rule of Court 10.63(c)(1).

Action: Ms. Ugrin-Capobianco moved to approve this report for posting (seconded by Judge Matcham). The motion passed by unanimous voice vote of the committee members present.

Adjourned closed session at 12:45 p.m.

Approved by the advisory body on _____, 2019.



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Meeting Date: 06/28/2019

Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council’s Audit Services

Workload & Staffing

Audit Services initiated audits at Modoc and Trinity superior courts and visited those courts earlier this month to perform testing over their cash management procedures. We anticipate these audits will be available for the audit committee at its next meeting in late September 2019.

As of mid-June, Audit Services has 11 employees, of which 7 perform audit work and travel to the superior courts, Courts of Appeal, or perform internal reviews for Judicial Council’s management. Audit Services currently has three vacant auditor positions (2 positions funded by the General Fund; 1 position funded by the Improvement & Modernization Fund). Audit Services intends to recruit for one of its vacancies, while leaving the other two positions vacant to achieve budgetary savings. These staffing assumptions have been included in the proposed annual audit plan for later in today’s meeting (action item #1).

Upcoming External Audits

State Controller’s Office (SCO)

Audit Program of the Trial Courts – Beyond the Six Pilot Audits

The Judicial Council has executed an interagency agreement with the State Controller’s Office (SCO) to continue auditing the revenues, expenditures, and fund balances of the superior courts per Government Code, Section 77206(h). The Legislature provided spending authority specifically for these audits, and the agreement will result in the SCO auditing eight additional superior courts (audit work to take place through June 30, 2020). As previously shared with the audit committee during our March 2019 meeting, Audit Services is also working on developing a budget change proposal for fiscal year 2020-21

that will fully fund external audits of the trial courts (roughly 14-15 per year) as required by the Government Code.

Miscellaneous Updates

JBSIS Data Quality Standards Adopted by the Judicial Council

At its May 17th meeting, the Judicial Council adopted JBSIS Data Quality Control Standards, which among other things establishes a 2% tolerable error threshold. Data errors beyond this amount will trigger a requirement for superior courts to resubmit their JBSIS data. JBSIS accuracy is important since it's an input when determining trial court budget allocations. The audit committee had previously asked the Court Executives Advisory Committee (CEAC) to develop JBSIS data quality standards in April 2018. Audit staff are revising the template for reporting JBSIS-related audit findings to better match these new data quality requirements.

Annual Revisions to the Judicial Branch Contracting Manual

Judicial Council staff solicited public comment on proposed revisions to the Judicial Branch Contracting Manual (JBCM). The comment period ended on June 13, 2019. Judicial Council staff are considering the public comments and plan to present a draft of the revised JBCM to the audit committee for its next meeting, planned for July 12th.



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ADVISORY COMMITTEE ON AUDITS AND
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Meeting Date: 06/28/2019

Action Item #1 – (Action Required)

External Audit Report – FY 2019-20 Annual Audit Plan

Requested Action:

- **Action Item** – Approve the Fiscal Year 2019-20 Annual Audit Plan (per California Rules of Court, Rule 10.63(c)(1))

Supporting Documents:

- ***Attachment A***—Fiscal Year 2019-20 Annual Audit Plan

Summary:

Approval of an annual audit plan for the judicial branch is among the audit committee's primarily responsibilities per the California Rules of Court. The Fiscal Year 2019-20 Annual Audit Plan (audit plan), Attachment A, identifies the scope areas that will be evaluated during the next year's audits, as well as confirms the selection of those courts to be audited. The audit plan also helps assist audit committee members with forming expectations on the timing of expected audits performed by independent, external audit agencies, such as the State Controller's Office (SCO) and the State Auditor's Office.

To assist audit committee members as they consider the 2019-20 audit plan, the following section provides a high-level recap of the audit findings issued in the past year, focusing on those areas that either demonstrated a consistent pattern of non-compliance or may warrant further action by the Judicial Council to clarify existing policy.

Annual Recap of Audit Findings (Fiscal Year 2018-19)

As of this meeting, the audit committee will have reviewed a total of 18 audit reports issued during fiscal year 2018-19, which included 124 audit findings and related recommendations. The courts agreed or generally agreed with the reported findings roughly 87% of the time. Most of the audit findings directed at the courts result from the Judicial Council's own audit staff (Audit Services), who focus primarily on court compliance with the Trial Court Financial

Policies and Procedures Manual (FIN Manual), the Judicial Branch Contract Manual (JBCM) and other policies promulgated by the Judicial Council, such as the data reporting rules associated with the Judicial Branch Statistical Information System (JBSIS). The SCO primarily evaluates court compliance with the State’s financial rules regarding the revenues, expenditures and fund balances under each court’s control, while the State Auditor performs biennial audits focusing on compliance with the Judicial Branch Contract Law.

Audit Findings Issued and the Courts’ View

Audit Organization	Focus Area	Judicial Branch Audits Issued	# of Audit Entities Audited	# of Audit Findings Issued	Court's View of Findings		
					Agree or Generally Agree	Disagree or Partially Disagree	Did Not Respond
Judicial Council - Audit Services	Judicial Branch Policies (Various)	9	9	90	82	8	
Judicial Council - Audit Services	Court Innovations Grant	2	2	7	3	4	
State Controller's Office	Fiscal Compliance - State Requirements	6	6	15	15	0	
State Auditor's Office	Judicial Branch Contract Law	1	5	12	8	1	3
Total					108	13	3
					87.1%	10.5%	2.4%

Common Areas of Non-Compliance and Associated Risks

Of the 90 audit findings reported by the Judicial Council’s Audit Services, 58 findings (or 64%) pertained to non-compliance with the FIN Manual’s mandatory or suggested controls over cash handling activities, with the next most common findings pertaining to JBSIS data reporting. Some of the more specific findings in these two areas—and why they are important—are briefly discussed below.

Cash Handling

- Mail Payment Processing: 20 of 90 findings pertained to weaknesses in the courts’ methods of processing payments received by mail. Payments received by mail are a high-risk activity given that the paying customer is not present for the transaction and a

receipt is not always generated, increasing the risk of lost or stolen payments. The FIN Manual strongly suggests courts maintain payment receipt logs to track the custody and ultimate processing of these payments through the cashiering and CMS system. All seven of the trial courts audited this year did not consistently maintain logs (or did not create them at all). This also complicates the courts' ability to comply with certain mandatory requirements found in the FIN manual stating that the court CEO and CFO must be notified of mail payments that go unprocessed for extended periods of time. Audit Services also found that the none of the seven trial courts audited this year restrictively endorse checks" immediately upon receipt on a consistent basis. By not restrictively endorsing checks, the courts increase their risk that payments will be used for purposes other than deposit.

- Manually Issued Receipts: 8 of 90 findings pertained to weaknesses in the courts ability to demonstrate physical control and monitoring of manual receipt books issued to court employees. The FIN Manual requires courts to track the issuance of manual receipt books (for example noting to whom the books were issued and which receipts have been used). Doing so ensures accountability for the use of manual receipts. The use of manual receipts is potentially a high-risk activity (if not controlled), since a court employee could accept payment, issue a manual/handwritten receipt, and then keep the payment and destroy the Court's only record of the transaction (e.g. copy of the receipt). In other cases, we observed that manual receipt books were not secured (such as in a safe or locked drawer) when not in use.
- End of Day Balancing and Closeout Procedures: 8 of 90 findings pertained to the courts end-of-day closing procedures. The FIN Manual requires each cashier and his or her supervisor to jointly close and prohibits cashiers from leaving court facilities until the daily close process is complete. We observed various courts where supervisors do not verify each cashiers' end-of-day balance in the presence of the cashier. We also frequently observed that cashiers are permitted to determine how much cash they should have on hand prior to their close with the supervisor. As a result, cashiers who have collected too much might keep these funds without a supervisor's knowledge, instead of properly reporting these amounts as an overage in the accounting system.
- Miscellaneous Issues: 8 of the 90 findings pertained to various weaknesses such as courts not keeping records of those who know the combination codes to the safe, when the combinations were last changed, and whether the combinations are changed when designated employees who know the codes leave the court's employment. By not knowing who is aware of the combination code (or by not changing it regularly), the Court increases the risk of unauthorized access to court funds that should otherwise be secured.
- Change Fund: 7 of the 90 findings pertained to the courts not requiring change fund custodians to verify the ending balance. The FIN Manual makes it mandatory for

custodians to reconcile the fund's beginning and ending balance in the presence of a supervisor. By not doing so, courts will not be easily able to identify and resolve overages and shortages with the responsible party.

JBSIS Reporting

- Data Quality Procedures: 11 of the 90 findings pertained to JBSIS data quality issues. These issues pertained to either the court lacking complete listings of cases that correspond to the reported JBSIS case counts (to facilitate review and validation), and/or the courts misclassified the case type based on our review of a sample of 60 case files at each court. JBSIS data accuracy is important since it informs the trial court budget allocation process, as well as informs other important decision-making affecting the judicial branch. Two courts responded to our audit findings by stating current JBSIS rules do not require them to maintain records of what cases they have reported to JBSIS or when. While technically true, the lack of this information hinders both the court and Audit Services' efforts to review data quality. If courts are not required to know what specific cases they have reported to JBSIS and when, it is unclear how they can ensure what they reported is accurate (or further know which monthly JBSIS report to amend if a correction is necessary). The audit committee's April 2018 letter to CEAC recommended the development of JBSIS data quality standards, including a requirement that courts keep (or report) case-specific listings or records to substantiate their reported JBSIS data. However, this requirement was not addressed in the recently adopted data quality standards. While some courts may have CMS systems that are not capable of providing such a level of detail; nevertheless, given JBSIS's importance the Judicial Council should work with these courts to develop a transition plan to newer CMS systems so that they can eventually develop more robust data quality practices. Other JBSIS errors we noted included courts misclassifying the case type for certain reported case filings. These errors at times resulted from clerical error and/or misunderstandings of JBSIS's various case definitions.

Fiscal Year 2019-20 Annual Audit Plan

The Fiscal Year 2019-20 audit plan will continue to make cash handling procedures a priority for Audit Services' audits of the trial courts. Further, with the Judicial Council's recent adoption of a 2% acceptable error rate for JBSIS reporting, Audit Services will be modifying how it presents its JBSIS audit findings so there will be greater clarity on where errors exist and whether a court needs to resubmit its JBSIS data based on the new standards. Audit Services also will continue to review the courts' procurement and vendor payment processes, fine and fee revenue distributions, and will devote audit resources to grant-specific audits under the Court Innovations Grant (CIG) program.

Further, the SCO will also take on an increased audit role next year, auditing the courts' adherence to state rules regarding the revenues, expenditures, and fund balances under their control. These audits are required under Government Code, Section 77206(h). The SCO is under contract with the Judicial Council to audit eight superior courts in FY 2019-20, and this amount may increase to 14-15 trial courts per year beginning in fiscal year 2020-21. The audit committee approved a budget change proposal concept (BCP concept) at its March 2019 meeting, seeking increased state support of \$1.6 million annually to fund 14-15 audits per year. This request is designed to ensure trial courts do not have to pay the SCO directly out of their existing operating budgets. Ideally, legislatively-mandated audits should be funded through the annual budget act.

Additional Considerations for Audit Committee Members

Court Interpreter Pay Policies: Although Audit Services is not recommending further changes to the audit scope, audit committee members should consider whether it would like audit staff to resume auditing court compliance with court interpreter payment policies (which is currently not in the audit plan). In 2018, the audit committee decided to suspend further audit reviews of court interpreter payments, believing the Judicial Council's payment rules were going to be revised. However, this portion of the audit program has now been suspended for roughly one year and Audit Services is unaware of any revisions to the Judicial Council's interpreter payment policies. Auditing compliance with these policies are potentially important given the Legislature's directive to the judicial branch that it develop/follow standardized interpreter pay practices. Previously reported audit findings noted instances when courts paid court interpreters well above the established rates without demonstrating / documenting any good faith effort to find less costly interpreters at the Judicial Council's established rate. At the time, many courts countered that the established rates were too low and unrealistic (potentially indicating the policies need to be revised). Courts also commented that requiring courts to document their attempts to find lower-cost interpreters (at the Judicial Council's rate) would be too administratively burdensome. Regardless, it seems counterproductive for the Judicial Council to publicly post these pay policies on its web site when in practice several courts may not be following—or cannot demonstrate their efforts to follow— these rules.



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2019-20**



JUDICIAL COUNCIL
OF CALIFORNIA
AUDIT SERVICES

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BACKGROUND

The Audit Committee

The Judicial Council amended Rule of Court, rule 10.63 in July 2017, establishing the “Advisory Committee on Audits and Financial Accountability for the Judicial Branch” (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee’s audit-specific responsibilities include¹:

- Reviewing and approving an annual audit plan for the judicial branch.
- Reviewing all audit reports of the judicial branch and recommending action to the Judicial Council in response to any substantial issues identified.
- Approving the public posting of all audit reports of the judicial branch.
- Advising and assisting the Judicial Council in performing its responsibilities under:
 - Government Code, Section 77009(h) – the Judicial Council’s audits of the superior courts.

¹ The Judicial Council tasked the Advisory Committee on Audits and Financial Accountability for the Judicial Branch with responsibilities beyond reviewing and responding to audit reports, which is the principal focus of this annual audit plan. Other committee responsibilities generally include monitoring adherence to the California Judicial Branch Contract Law, evaluating proposed changes to the *Judicial Branch Contracting Manual*, and making recommendations on proposed changes to the annual compensation plan for Judicial Council staff.

- Government Code, Section 77206 – Responding to external audits of the Judicial Council and the superior courts by the State Controller, State Auditor, or Department of Finance.

The audit committee serves as a central clearinghouse for hearing all audit-related issues pertaining to the Judicial Council, Courts of Appeal, and the superior courts, regardless of whether the audit was performed by the Judicial Council’s own staff (Audit Services) or by external audit organizations (such as the State Controller’s Office, State Auditor’s Office, or the Department of Finance). The audit committee communicates significant audit findings and issues to the entire Judicial Council, and can also suggest policy changes or other proposed corrective actions in response to any significant audit finding.

Purpose of the Annual Audit Plan

The purpose of the annual audit plan is twofold: The annual plan explains (a) which focus areas will be audited during the year, and (b) how Audit Services will coordinate with external audit organizations (described below) to execute the annual audit plan in response to statutorily mandated audits and to other areas of focus. The annual audit plan itself also helps to establish expectations for audit committee members regarding which audits and topics will come before their committee for further discussion during the year.

Audit Services’ Role

Audit Services’ primary role is to establish an annual audit plan, which explains how significant risks and statutory audit requirements imposed on the judicial branch will be addressed in the coming year, and to perform audits of the Courts of Appeal and superior courts to ensure the Judicial Council’s rules and policies are followed in actual practice. Audits of the superior courts often entail a review of its fiscal affairs such as, but not limited to, whether a superior court has: implemented certain mandatory internal controls over cash handling; adhered to statutory limitations on fund balance; and has procured goods and services that are consistent with “court operations” as defined by Rule of Court, rule 10.810. Audits of the Courts of Appeal focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council. Finally, Audit Services performs internal reviews of the Judicial Council as directed by executive management and coordinates with independent, external agencies that audit the Judicial Council’s operations.

The Role of External Audit Agencies

External audit agencies, such as the State Auditor’s Office (State Auditor) and the State Controller’s Office (SCO), also perform recurring audits of the judicial branch as directed by

statute. The statutory authorities for each external audit agency (as they currently pertain to the judicial branch) are summarized below:

State Auditor – performs the following audits:

- Financial statement audits of the State’s *Comprehensive Annual Financial Report* (CAFR), as prepared by the SCO, in accordance with Generally Accepted Accounting Principles. [Govt. Code, Section 8546.3]
- Discretionary audits as directed by the Joint Legislative Audit Committee [Govt. Code, Section 8546.1]
- Audits of the Judicial Council and other judicial branch entities’ compliance with the Judicial branch Contracting Law. [Pub. Contract Code, Section 19210]

State Controller’s Office – performs the following audits:

- Audits of Judicial Council and superior courts’ revenues, expenditures and fund balance. [Govt. Code, Section 77206]
- Audits of criminal fine and fee revenue collection and distributions by the superior courts. [Govt. Code 68101- 68104]

Although the State Auditor and the SCO both perform financial-related audits, the purpose of each audit is different. The State Auditor’s annual financial statement audit of the statewide CAFR includes the financial information submitted by the judicial branch to the SCO. Separate from this statewide financial statement audit, the Government Code requires the SCO to evaluate the Judicial Council and superior courts’ compliance with state laws, rules and regulations pertaining to significant revenues, expenditures, and fund balances under their control. These SCO audits focus on evaluating financial compliance with the State’s unique rules, such as the State’s legal/budgetary basis of accounting and civil filing fee collections and distributions. The Judicial Council is required to use the SCO to perform the audits mandated under Government Code, Section 77206, unless either the State Auditor or Department of Finance can perform the same scope of work as the SCO but at a lower cost.

ANNUAL AUDIT PLAN

Risk Assessment Background

The concepts behind *risk* and *internal controls* are interrelated. Internal controls are those policies or procedures mandated by the Judicial Council, or developed by a court, designed to achieve a specific control objective. For example, an internal control for cash handling, such as the segregation of certain conflicting duties, focuses on reducing the risk of the theft. Internal controls respond to risks and Audit Services broadly classifies risks into the following three categories:

- Operational Risk – The risk that the court’s strategic business objectives or goals will not be accomplished in an effective or efficient manner.
- Reporting Risk – The risk that financial or operational reporting is not relevant or reliable when used for internal decision-making or for external reporting. (Examples of external reporting include the Judicial Council and the courts’ financial reporting to the SCO or a court’s reporting of case filing data to the Judicial Council through JBSIS.)
- Compliance Risk – The risk of not complying with statutory requirements or the policies promulgated by the Judicial Council (such as the requirements found in the *Trial Court Financial Policies and Procedures Manual* (FIN manual), Judicial Branch Contracting Manual, or other Judicial Council policies).

Any single risk area may overlap with more than one of the three risk categories defined above. For example, certain reports—such as JBSIS case filing reports—have a reporting risk component in that the data reported must be accurate and complete to support trial court funding allocations, along with a compliance component since the Judicial Council has established definitions for what constitutes a new case filing and how a filing should be categorized by case type. Another example would be the court’s annual reports to the Judicial Council on their fund balance, which the Judicial Council uses to evaluate a court’s compliance with state law limiting fund balance to one percent of its operating budget. Audit Services considers risk areas that cross over into more than one risk category to be generally indicative of higher risk.

However, risk areas that can be confined to only one risk category—such as compliance risk—may also be considered an area of higher risk depending on the likelihood of error or its potential negative effects (financial, reputational, etc.). For example, the FIN Manual has established policies concerning the proper handling of cash and other forms of payment received by the courts. Many of these policies were issued with the intent of establishing a minimum level of internal controls at each court to prevent or detect theft or fraud by court employees, and to provide the public with the highest level of assurance that their payments would be safeguarded and properly applied to their cases.

When identifying areas to include within the scope of its superior court audits, Audit Services focused on identifying compliance and reporting risks, but not operational risks. This decision reflects Audit Services’ recognition of each superior court’s broad authority to operate under its own locally-developed rules and strategic goals. Government Code, Section 77001 provides for each superior court’s local authority by authorizing the Judicial Council to adopt rules that establish a decentralized system of trial court management. The Judicial Council’s Rules of

Court, rule 10.601, also emphasizes the decentralized management of superior court resources and affirms each superior court's authority to manage their day-to-day operations with sufficient flexibility. Audit Services will consider auditing operational risk areas where courts have local discretion only when asked to do so by the superior court's presiding judge or court executive officer and provided that sufficient audit staff resources are available.

The Legislature has provided the Judicial Council with the responsibility for developing broad rules within which the superior courts exercise their discretion. For example, Government Code, Section 77206 authorizes the Judicial Council to regulate the budget and fiscal management of the trial courts, which has resulted in it promulgating the FIN Manual pursuant to Rules of Court, rule 10.804. The FIN Manual establishes a fundamental system of internal controls to enable trial courts to monitor their use of public funds, consistently report financial information, and demonstrate accountability. The FIN Manual contains both mandatory requirements that all trial courts must follow, as well as suggestive guidance that recognizes the need for flexibility. Similarly, the Legislature enacted section 19206 of the Public Contract Code, requiring the Judicial Council to adopt and publish a *Judicial Branch Contracting Manual* (JBCM) that all judicial branch entities must follow. When identifying high risk areas that will be included in the scope of its audits, Audit Services considers the significant reporting and compliance risks based on the policies and directives issued by the Judicial Council, such as through the FIN Manual, JBCM, Rules of Court, and budgetary memos.

Risk Areas, Assessed Level of Risk, and Auditing Entities

Audit Services used its professional judgment when identifying areas of risk (and associated risk levels) when determining the scope of its audits of the superior and appellate courts. Specifically, Audit Services considered the significance of each risk area in terms of the likely needs and interests of an objective third party with knowledge of the relevant information, as well as a risk area's relevance or potential impact on judicial branch operations or public reputation. The risk areas assessed are shown in Table 1 below. The table also reflects statutorily-mandated audits performed by the State Auditor and State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. Areas designated as high risk were generally those with complex requirements (such as criminal fine and fee distributions). In other cases, high risk areas were those where the internal control requirements may not be complex but the incentives to circumvent those controls or to rationalize not having them in the first place is high (i.e. cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

Table 1 – Risk Areas Considered (by area, level of risk, and responsible audit organization)

Risk Area	Description of Risk	Risk Category and Level		Audit Organization		
		Reporting Risk	Compliance Risk	JCC Audit Services	State Controller's Office	State Auditor's Office
Superior Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Cash Handling	JCC internal control policies on handling cash and other forms of payment not followed.	N/A	High	X		
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
Payments & Authorization	Payments are for unallowable activities and/or lack authorization from the designated level of court management.	N/A	Medium	X		
Criminal Fine & Fee Revenue	Criminal fines and fees not properly calculated and reported to the county.	High	High	X	X	
Budgetary Accountability	Court submits inaccurate case filing data to JBSIS, impacting trial court budget allocations. Court retains more fund balance than allowed under statute and JCC policy.	High	High	X		
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	Medium	Medium	X		
Appellate Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	Low	Low	X		
Judicial Council						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium			X
Non-Audit, Internal Reviews	The Judicial Council's offices and programs are reviewed for financial and/or operational performance as directed by executive management.	Medium	Medium	X		

As noted in Table 1, Audit Services' work has the potential to overlap with the work performed by the State Auditor during its court procurement audits, or with the SCO as it performs its criminal fine and fee revenue distribution audits. To overcome this potential for duplicative audit work, when planning our work at any court, Audit Services will consider recent audit activity in these areas and may reduce its audit work—such as to only verify that the court successfully took appropriate corrective action—or eliminate the planned procedures altogether if the SCO or State Auditor had no significant findings.

Audit Scope and Adjustments for Fiscal Year 2019-20

Audit Services does not plan to make any significant adjustments to audit scope for fiscal year 2019-20. Based on the risk areas listed in Table 1, Audit Services' audits of the superior courts will continue to focus on evaluating compliance in the following key areas:

- Cash handling procedures at the superior courts (per FIN 10.02)
- Competitive and non-competitive procurement practices (per the JBCM)
- Vendor payment authorization and invoice matching (per FIN 8.01)
- Criminal fine and fee revenue distributions (per state law)
- JBSIS data accuracy for reported case filings (per JBSIS data quality standards)

Based on our audit work from the prior fiscal year, the superior courts continue to have difficulties demonstrating consistent compliance with the FIN Manual's rules and suggested controls for cash handling, particularly in the areas of: processing payments received by mail; end-of-day closeout procedures; and control over handwritten receipts and the change fund. To help highlight these areas of risk, Audit Services issued an audit advisory on cash handling procedures in November 2018 (Audit Advisory #2018-2). In the area of JBSIS reporting, Audit Services continues to encounter superior courts that have difficulties providing complete lists of cases that correspond to the counts of case filings they reported to JBSIS. Superior courts are not required under current rules to retain listings of which cases it reported and when—and instead often attempt to reconstruct case listings data for audit purposes that are often incomplete—thus complicating efforts to identify and review case files to evaluate compliance with JBSIS' numerous case-type definitions. The audit committee's April 2018 letter to the Court Executives Advisory Committee highlighted the need for the tracking of case numbers (or other case-specific identifiers) to facilitate the verification of JBSIS data. This is an issue that remains unaddressed in the recently-adopted JBSIS Data Quality Standards.

Table 2 below illustrates the scope items planned for superior courts in fiscal year 2019-20, along with information on the frequency of reported audit findings in the prior year.

Table 2 – Standard Audit Scope Areas, Superior Courts – Audit Results at a Glance

Areas and Sub-Areas Subject to Review		In Scope for FY 19-20?	Audit Findings from Prior Year	
			# of Findings in FY 18-19	Common Compliance Issues
Cash Handling				
1	Daily Opening Process	Yes	3	
2	Voided Transactions	Yes	1	
3	Handwritten Receipts	Yes	8	Limited control / tracking of issued receipt books
4	Mail Payments	Yes	20	Single person processes mail; no log tracking payments received
5	Internet Payments	Yes	0	
6	Change Fund	Yes	7	No verification of balance, no single custodian responsible
7	End-Of-Day Balancing and Closeout	Yes	8	Supervisor doesn't verify balance with clerk; no blind close
8	Bank Deposits	Yes	3	
9	Other Internal Controls	Yes	8	Various; limited control over access to safe and combinations
Procurement and Contracts				
10	Procurement Initiation	Yes	4	
11	Authorization & Authority Levels	Yes	0	
12	Competitive Procurements	Yes	2	
13	Non-Competitive Procurements	Yes	0	
14	Leveraged Purchase Agreements	Yes	0	
15	Contract Terms	Yes	1	
16	Other Internal Controls	Yes	2	
Payment Processing				
17	3-Point Match Process	Yes	1	
18	Payment Approval & Authority Levels	Yes	1	
19	Special Rules - In-Court Service Providers	Yes	2	
20	Special Rules - Court Interpreters	No		Audit Committee suspended review pending policy change
21	Other Items of Expense	Yes	0	
22	Jury Expenses	Yes	1	
23	Allowable Costs	Yes	0	
24	Other Internal Controls	Yes	0	
Fine & Fee Distributions				
25	CMS-Calculated Distributions	Yes	3	
26	Manually-Calculated Distributions	Yes	0	
1% Fund Balance Cap				
27	Calculation of the 1% Cap	Yes	4	
28	Use of "Held on Behalf" Funds	Yes	0	
JBSIS Case Filing Data				
29	Validity of JBSIS Data	Yes	11	JBSIS case definitions not followed; variances between reported counts of case filings and the court's corresponding case listings

Audit Services will also continue to focus on completing audits under the Judicial Council’s Court Innovations Grant (CIG) program. These grant-specific audit reports will be completed as resources are available, and the selection of which specific courts and projects to audit will be informed by discussions with the Judicial Council’s Special Projects Unit, which administers the CIG program. The CIG program is a high-risk program given both the significant dollars involved (\$25 million appropriated in fiscal year 2016-17) and the Legislature’s expectation that the courts receiving these funds will report performance outcomes. The courts’ unexpended CIG

funds, if any, will revert to the State's General Fund after June 30, 2020. Audit Services anticipates significant CIG spending in fiscal year 2019-20 given the relatively modest pace of spending in prior years.

Available Staff Resources and Audit Scheduling

Audit Services has two units—an Internal Review Team and a Court Audit Team—that each focus on distinct areas of work. The Court Audit Team currently consists of two senior auditors and four audit staff, who are split into two different sub-teams. The Court Audit Team's focus at each court is based on the risk areas noted in Table 1 above and the related scope areas noted in Table 2. The Internal Review Team has more limited staffing, with one senior auditor and one staff auditor based in San Francisco. This team generally focuses on performing periodic internal reviews as directed by the Judicial Council's executive management team. The Internal Review Team also investigates whistleblower complaints and performs non-recurring or targeted reviews of judicial branch programs that may affect multiple courts (such as the planned audits under the CIG program). Based on the available staff resources shown in Table 3 below, Audit Services estimates that it has roughly 7,800 available hours for audit activities of the appellate and superior courts for fiscal year 2019-20, which does not include the roughly 2,600 hours the Internal Review Team has reserved for internal reviews and auditing court compliance under the *Court Innovations Grant Program*.

The timeframes shown in Table 3 for Audit Services' schedule of court-specific audits are high-level estimates and are intended to depict the time between the start of the audit (i.e. the entrance conference) to the substantial completion of fieldwork and the delivery of any findings to the court's management for their official comment. Audit Services will provide each court with a reasonable period of time—up to three weeks—to provide its official response and corrective action plan before making preparations to share the report with the audit committee. As a result, final audit reports may come to the audit committee about a month after the anticipated timeframes shown in the table.

Table 3 – Available Staff Resources and Audit Schedule (Fiscal Year 2019-20)

	Fiscal Year 2019-20													Total
	July	August	September	October	November	December	January	February	March	April	May	June		
Monthly Working Days	22	22	22	22	22	22	22	21	22	22	21	22	262	
Available Monthly Hours	176	176	176	176	176	176	176	168	176	176	168	176	2,096	
Judicial Branch Holidays	(8)		(8)	(8)	(24)	(8)	(16)	(16)	(8)		(8)		(104)	
Estimated Personal Leave	(40)		(8)		(24)	(80)	(40)					(40)	(232)	
Available Hours Per Auditor	128	176	160	168	128	88	120	152	168	176	160	136	1,760	
Administrative Time	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(30)	
Training	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(42)	
Travel (Two Round Trips / Month)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(384)	
Non-Audit Hours	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(456)	
Available Audit Hours Per Auditor	90	138	122	130	90	50	82	114	130	138	122	98	1,304	
# of Audit Staff	8	8	8	8	8	8	8	8	8	8	8	8	8	
Total Available Audit Hours	720	1,104	976	1,040	720	400	656	912	1,040	1,104	976	784	10,432	
Court Audit Team #1	270	414	366	390	270	150	246	342	390	414	366	294	3,912	
Court Audit Team #2	270	414	366	390	270	150	246	342	390	414	366	294	3,912	
Internal Review Team	180	276	244	260	180	100	164	228	260	276	244	196	2,608	

	Fiscal Year 2019-20											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Audit Team #1	Tehama		San Mateo				San Diego				Shasta	
	Modoc										1st DCA	
Court Audit Team #2	Trinity		Lassen				Napa					
	Sierra						2nd DCA				Plumas	
Internal Review Team	Internal Reviews / Court Innovations Grants											
State Controller's Office	Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [8 superior courts]											
	Trial Court Fine & Fee Revenue Distribution Audits - GC 68103											
State Auditor's Office	Judicial Council Procurement Audit - PCC 19210(c)											
	CAFR - Statewide Financial Statement Audit of FY 2018-19 (all State Agencies)											

Note: The court audits scheduled in this table are subject to change based on: each court's availability; Audit Services' resources; and changing audit priorities based on risk. The audit committee may also reprioritize audits and modify the audit schedule as it deems necessary.

Schedule of Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year's annual audit plan. Table 4 on the following page shows all 6 appellate courts and 58 superior courts, listed by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits, but other factors (such as location and court size) will also be considered so as to maximize the number of audits that can be completed each year.

Table 4 – Schedule of Previous and Planned Appellate and Superior Court Audits

Appellate / Superior Court	Date of Last Audit Report	(Current Plan) (Next Year)		Appellate / Superior Court	Date of Last Audit Report
		FY 2019-20	FY 2020-21		
1st DCA	N/A	X		23. Mendocino	July-13
2nd DCA	N/A	X		58. Yuba	August-13
6th DCA	N/A		Y	21. Marin	October-13
25. Modoc	January-10	IP		51. Sutter	November-13
53. Trinity	April-10	IP		20. Madera	June-14
52. Tehama	June-10	X		29. Nevada	July-14
41. San Mateo	September-10	X		17. Lake	August-14
18. Lassen	November-10	X		40. San Luis Obispo	December-14
46. Sierra	November-10	X		36. San Bernardino	January-15
32. Plumas	January-11	X		57. Yolo	February-15
45. Shasta	January-11	X		54. Tulare	July-15
28. Napa	March-11	X		16. Kings	October-15
3. Amador	April-11		Y	12. Humbolt	December-15
9. El Dorado	April-11		Y	7. Contra Costa	February-16
37. San Diego	April-11	X		10. Fresno	June-16
39. San Joaquin	April-11		Y	15. Kern	August-16
49. Sonoma	April-11		Y	31. Placer	October-17
2. Alpine	July-11		Y	24. Merced	January-18
14. Inyo	July-11		Y	4. Butte	April-18
13. Imperial	August-11		Y	3rd DCA	May-18
33. Riverside	October-11		Y	48. Solano	June-18
43. Santa Clara	December-11		Y	6. Colusa	June-18
22. Mariposa	January-12			5. Calaveras	June-18
55. Tuolumne	February-12			47. Siskiyou	October-18
26. Mono	March-12			56. Ventura	December-18
50. Stanislaus	April-12			34. Sacramento	December-18
8. Del Norte	September-12			5th DCA	February-19
42. Santa Barbara	November-12			11. Glenn	February-19
27. Monterey	December-12			4th DCA	March-19
30. Orange	December-12			35. San Benito	June-19
19. Los Angeles	February-13			38. San Francisco	June-19
1. Alameda	March-13			44. Santa Cruz	June-19

Notes:

"IP" = In progress

"X" = Scheduled for audit in current year's audit plan

"Y" = Tentative for audit in next year's audit plan



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 06/28/2019

Action Item #2 – (Action Required)

External Audit Report – State Controller’s Office

Requested Action:

- **Action Item** - Discuss the external audit report of the Judicial Council of California and approve for public posting on the www.courts.ca.gov website, per California Rules of Court, Rule 10.63(c)(1).

Supporting Documents:

- ***Attachment B***—California State Controller’s audit of the Judicial Council’s Revenues, Expenditures and Fund Balances for fiscal year 2017-18 (per Government Code, Section 77206(i))

Summary:

Government Code, Section 77206(i) requires the State Controller’s Office (SCO) to determine the Judicial Council’s compliance with the governing statutes, rules, regulations and policies pertaining to the revenues, expenditures and fund balances of all materials and significant funds under the administration, jurisdiction, or control of the Judicial Council. This audit occurs biennially. The audit committee last considered this audit of the Judicial Council in its first meeting on 10/19/17. That previous audit covered fiscal year 2015-16.

The SCO audit presented today reports on the Judicial Council’s compliance for financial activity occurring in fiscal year 2017-18. The SCO’s overall conclusion—as noted on page 1 of the report— states:

“Our audit found the [Judicial] Council complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2017 through June 30, 2018”

Among its audit procedures, SCO auditors determined whether the Judicial Council's reported revenues and expenditures were consistent with authorizing Government Codes and the policies and procedures of the Judicial Council and the State Administrative Manual. The audit also reviewed whether transactions were properly supported by documentation and recorded accurately in the Judicial Council's accounting records. With respect to reviewing fund balances, the SCO selected a sample of funds with balances over \$100 million as of June 30, 2018, and then recalculated the fund balances to ensure they were reported accurately in accordance with the Legal/Budgetary basis of accounting.

Audit Findings

Despite the overall positive conclusion of the audit report, the SCO did identify three areas that require corrective action. These three areas (audit findings) are summarized below. The Judicial Council's staff agree with the findings and have started taking corrective action.

Finding #1 – Inadequate Segregation of Duties Within the Payroll Function

The SCO reported an audit finding due to the lack of segregated duties when reporting employee attendance data to the State's leave accounting system. The leave accounting system tracks employee leave balances based, in part, on the entering of employee timesheet data into the system. The SCO noted that the same analysts within the Judicial Council's Human Resources (HR) unit both enter and verify data entries prior to submission to the State. The SCO recommended that the Judicial Council take steps to ensure a different HR analyst—other than the one entering data—verify the accuracy of the entries. The SCO also recommended that HR take steps to periodically review data quality after data submission to the State. Judicial Council staff are developing procedures to provide for this secondary review.

Finding #2 – Deficiency of Collection on Outstanding Employee Accounts Receivable

The SCO reported an issue with the Judicial Council's efforts to collect outstanding balances from current and former employees. The SCO's finding notes that the Judicial Council did not recover roughly \$24,000 in employee receivables, and in some cases improperly wrote-off those balances without prior approval from the SCO. The Judicial Council's Human Resources and Accounting units are working towards developing procedures to correct this issue, and staff will request SCO approval to discharge balances that the Judicial Council had determined previously are uncollectable.

Finding #3 – Lack of Reconciliation for Employee Accounts Receivable

The SCO found weaknesses in how the Judicial Council tracks and verifies the outstanding balances of employee accounts receivables. These balances can include items such as travel advances to employees that exceed the actual cost of travel or salary advances. The SCO noted the Judicial Council's Human Resources and Accounting units do not reconcile the account balances and details recorded on employee account receivables. The SCO recommended the Judicial Council develop desk procedures that improve the joint reconciliation of these outstanding employee balances. Judicial Council staff are developing procedures to reconcile employee account balances in FI\$Cal to the underlying documents that are provided to the SCO when initially establishing a receivable. Judicial Council staff plan to perform these reconciliations on a quarterly basis.

JUDICIAL COUNCIL OF CALIFORNIA

Audit Report

FISCAL COMPLIANCE AUDIT PROGRAM

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

June 2019



BETTY T. YEE
California State Controller

June 14, 2019

Tani G. Cantil-Sakauye, Chief Justice
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94102

Dear Chief Justice Cantil-Sakauye:

The State Controller's Office (SCO) audited the revenues, expenditures, and fund balances of the Judicial Council of California (Council) staff. We conducted this audit to assess the Council staff's compliance with governing statutes, rules, regulations, and policies for all significant funds under the jurisdiction of the Council staff for the period of July 1, 2017, through June 30, 2018.

Our audit found that Council staff complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified weaknesses in the Council staff's administrative and internal accounting controls system; these weaknesses are described in the Findings and Recommendations section of this report and should be addressed and corrected by Council staff.

This report is for your information and use. The Council's responses to the findings are incorporated into this final report. The Council agreed with our observations and provided a Corrective Action Plan to address the fiscal control weaknesses and recommendations. We appreciate the Council's willingness to implement corrective actions. This report will be available on the SCO website at www.sco.ca.gov.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, at (916) 323-1573.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/lis

cc: Millicent Tidwell, Chief Deputy Director
Judicial Council of California
Martin Hoshino, Administrative Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Therodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Grant Parks, Principal Manager
Audit Services, Judicial Council of California
Erika Contreras, Secretary of the Senate
Office of the Secretary of the Senate
E. Dotson Wilson, Chief Clerk
California State Assembly, Office of the Chief Clerk
Amy Leach, Minute Clerk
California State Assembly, Office of the Chief Clerk
Legislative Counsel
Office of Legislative Counsel

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the Judicial Council of California's (Council) 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.

Our audit found that the Council complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2017, through June 30, 2018.

However, our audit identified the following internal control weaknesses:

- Inadequate segregation of duties within the payroll function;
- Improper discharges of employee accounts receivables; and
- Lack of a reconciliation process for employee accounts receivables.

Background

The Council is the policymaking body of the state court system that oversees superior courts in 58 counties, six appellate courts, and the California Supreme Court. The Council sets the direction for improving and advancing the consistent, independent, impartial, and accessible administration of justice for the benefit of the public.

Council staff implement Council policy and provides administrative support to judicial branch entities. Specifically, Council staff administers accounting, auditing, budgeting, contracting, human resources, procurement, and information technology services. Other responsibilities include facilitating court construction, issuing and renewing court interpreter licenses, providing training and education services to new judicial officers, and performing budgeting and administrative services for the courts.

We conducted this audit under an Interagency Agreement with the Council.

Objectives, Scope, and Methodology

We conducted this audit to determine whether the Council complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for the period of July 1, 2017, through June 30, 2018.

Government Code (GC) section 77206(i) and (j) requires the SCO to audit the Council's 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 on or before December 15, 2013, and biennially thereafter.

Our audit methodology broadly included planning and fieldwork testing procedures, as described further below:

Audit Planning

To plan the audit, we performed general preliminary procedures, evaluated internal controls, and assessed the reliability of data significant to our audit objectives.

General preliminary procedures included:

- Reviewing the *Judicial Council Governance Policies*, Budget Act, *Manual of State Funds*, Government Codes, Rules of the Court, and relevant internal policies and procedures to identify compliance requirements applicable to the Council for revenues, expenditures, and fund balances; and
- Following up on the status of prior findings identified in the SCO's audit report, issued on October 18, 2017.

Internal control evaluation included:

- Reviewing current policies and procedures, organization charts, and the Council's website;
- Interviewing Council staff to gain an understanding of the internal control environment;
- Determining the significant controls within the context of the audit objectives;
- Assessing whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties are properly designed, implemented, and operating effectively; and
- Determining impact to the audit objective of the identified internal control weaknesses.

Data reliability assessment included:

- Identifying the information systems used to process and account for revenues, expenditures, and fund balance transactions;
- Interviewing staff and reviewing documented policies and procedures regarding security, data entry, processing, and reporting to gain an understanding of information technology systems and data significant to the audit objectives;
- Comparing data with other sources to determine the completeness and accuracy of the data in the Oracle financial system;
- Evaluating electronic access controls for the Oracle financial system; and
- Determining whether the system data is sufficiently reliable for conducting the audit.

Fieldwork Substantive Testing

Based on the results of our planning procedures and assessments, we designed substantive test procedures to address specific audit objectives.

Audit Objective 1: Determine whether revenue and expenditures are consistent with authorizing Government Codes and the policies and procedures of the Council and the *State Administrative Manual*, properly supported by documentation, and recorded accurately in the accounting records. Procedures included:

- Identifying the total revenue and expenditure amounts recorded in each fund under the administration, jurisdiction, or control of the Council;
- Determining which funds have revenues and expenditures in excess of two percent of total revenues and expenditures within the fund;
- Selecting representative samples of transactions to test from revenues and expenditure accounts determined above. We selected non-statistical samples on a judgmental basis, and did not project the results of testing to the intended (total) population; and
- Examining transaction samples to verify that revenue and expenditure amounts are accounted for in accordance with Government Code, are properly supported with adequate documentation, and are accurately reported in the accounting records.

Audit Objective 2: Determine whether fund balances are recorded on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles. Procedures included:

- Judgmentally selecting a sample of funds with fund balances over \$100 million, as of June 30, 2018, or with balances that fluctuated by more than 25% from the prior period;
- Recalculating the sampled fund balances to verify that amounts reported are accurate; and
- Considering the results of revenue and expenditure testing to assess whether transactions were reported on the Legal/Budgetary basis of accounting and recorded in accordance with fund accounting principles.

We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our audit to evaluating the compliance of revenues, expenditures, and fund balances for material and significant funds under the administration, jurisdiction, or control of the Council. We did not audit

the Council's accounting records for the Supreme Court, Court of Appeal, or the Habeas Corpus Resource Center, as the review and approval authority for these transactions remains with those programs.

Conclusion

Our audit found that the Council complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, we identified weaknesses in the Council's administrative and internal accounting controls system; these weaknesses are described in the Findings and Recommendations section of this report and should be addressed and corrected by the Council.

**Follow-up on
Prior Audit
Findings**

The SCO issued the prior audit report on October 18, 2017, for the period of July 1, 2015, through June 30, 2016. Findings noted in this report were not satisfactorily resolved by the Council, as summarized in the Appendix.

**Views of
Responsible
Officials**

We issued a draft report on May 17, 2019. John Wordlaw, Chief Administrative Officer, responded by letter dated June 4, 2019, agreeing with the audit results. This final report includes the Judicial Council of California's response.

Restricted Use

This report is solely for the information and use of the Council 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 distribution of this report, which is a matter of public record and will be available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

Sacramento, California

June 14, 2019

Findings and Recommendations

FINDING 1— Inadequate segregation of duties within the payroll function

During our review of expenditures, we noted that attendance accounting duties are not segregated. The analysts entering attendance data into the State's attendance system also verify and authorize (certify) their own attendance data.

This issue was also noted in the previous audit report, which stated that the Council lacked adequate internal control procedures to ensure segregation of duties within the payroll and benefits unit related to payroll transactions.

The prior audit found that the same payroll analysts:

- Entered timesheet information into the State's attendance system;
- Reconciled information from the attendance system to source documents and reporting exceptions; and
- Authorized (certified) timesheet information that has been entered into the attendance system.

An effectively designed system of controls reduces the risk of error and loss through various measures, such as separating potential conflicting roles and responsibilities, structuring written procedures, and incorporating independent verification procedures.

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. Adequate segregation of duties reduces the likelihood that fraud or error will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of work performed.

As identified in our previous audit, the Council was unable to show that it has compensating controls to reduce the risk that data entry errors will not be detected in the absence of segregating the attendance function.

Recommendation

We recommend that the Council improve internal control procedures by:

- Separating conflicting payroll duties for monthly recording, reconciling, verifying, and authorization of attendance certification; and
- Implementing a monthly verification (audit) process of attendance data entered into the State's attendance system.

**FINDING 2—
Deficiency in
collection of
outstanding
employee accounts
receivables**

During our review of revenues, we noted that the Council does not have adequate internal control procedures to collect and discharge aging employee accounts receivables. We also noted that older balances included amounts owed from currently employed Council staff members.

This issue was also noted in the previous audit report. In our follow-up to the Council's corrective actions from the previous audit report, we found that the Council:

- Improperly discharged (expended as write-offs) employee receivable balances from fiscal year 2015-16 in the amount of \$648;
- Did not recoup employee receivables from the previously-reported \$24,448 balance; and
- Did not implement appropriate written procedures to enforce accountability, collection, and discharge for aging outstanding employee receivables.

We discovered that the Council also discharged other employee accounts receivable balances without SCO authorization. The supporting worksheets we reviewed omitted \$51,917 in employee receivable balances recorded prior to fiscal year 2016-17. We requested a journal entry and authorizing records to verify amounts and accounts written off. Council staff did not provide copies of the requested documentation.

Council staff indicated that accounts were written off because collections could not be applied to the reverted appropriation of a fund. Additionally, Council staff indicated that the Council will not recoup a receivable without the consent of an employee. Although a repayment agreement is normal in the course of establishing a receivable, its absence, under statute, does not preclude the Council from recouping amounts due and unpaid. In effect, an unauthorized discharge of an employee receivable amounts to granting unauthorized compensation.

GC section 19838 requires and authorizes agencies to recoup employee receivables, with or without consent:

(a) When the state determines an overpayment has been made to an employee, it shall notify the employee of the overpayment and afford the employee an opportunity to respond prior to commencing recoupment actions. Thereafter, reimbursement shall be made to the state through one of the following methods mutually agreed to by the employee and the state:

(1) Cash payment or payments.

(2) Installments through payroll deduction to cover at least the same number of pay periods in which the error occurred. When overpayments have continued for more than one year, full payment may be required by the state through payroll deductions over the period of one year.

(3) The adjustment of appropriate leave credits or compensating time off, provided that the overpayment involves the accrual or crediting of leave credits (e.g., vacation, annual leave, or holiday) or compensating time off. Any errors in sick leave balances may only be adjusted with sick leave credits.

Absent mutual agreement on a method of reimbursement, the state shall proceed with recoupment in the manner set forth in paragraph (2).

Furthermore, GC section 12437(a) states that employees are not released from the payment of amounts due and owing the State. Discharges from liability are allowed under GC sections 12433 through 12439 (Article 2.5, “Discharge of State Entity from Duty to Collect”) only through an application filed with, and approved by, the State Controller.

GC section 13402 states:

Agency heads are responsible for the establishment and maintenance of a system or systems of internal control, and effective and objective ongoing monitoring of the internal controls within their state agencies. This responsibility includes documenting the system, communicating the system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Recommendation

We recommend that the Council establish written procedures to specify the roles and responsibilities of initiating, recording, monitoring, collecting, reporting, and discharging employee accounts receivables according to the guidelines referenced above. The procedures should include the maintenance of an accurate and system-generated aging report that shows initial balances, collections, and ending balances by fiscal year.

We also recommend that the Council reverse previously-discharged employee receivables and follow statute and other guidelines to recoup amounts owed from current and former employees. If collection efforts do not result in payment, and after following the process outlined in statute, we recommend that the Council apply for discharge of accountability with the SCO.

FINDING 3— Lack of reconciliation process for employee accounts receivables

During our review of revenues, we noted that Council Human Resources and General Ledger Accounting staff do not reconcile the account balances and details recorded on outstanding employee accounts receivables.

This issue was also noted in our previous audit report, in which we recommended that the Council establish policies and procedures to ensure that amounts were accurate and traceable to source documents.

In our follow-up of the Council’s corrective actions described in our previous audit report, we found that formal procedures are incomplete and have not been adopted as a working process to help Council staff appropriately manage and account for employee receivables.

GC sections 13400 through 13407, *The State Leadership Accountability Act*, requires state agencies to maintain effective systems of internal control and to promptly correct identified weaknesses.

Recommendation

We recommend that the Council continue its collaborative effort to produce and implement formal desk procedures that improve and support effective internal control of employee receivables in the human resources and accounting unit functions. The procedures should require and provide guidance for reconciling the balances and activities for employee receivables.

Appendix— Status of Prior Audit Findings

The SCO performed the previous fiscal compliance audit for the period of July 1, 2015, through June 30, 2016. The report was dated October 18, 2017. The previous findings and the status of each are as follows:

Finding	Description of Previous Audit Finding	Finding Corrected?	Comments
1	Inadequate Segregation of Duties within Payroll Functions	No	Repeat Finding – See Finding 1
2	Deficiency in Collection of Outstanding Employee Accounts Receivables	No	Repeat Finding – See Finding 2
3	Lack of Reconciliation Process for Employee Accounts Receivables	No	Repeat Finding – See Finding 3

**Attachment—
Judicial Council of California’s Response to
Draft Audit Report**



JUDICIAL COUNCIL OF CALIFORNIA

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TANI G. CANTIL-SAKAUYE
Chief Justice of California
Chair of the Judicial Council

MARTIN HOSHINO
Administrative Director

JOHN WORDLAW
Chief Administrative Officer

June 4, 2019

Mr. Jim Spano, CPA
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, California 942850

Delivered via e-mail

Dear Mr. Spano:

The Judicial Council of California (Judicial Council) believes in financial accountability and transparency, and I thank you and your audit staff for their review of our operations for fiscal year 2017-18. The biennial audit performed by the State Controller's Office (SCO) is an important management tool to ensure we continue to follow the State's accounting and administrative rules, while identifying opportunities for improvement. I am pleased with your audit's overall conclusion that we have complied with the statutes, rules, regulations, and policies concerning the revenues, expenditures, and fund balances under the Judicial Council's control. Notwithstanding this primary conclusion, your audit identified three areas that require corrective action. The Judicial Council's staff have reviewed and are in agreement with your audit report's recommendations. We have already started our corrective action, as described further in *italics* following each recommendation presented below.

Recommendation #1 – Employee Attendance and Leave Reporting

We recommend that the [Judicial] Council improve internal control procedures by:

- Separating conflicting payroll duties for monthly recording, reconciling, verifying, and authorization of attendance certification; and

- Implementing a monthly verification (audit) process of attendance data entered into the state's leave accounting system.

Response:

The audit took issue with the Judicial Council's practice of having the same associate analyst both enter and certify attendance data in the State's leave accounting system. The SCO's recommendation is intended to increase the likelihood of identifying data entry errors—prior to submission—by having someone else review and certify the data. Secondly, the SCO recommends the creation of a monthly audit process to verify the accuracy of the data already entered into the State's leave accounting system.

We agree there is a risk of data entry error when the same person both enters and certifies the data prior to submission. Human Resources has developed reasonable compensating controls to better ensure data quality. These new controls are now reflected in our written procedures and will reduce the risk of reporting errors. Specifically, our new procedures include:

- *A Human Resources Associate Analyst—other than the one entering and submitting leave data to the California Leave Accounting System (CLAS)—will compare the entries made (as noted on the SCO's LAB report) to the individual employee timesheets for the corresponding pay period. This review will ensure the data on each employee's timesheet, as approved by the employee's supervisor, has been entered in the SCO's CLAS system accurately.*
- *The Human Resources Supervisor in charge of the Payroll and Benefits Unit will use a monthly SCO Lab Report to similarly verify the accuracy of any leave entries made in the SCO's system. Specifically, the supervisor will compare data on the monthly LAB report (showing leave taken by employee in the SCO's system) to the corresponding employee timesheets for that same month to verify data entry.*

These new procedures will result in three people verifying the accuracy of the data submitted to the SCO. Two people will verify the SCO entries based on all employee timesheets regardless of whether leave was charged, while a manager (or designee) will perform a monthly review for those employees who charged leave during each month's pay period.

Recommendation #2a: - Roles and Responsibilities for The Tracking, Collecting and Discharging for Employee Accounts Receivable

We recommend that the [Judicial] Council establish written procedures to specify the roles and responsibilities of initiating, recording, monitoring, collecting, reporting, and discharging employee accounts receivable according to the guidelines referenced above. The procedures

should include the maintenance of an accurate and system-generated aging report that shows initial balances, collections, and ending balances by fiscal year.

Response

The audit took issue with the Judicial Council not recovering certain amounts due from current and former employees, and in some cases writing off these amounts without prior approval from the SCO. The audit recommendation is intended to strengthen the Judicial Council's collection and write-off procedures so that roles and responsibilities are clearly defined. We agree this is an area that requires further attention.

In August 2017, Human Resources developed written procedures in its desk manual for payroll and benefit-related account receivables. These written procedures include: a timeline for when to notify the employee regarding an accounts receivable; a template for what to include in the first, second and third employee notification letters; information detailing when a response from the employee is required; and a payment election form that will provide the employee with different payment options (such as through check or payroll deduction) to repay the amounts due. Employees with outstanding balances will receive up to three notices reminding them to select a payment option and to confirm their choice with Human Resources. When the employee pays by check, Human Resources will forward the check to Accounting Services for processing and the resulting reduction or elimination of the outstanding balance. If the employee instead elects payroll deduction, Human Resources completes and forwards the STD. 674 A/R form to the SCO and then monitors the employee's subsequent paychecks to ensure deductions are occurring as expected. If Human Resources has notified the employee at least three times without any response, Accounting Services will then take over the collection process.

The Judicial Council agrees with the spirit of the SCO's recommendation and intends to pursue—through all legally permissible methods—the collection of outstanding balances owed by current and former employees. Therefore, going forward, the Judicial Council will also consider whether to continue issuing demand notices (beyond the current three letters); taking employees with sufficiently large balances to small claims court for the recovery of public funds; and contacting the Franchise Tax Board regarding their Interagency Intercept Collection Program to evaluate the feasibility of using this program to recover the amounts due.

Recommendation 2B – Reverse Previously Discharged Receivables and Recoup Amounts Outstanding from Current and Former Employees

We also recommend that the [Judicial] Council reverse previously-discharged employee receivables and follow statute and other guidelines to recoup amounts owed from current and former employees. If collection efforts do not result in payment, and after following the process

outlined in statute, we recommend that the [Judicial] Council apply for discharge of accountability with the SCO.

Response

We agree with the overarching goal of the SCO's recommendation. Further, we note the balances previously written-off by Accounting Services—as referenced in the SCO's finding—were each under \$500 per employee and all legally permissible efforts to collect had been exhausted. Government Code, Section 12438 does not require state agencies to collect amounts that are \$500 or less. Nevertheless, Accounting Services agrees the STD 27 form was not submitted to the SCO to discharge accountability for collection, and Accounting Services will remedy that error. Remaining efforts to recover other amounts due from current and former employees—as highlighted in the SCO's report—will be shared with executive management, and those discussions will be informed by both our legal authority and the administrative tools we have available to recover these amounts. Again, we agree with the underlying goal behind the SCO's recommendation.

Recommendation 3 – Reconciliation of Employee Accounts Receivable

We recommend that the [Judicial] Council continue its collaborative effort to produce and implement formal desk procedures that improve and support effective internal control of employee receivables in the human resources and accounting unit functions. The procedures should require and provide guidance for reconciling the balances and activities for employee receivables.

Response

We acknowledge Human Resources and Accounting Services need to work more collaboratively on the reconciliation of employee accounts receivables, and both offices have since developed new reconciliation processes.

Payroll and benefit-related Accounts/Receivables (A/Rs) are initiated by Human Resources once they receive the employee's repayment response (as referenced in our earlier response to recommendation 2a). Human Resources will report the A/R to the SCO using Payroll Adjustment Notice - form STD. 674A/R and initiate the tracking of the A/R internally by the designated associate analyst within Human Resources based on documented procedures. Once SCO records the receivable, it will then notify Accounting Services, who will record the receivable within the FISCAL financial system.

On a quarterly basis, Accounting Services will run an A/R report from FISCAL based on employee name for Human Resources to review and help reconcile A/R reimbursement payments. However, if an employee has multiple A/Rs, it may continue to appear as if

Mr. Jim Spano, CPA

June 4, 2019

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clearance/reference numbers do not match the source documents maintained by Human Resources. This will continue if limitations with SCO processes and their system remain in place. For example:

- *Once form STD. 674A/R is sent to the SCO, it can take them up to six months (or longer) to set up the A/R in their system (using the employee's current payroll reporting unit). Once the SCO has established the A/R in its system, the SCO then sends a report to Accounting Services confirming establishment of the A/R. Upon receipt of the report, Accounting Services then sets up the A/R in their FISCAL Accounts Receivable module and sends a copy to Human Resources.*
- *As employees submit repayment through payroll deductions, the payment is reimbursed to the payroll fund the employee was connected to when the A/R was established. However, since it may have been 6-8 months from when the STD 674A/R form was originally sent to the SCO to establish the receivable, the employee may have subsequently transferred to a new payroll reporting unit (and often an entirely different fund source). When a repayment is made, the SCO will process the re-payment/deduction to the employee's new payroll reporting unit and not the payroll reporting unit established under the A/R. The SCO then reports this information to Accounting Services, which will not match the source documents maintained by Human Resources. This is particularly challenging if an employee has multiple A/Rs.*
- *Accounting Services is required by SCO-Accounting procedures to group all A/Rs together by the employee to determine if the total of the A/Rs meet the threshold for discharge. Some A/Rs are not payroll and benefit related but may also be established due to taxable Travel Expense Claims (TECs) reported to the SCO W-2 unit. These transactions are not part of Human Resources' oversight (or tracking). In the event the employee has separated—and the SCO is unable to withhold the tax from a payroll warrant—then an A/R is set up for the employee. The TEC A/Rs are not easily distinguishable on the SCO's report from payroll and benefit-related A/Rs.*

Human Resources and Accounting Services have determined the best way to keep track of payroll-related A/Rs and travel-related A/Rs is to manually reconcile them back to the STD. 674A/R form utilizing the monthly report provided by the FISCAL system. Human Resources will track payroll and benefit-related A/Rs and Accounting Services will track the travel A/Rs. These reconciliation procedures will be documented, and evidence of these reconciliations will be maintained to demonstrate the consistent implementation of this new practice.

Again, the Judicial Council greatly appreciates the detailed review performed by the State Controller's Office and we appreciate the professionalism of its audit staff. If you have any

Mr. Jim Spano, CPA
June 4, 2019
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questions regarding this response, please contact Mr. Grant Parks, Principal Manager – Audit Services for more information.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Wordlaw", with a horizontal line extending to the right.

JOHN WORDLAW
Chief Administrative Officer
Judicial Council

JW/GP

cc: Martin Hoshino, Administrative Director, Judicial Council
Millicent Tidwell, Chief Deputy Director, Judicial Council
Aurora Rezapour, Director, Human Resources, Judicial Council
Doug Kauffroath, Director, Branch Accounting and Procurement, Judicial Council
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